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GST–Paradigm Shift in Indirect Taxes

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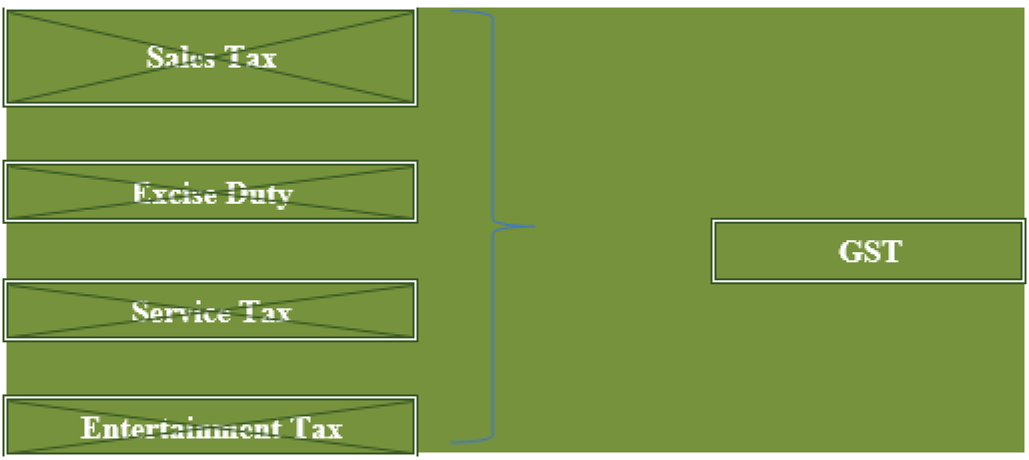
Abstract: Goods and Services Tax (GST) is a proposed regime of indirect taxation in India subsuming most of the existing taxes into single system of taxation. It was introduced as The Constitution (One Hundredand First Amendment) Act 2016. The Chairman of GST Council is Union Finance Minister which is currently Mr. Arun Jaitley. The introduction of Goods and Services Tax (GST) would be a significant step in the reform of indirect taxation in India. Amalgamating several Central and State taxes into a single tax would mitigate cascading or double taxation, facilitating a common national market. The simplicity of the tax should lead to easier administration and enforcement. From the consumer point of view, the biggest advantage would be in terms of a reduction in the overall tax burden on goods, which is currently estimated at 25%–30%.

Keywords: Revolution in Tax System, Indirect Taxes, Revenue, Compliance, Tax Credit, Industrial Impact

Introduction

GST is the indirect tax which will subsume major indirect taxes in current regime. Basically,, GST is destination-based tax which is also called as consumption-based tax. Place of consumption of service/goods will be important while considering the tax impact.



Objectives

1. To know the basic impact of GST on the Indian economy
2. To know the impact of GST on overall price level
3. To know the about technology used while implementing GST

Hypothesis

1. GST will provide ease in the flow of input tax credit
2. GST will reduce overall tax burden on customer
3. GST will increase compliance and same will result into transparent and tax compliant regime

Source of Data Collection

Being an explanatory research it is based on secondary data of journals, articles, newspapers and magazines. Considering the objectives of study descriptive type research design is adopted to have more accuracy and rigorous analysis of research study. The accessible secondary data is intensively used for research study.

Tax Credit

Currently, dealers and manufacturers as well as service providers are involved in the different chains of tax credit system.

- Manufacturer gets input tax credit of the local tax paid (Sales Tax) and Central Tax paid in some cases (Service Tax as well as Excise Duty)
- Dealers get input tax credit of Sales Tax paid in the state only for the purchase of goods
- Service provider gets credit of input services provided or used to provide output service. However, the above mentioned system has many loopholes due to which there are leakages and cascading effects on the indirect taxes. Such loopholes will be removed by implementing GST.

Current Regime *vs.* New Regime

Particulars	Current Regime (Pre-GST)	New Regime (Post-GST)
Flow of Input Tax Credit	1. Tax paid in local state cannot be claimed to pay off the liability of Service Tax/ Excise Duty and vice versa 2. Countervailing Duty cannot be utilized to pay the local sales tax 3. SAD cannot be utilized to pay off the local sales tax liability	1. There will be IGST, SSGT and CGST in play. - Each head will have no restriction to be set off against respective head (i.e. IGST with IGST, CGST with CGST, SGST with SGST) - If any balance remains, it can be utilized against other heads (except for CGST with SGST and vice versa)*
Transformation from One Way Compliance to two way matching	In the current regime, tax credit is monitored by way of one way compliance. - Input credit on the services is claimed by the taxpayer cannot be counter-checked withrespecttothe input tax whether it is paid or not - Input credit of sales tax is claimed by the tax payer is counter-checked only after the assessment or after completion of VAT Audit. Thus, there is no automation for the same	With new tax regime i.e. GST: - There will be two-way matching in the tax credit utilization. Input tax credit can only be claimed after the reflection of the same at the online portal of GSTN. - Correction in the same shall be valid till the date of upload - Credit in the online portal shall only be considered as valid and remaining balance needs to be paid in way of cash

*However, it has one drawback. With respect to the current draft law in the GST, if one erroneously pays off the tax in different tax head (Paying CGST in place of SGST), same cannot be claimed as credit and it needs to be applied for the refund.

Effects of GST on Various Industries

After release of Model GST Law, in common parlance it was assumed that general rate of GST will be 18%. However, rates schedule provided by department does not reflectthe same view. Tax rate will depend upon the current tax collection from the particular industry and estimation of particular industry.

But, it is clear that with respect of tax rates provided in current rates schedule, GST will have positive as well as negative impact on different sectors.

Tax rates provided in the GST rates schedule can be summarized as follows:

Tax Rate	Goods/ Services Description
Zero Rate	Essential Items including foods
5%	Common used items
12%	Standard rate for specified goods and services
18%	Standard rate for specified goods and services
28%	Luxuries items

With thesetax rates, goods which are currently taxed at 31%-32% shall come down which will directly impact on overall tax burden on end consumer.

Short Term–Long Term Impact

***Short Term Impact*:** Short term impact of GST will be changed on revenue of government as well as there will be huge impact on tax credit utilization in the initial phase. For the initial phase, there would be a huge burden of tax payment where the business runs on advance payment.

Long Term Impact: According to Japanese financial services major Nomura, GST is a game-changing indirect tax reform and its implementation will be positive for long-term growth.

Sectoral Imbalance

In the current Indirect tax regime, there are different tax structures for different sectors. It has huge impact on litigation and interpretational matters with respect to tax disputes. However, with the introduction of GST, it will reduce the relative interpretation and complexity of tax laws. Ease in the day-to-day business will increase.

Impact on Agricultural Sector

Agriculture industry forms major part of the Indian economy and the same is not covered in any tax bracket. Question comes whether under GST, agricultural products will also come under GST bracket?

Simple answer of the question is: government has no intention to draw agricultural production under the bracket of GST. But GST tax regime provides the benefit to only tax on agricultural products and not to the compliance angle. It requires that even though any person is providing exempted services/goods needs to get registered under GSTN and comply all the requirements provided by GST rules. But with respect to the registration as tax payer, agriculturist is specifically excluded from the person required to be registered under the GST law.

Revenue of State and Central Government

Passing GST law in both the houses of the Parliament was huge task in front of NDA government. Reason behind the same is revenue-sharing between central and state government was disputable topic and state governments were not in the position to sacrifice the revenue for GST. To overcome the dispute, GST Committee suggested following ways for balancing the revenue:

1. Central Government will compensate the revenue loss of state government on provisional basis.
2. Central Government shall introduce the Additional Cess on the Higher rate Goods (28%) to recover loss.

State Agreement on the Compensation

States will receive provisional compensation from Centre for loss of revenue from implementation of GST every quarter but the final annual number would be decided after an audit is carried out by the CAG. The compensation would be met through the levy of a cess called 'GST Compensation Cess' on luxury items and sin goods like tobacco, for the first five years. Any excess amount after the end of five year tenure in the 'GST Compensation Fund' so created, would be divided between Centre and states, said the draft GST compensation law made public by the Centre today.

Half of the excess amount would go to the consolidated fund of India and would form part of the overall tax kitty, which as per statute, is divided in a fixed proportion between the Centre and the states. The remaining 50% would be disbursed among the states in the ratio of their total revenues from SGST in the last year of the transition period.

Technology While Implementing GST

Implementing GST requires fast track action and due to implementation at the nation level, it requires huge technical support and automation in the process.

The information technology (IT) system will allow taxpayers to register themselves using their permanent account numbers and file tax returns, as well as process payments online. This will also allow collation of data at a central level after which it will be transmitted to the state tax departments, thereby preventing tax evasion and widening the tax base to include more traders.

With this level of implementation, government needed a huge player in the technical support. For the time being and in the initial phase of GST, Infosys will be the technical partner for the GST implementation.

Justification and Conclusion to Hypothesis

With a view to the above discussed points, the views drawn as objectives of this research paper satisfy with justification. Thus,

1. GST will help to stabilize growth in economy in the long run.
2. GST will reduce overall tax burden on the end consumer.
3. GST will improve transparency and will improve flow of input tax credit of indirect tax.

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