International Journal of Computing and Business Research (IJCBR)
ISSN (Online) : 2229-6166
International Manuscript ID : 22296166V7I1201703
Volume 7 Issue 1 May - June 2017

GST : It's Significance and Challenges in India

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ABSTRACT

GST is probably one of the most important strategic economic reform movement. GST is essentially a destination based tax unlike local taxes. Therefore, by being a destination based tax, manufacturing states tend to stand on the losing front which was the argument of these states. This has been reconciled now.

Through the GST Network (GSTN), the Government is working to provide the technology backbone to introduce GST and connect the databases of states and the Centre which will ease some of the burden on corporations. Companies will have to take these steps:

1. To have a system to facilitate determination of tax as per the new regime which will include consideration of source and destination along with special provision for states, products and schedules.
2. They will have to make sure that there are periodic updates/uploads of sales and purchase data with reconciliation for tax payments and credits.
3. They will also have to conduct analysis on pricing, supply chain networks and costs because of tax changes.

KEYWORDS: Logistics, Manufacturing, taxation.

INTRODUCTION

GST encapsulates the dictum – "One nation, one indirect tax". It will make India one unified common market. GST was first mooted in the year 2003 by Kelkar Task Force on indirect taxes, who had suggested subsuming various central and state indirect taxes into one indirect tax. To implement this vision, an Empowered Committee of State Finance Ministers was created and tasked with the responsibility of ironing out the differences and taking this monumental reform forward.

Features of GST

- Single tax on supply of goods and services, right from the manufacturer to the consumer
- It is a destination based tax unlike the present taxation scheme which is origin based
- It is a value based tax as credits of input taxes paid at each stage will be available in the subsequent stages
- The final consumer will bear only the GST charged by the last dealer in the supply chain
- At the central level, following taxes are being subsumed under GST
    1. Central Excise Duty
    2. Additional Excise Duty
    3. Service Tax
    4. Countervailing Duty
    5. Special Additional Duty of Customs

At the state level, following taxes are being subsumed under GST

1. State VAT/Sales Tax
2. Entertainment Tax
3. Central Sales Tax
4. Octroi and Entry Tax
5. Purchase Tax
6. Luxury Tax
7. Taxes on lottery, betting and gambling

Administration of GST

1. Since there is a federal structure in India, there are two components of GST – Central GST and State GST
2. Both CGST and SGST will be simultaneously levied across the value chain, both on goods and services
3. The tax will not be levied on exempted goods (alcohol, petroleum and its products) and those transactions which are below the prescribed threshold limits
4. Input tax credit of CGST will be available for discharging liability on CGST itself. Similarly for SGST. Thus no cross utilization of credit would be permitted except in case of IGST
5. IGST would come into picture when there is an interstate transfer of goods and services (u/a 269A(1)). IGST rate would be roughly equal to the sum of CGST and SGST. Following diagram explains the working of IGST

The need for new logistics network has always been felt in the country. Yet to be introduced GST and Make in India programme also demand a new modern logistics network that integrates the domestic network, and allows inputs, components and finished goods to move across the country seamlessly.

An integrated efficient logistics network is needed for the following reasons:

- Efficient transportation and logistics are important for boosting India's competitiveness. They reduce transport time and costs, of course—but they also reduce cost of production by minimizing the need for large inventories. This means less capital required for warehouses, insurance and the like.
- While the conventional view of demand in the logistics sector states that it is derived demand, growth in transport and logistics enterprises can create markets for other goods.
- Efficient logistics networks can reduce divergence in regional growth.
- As the last Economic Survey points out, inter-state trade flows in India stand at a healthy 54% of GDP. Reducing friction via improved logistics could boost this.
- While the demand for transport grew at around 10% annually in the 1990s, it has accelerated since. Failing to keep pace will hamstring everything from the manufacturing push and attempts to boost farmer earnings to the benefits of urban agglomeration economies.

Challenges ahead:

The main hurdle so far has been that India's logistics and transport sector has developed in silos. This has resulted in overly complex regulation and administrative procedures as well as missing modal links and an inefficient modal mix.

- As of 2008, the mix was 50% of total freight flow via roads, 36% by rail, 7.5% by pipelines, 6% by coastal shipping, 0.2% by inland waterways and 0.01% by airways. The ratios may have shifted somewhat since then but they are unlikely to have changed substantially.
- This is a pity: Transport by rail and inland waterways is far more cost- and time-efficient than transport by roads, for instance, and should account for high proportions of the freight flow.

Proposal in this regard:

In his last budget speech, Union finance minister Arun Jaitley said: "*An effective multi-modal logistics and transport sector will make our economy more competitive. A specific programme for development* *of multi-modal logistics parks, together with multi-modal transport facilities, will be drawn up and implemented*."

- This programme aims to shift from India's current point-to-point logistics model to a hub-and-spoke model. This will entail setting up 35 multi-modal logistics parks at a cost of Rs50,000 crore, developing 50 economic corridors and inviting investment from the states and private sector.
- Crucially, this will all be done with an integrated approach that will utilize railways, highways, inland waterways and airports to create a transportation grid that covers the country.

<u>Significance of this move</u>:

The new integrated policy pulls together the planned road and rail dedicated freight corridors and suggests a solution to the long-running lack of last-mile connectivity for India's ports.

It also offers more scope for boosting the use of technology than development in silos would. Containerization, for instance—shipping freight across modes in standard containers—would enable live tracking via chipped containers. This in turn would enable greater security and predictability, as well as providing the granular data that is important for business projections and policymaking alike.

<u>Benefits</u>

For Business and Industry

1. Easy compliance as one tax to be paid
2. Creation of one market which will facilitate Ease of Doing Business in India
3. Removal of cascading taxes which will lower price, thereby boosting demand, a shot in the arm for the beleaguered corporate sector
4. Improve competitiveness as the transaction cost for doing business would reduce. Also, now the most competitive good will sell across the country irrespective of the location where it is manufactured.
5. All the above advantages are expected to provide a boost to the ambitious Make in India programme of the government

For Consumers

1. No cascading burden of taxes which would moderate inflation
2. More transparency in taxation regime and easier to understand for the customers

For government

1. The new taxation regime will be easier to administer for the government
    1. The input tax credit system creates a mechanism for self policing
    2. Dual monitoring by centre and states will lead to tax competition and cooperation between centre and states. On the flip side, corporate fear two sources of interface with tax department
2. Better control on leakages due to lesser evasion
3. Higher revenue efficiency
    1. More money to spend on welfare expenditure
    2. Since, GST is a destination based tax, poorer states which have low level of manufacturing and services industry are expected to benefit

<u>GST and its impact on Fiscal Federalism</u>

The Constitutional provisions with respect to Fiscal Federalism has two major imbalances

1. Vertical Imbalance –The mismatch between expenditure and revenue requirements. The centre possessed more revenue but less expenditure whereas the vice versa is true for states
2. Horizontal Imbalance – There is disparity in revenue accrued by the states

So far, states also had autonomy in deciding tax rates for those items falling in the state list, as well as deciding VAT rates.

With the advent of GST, following issue is likely to crop up in Fiscal Federalism

- States will lose their autonomy in deciding taxation rates based on their expenditure plan. In GST regime, rates will be decided by GST Council. However, as per the GST Bill, the Council will fix the "floor rate along with bands". This will leave some autonomy for the states to tinker with the tax rates to suit themselves.
- There is also the issue of states having the ability to impose sin tax on goods such as fast food (done in Kerala recently)

However, it is to be realized that GST is the need of the hour. Moreover the Indian GST regime offers advantages unlike the GST regime in other large federal polities, where the system is either

1. Too centralized, which deprives sub federal levels of fiscal autonomy, such as in Australia, Germany, Austria
2. Or, independently administered, which creates too many differences in tax bases and rates that make compliance difficult and also makes interstate transaction difficult to tax, such as in South Africa

The Indian system however establishes a modicum of coordination like in Canada. Common base and common rate will facilitate tax administration and ensure compliance. Reasonable exceptions, as decided by GST Council, will provide a degree of fiscal autonomy to the states.

The Empowered Group of State Finance Ministers during the course of their discussion have kept the interest of states on board and GST Council has emerged as a key institution of Centre State Relations. A reform of the nature and magnitude of GST will require a leap of faith to be taken, as issues are certain to crop up, which has to be resolved effectively through the aforementioned mechanism.

Conclusion:

An integrated multi-modal policy is not a new idea. In 2014, the national transport development policy committee had written in its report to the erstwhile Planning Commission that India should have "a single unified ministry with a clear mandate to deliver a multi-modal transport system that contributes to the country's larger development goals"—standard operating procedure for other large economies and India's major emerging economy peers. Now, this is an opportunity for the government to make competitive federalism a plank of its economic agenda. This is a chance to see it in action.

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