Mekal Insights, Vol.-II, No. 1. January 2010 ISSN. 0975-010X

Good and Service tax challenge and Scope in Indian Scenario

*Vijay K. Dixit

Introduction

India is a largest country in the entire world in case of population diversity different Income sources because we know very well India has a numerous diversity in all respects of categories like all the necessary goods for makes human welfare that make generate a very powerful and strong economy in the world. We can say like this confidently because in the time of crises also India stands strongly in the world economies. The structure and composition of taxes and accounting regulations in India is very good. It helps India to maintain the economy stable in any critical situation. Goods and Service Tax (GST) is also one of the type of tax levied on the people of India by the government. It is a very new for the Indian public's the name itself suggests that it is a tax levied on goods and services.

Structural Tax

Change of rate will going to have big impact on every small and big businessman expansion plans in industry are put on hold till the rate structure is bit more clear current constitutional set up for power of states to levy tax and the possible amendments and reactions that may emanate in the future. The Introduction of GST from 1 APRIL 2010 is the part of the "structural tax changes" in the finance minister

* Assistant Professor, Department of Commerce, Indira Gandhi National Tribal University, Amarkantak M.P.

Pranav Mukharjee's this year budget GST, is a dual tax model through legislative processes at the central and state levels by which tax is levied with respect to a common base[1]. The idea of this uniform VAT/ GST across goods and services by 2010 reiterates the need for harmonization, to start with, at the federal level, of the two taxes that operate, i.e. the cenvat and the service tax, in terms of both a single rate as well as a single code. A harmonization of these two taxes would remove the duality of goods and services taxation at the federal level.This system is basically structured to simplify current indirect tax system in India. It integrates the union excise duties, customs duties, service tax and state VAT into a single point levy i.e. GST. It may be rightly termed as a national level VAT on goods and services with one of the differences that it also covers Service under its scope[2]. Basically,Goods and Service Tax is that tax credit mechanism where in the tax is levied on goods and services at each point of sale or provision of service. Under this tax regime the seller of goods or the service provider can claim the input credit of tax paid by him (i.e. input GST) for purchasing the goods or procuring the service. Thereafter he can utilize that credit of GST to set off against the amount payable on the supply of goods or services (i.e. output GST). Precisely, it can be termed as a consumption tax collected on the value-addition made in the goods and services at each stage of the supply chain.

Further, the peculiarity of this tax structure is that the end consumer, being the last person in the supply chain, has to bear this tax and so, in many respects, GST may also be referred to as a last-point retail tax[3]. It is basically a tax on final consumption.

Salient Features: GST MODEL

1. The Central GST and the State GST would be applicable to all Transactions of goods and services made for a consideration except

the exempted goods and services, goods which are outside the purview of GST and the transactions which are below the prescribed threshold limits. The Central GST and State GST are to be paid to the accounts of the Centre and the States separately.

2. It would have to be ensured that account-heads for all services and goods would have indication whether it relates to Central GST or State GST (with identification of the State to whom the tax is to be credited) Since the Central GST and State GST are to be treated separately, taxes paid against the Central GST shall be allowed to be taken as input tax credit (ITC) for the Central GST and could be utilized only against the payment of Central GST[4]. The same principle will be applicable for the State GST.

3. A taxpayer or exporter would have to maintain separate details in books of account for utilization or refund of credit. Further, the rules for taking and utilization of credit for the Central GST and the State GST would be aligned. Cross utilization of ITC between the Central GST and the State GST would not be allowed except in the case of inter-State supply of goods and services under the IGST model.

4. Ideally, the problem related to credit accumulation on account of refund of GST should be avoided by both the Centre and the States except in the cases such as exports purchase of capital goods, input tax at higher rate than output tax etc. where, again refund/adjustment should be completed in a time bound manner.

5. To the extent feasible, uniform procedure for collection of both Central GST and State GST would be prescribed in the respective legislation.

6. The administration of the Central GST to the Centre and for State GST to the States would be given. This would imply that the Centre and the States would have concurrent jurisdiction for the

entire value chain and for all taxpayers on the basis of thresholds for goods and services prescribed for the States and the Centre. A uniform State GST threshold across States is desirable and, therefore, it is considered that a threshold of gross annual turnover of Rs.10 lakh both for goods and services for all the States and Union Territories may be adopted with adequate compensation for the States (particularly, the States in North- Eastern Region and Special Category States) where lower threshold had prevailed in the VAT regime in view the interest of small traders and small scale industries and to avoid dual control, the States also considered that the threshold for Central GST for goods may be kept at Rs.1.5 crore and the threshold for Central GST for services may also be appropriately high[5].

7. The States are also of the view that Composition/ Compounding Scheme for the purpose of GST should have an upper ceiling on gross annual turnover and a floor tax rate with respect to gross annual turnover. In particular, there would be a compounding cutoff at Rs. 50 lakh of gross annual turn over and a floor rate of 0.5% across the States[6]. The scheme would also allow option for GST registration for dealers with turnover below the compounding cut-off. The taxpayer would need to submit periodical returns, in common format as far as possible, to both the Central GST authority and to the concerned State GST authorities each taxpayer would be allotted a PAN-linked taxpayer identification number with a total of 13/15 digits keeping in mind the need of tax payer's convenience, functions such as assessment, enforcement, scrutiny and audit would be undertaken by the authority which is collecting the tax, with information sharing between the Centre and the States.[7]

8. The GST shall have two components: one levied by the Centre GST, and the other levied by the States; Rates for Central GST and

State GST would be prescribed appropriately, reflecting revenue considerations and acceptability. This dual GST model would be implemented through multiple statutes (one for CGST and SGST statute for every State). However, the basic features of law such as chargeability, definition of taxable event and taxable person, measure of levy including valuation provisions, basis of classification etc. would be uniform across these statutes as far as practicable.

Proposal of Finance Minister on GST

The effort to introduce the GST was reflected, for the first time, in Union Budget Speech 2006-07. The Finance Minister Mr. P. Chidambaram remarked that there is a large consensus that the country must move towards a national level GST that must be shared between the center and the states. He proposed 1 April 2010 as the date for introducing GST. The relevant part of his speech a large consensus that the country should move towards a national level Goods and Services Tax (GST) that should be shared between the Centre and the States. He propose that we set 1 April, 2010 as the date for introducing GST world over, goods and services attract the same rate of tax. That is the foundation of a GST People must get used to the idea of a GST. Hence, we must progressively converge the service tax rate and the CENVAT rate. He also proposes and increases the service tax rate from 10 per cent to 12 % that since service tax paid can be credited against service tax payable or excise duty payable, the net impact will be very small." In May 2007 Empowered Committee (EC) of State Finance Ministers in consultation with the Central Government, constituted a Joint Working Group (JWG), to recommend the GST model. Within 7 months of its constitution that is in November 2007, JWG presented its report on the GST to the EC. The EC has accepted the report on GST submitted by the JWG. The JWG of EC laid down various recommendations. A brief list of them is produced as under he committee suggested that

GST must have two components a Central tax and a single uniform state tax across the country;A tax over and above GST may be allowed to be levied by the states on tobacco, petroleum and liquor;· The GST may have a quadruple tax structure comprising: -a central tax on goods extending up to the retail level;a central service tax; astate-VAT on goods, and a state-VAT on services[8].

Given the four-fold structure, there may be at least four-rate categories- one for each of the components given above. In this system the taxpayer may be required to calculate tax liability separately for the different rates of tax; the states must tax intra-state services while inter-state services must remain with the Centre.

Petroleum products, including crude, high-speed diesel and petrol, may remain outside the ambit of GST. Central cess like education and oil cess may be kept outside the dual GST structure to be introduced from April 2010; the report has also recommended keeping stamp duty, which is a good source of revenue for states, out of the purview of the GST. Stamp duty is levied on transfer of assets like house and land; it has also suggested keeping levies like the toll tax, environment tax and road tax outside the GST ambit, as these are user charges; and The draft report has recommended that if the levies are in the nature of user chargers and royalty for use of minerals, and then they must be kept out of the purview of the proposed tax[9]. In addition to the above mentioned recommendations, one of the major recommendations given by Kelkar Task Force (KTF) was the implementation of a single union GST[10]. It was contradictory to the recommendations given by most of the scholars and that given by the JWG. KTF recommendation may pose a lot of constitutional hurdles as it demands many amendments to the existing articles of our constitution.

The present rates for service tax and CENVAT, that is most proximate to the global GST rate, and the continuous steps towards

phasing out of Central Sales Tax (CST), clearly hints at the endeavor on the part of Government of India towards successful implementation of GST. Its implementation will completely eliminate revenue deficit as per the goals set out in the Fiscal Responsibility and Budget Management Act, 2003 (FRBM). Meeting with the FRBM target, may help in proper introduction of the new tax regime that is GST.

All these developments in the Indian tax Scenario, is quite evident of the governments incessant effort towards the successful introduction and implementation of the GST regime.

Mechanism of GST

Production activity typically involves procurement of inputs from other firms, putting the inputs through a process, and turning out an output which is sold at a price higher than the value of the inputs. The "value added" of a firm is the addition made by the firm through own activity, to the value of inputs procured from other firms to turn out the output. It is the difference between the sales value of the output and the cost of inputs relating to the output. The value of goods could be enhanced merely by changing their location in time or space.

Rendering of service also involves the generation of value added in so far as inputs may be used and the output (supply of service) is sold at a price. Indeed, production is merely the generation of value added; the price paid by the consumer for any product is the accumulation of value added created at the various stages through which the product passed in the production distribution chain[11]. The amount should be paid to the NRA by the registered business by the end of the month following its tax period, which is also the due date for return submission. But there are circumstances wherein the amount of inputs/purchases will exceed the amount of outputs/sales. In this situation, the registered business will hold a credit with the NRA.

GST as a Replacement Tax

The fact that GST will be a replacement of seven existing taxes (Restaurant & Food Tax, Entertainment Tax, Domestic Sales Tax, Professional Services Tax, Hotel Accommodation Tax, Import Sales Tax and Messages Tax) is a big bonus to the economic development of Sierra Leone[12]. Revenue policy makers are aware of the fact that GST will widen the tax base as it will now include GST being charged in the retail sector and on all other goods and services that are not exempt supplies. But the superiority that GST has over the sales tax system is so great and has led to so many people to believe that it is the non existence of GST that has led to over dependence on imports as the manufacturing sector is at a disadvantage presently; and having a thriving manufacturing sector is the key to economic development.

Advantage of GST as replacement after existing taxes.

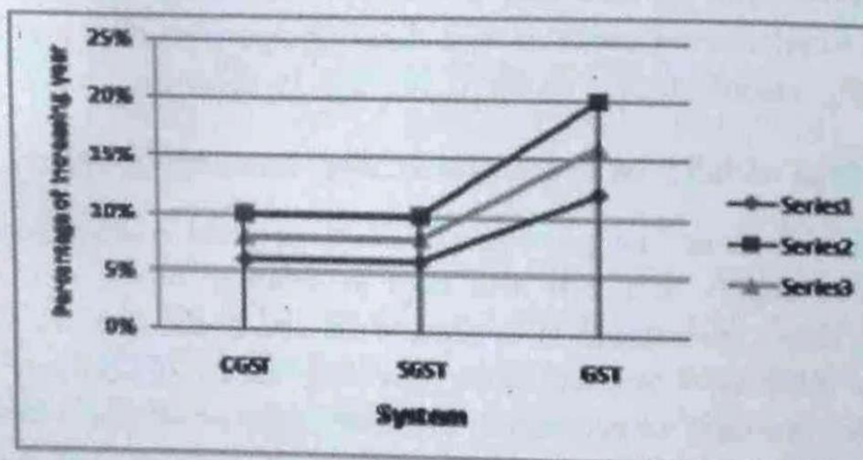
More revenue for government such as good roads, electricity and water supply that will also help to promote businesses. Fig 1. Foreign direct investment is dependent on the fiscal structure of any country. With GST we will now have that luxury. Effectively make all inputs available to registered businesses free of any tax. Promotes exports for better balance of payment account because GST removes the competitive disadvantage. Exporters are in the privileged pedestal of always being refunded as exports will be zero rated. This means that they will be able to claim all their input GST but will charge 0% on their exports leaving them in a constant refund position Investment decisions made even spread of investors in all sectors of the economy as opposed to a more tax friendly retail sector under the sales tax system[13]. Capital of businesses will be enhanced as GST will provide registered businesses with short term finance as the due date for submission of returns and payments are longer than that of the sales tax system. This pipeline theory is good for businesses as we now see an economic meltdown in the world due to the credit

crunch in the western world, which has led to less finance loans available.

Introductory result of GST in first year i.e. 1st April, 2011:

Particulars	CGST	SGST	GST
Lower rate for goods	6%	6%	12%
Standard rate for goods	10%	10%	20%
Services	8%	8%	16%

Fig The graph show that the GST is Increase in upcoming year



GST turnover in through out the year in month, quarter and Annual

GST turnover of Rs. 20 millions or more must report and pay GST monthly and lodge your BAS electronically due for lodgment and payment of any amount owing is 21 days after the end of each month. GST turnover of less than Rs. 20 million pay GST quarterly due date for lodgment and payment of any amount owing is the 28th day of the month after the end of the quarter - 28th October, 28th February, 28th April and 28th July voluntarily registered for GST (turnover is less than Rs. 75,000) not elected to pay GST by installments report and pay annually due date for lodgment and

payment of any amount owing is the date your income tax return is due If you account for GST on a non-cash basis (accrual), you account for the full amount of GST on sales or purchases. The GST reported in the period is GST payable on sales invoices and GST credit on supplier issued invoices. If you account for GST on a cash basis, you account for the GST on sales and purchases in the same reporting period you receive or make the payment. If you receive or make a part payment in a reporting period, you only account for the GST that relates to that part of the sale or purchase. The criteria to be eligible to account for GST on a cash basis is entity with a GST turnover of Rs. 2 million or less account for your income tax on cash basis endorsed charitable institution, trustee of an endorsed charitable fund, gift-deductible entity or government school, regardless of your GST turnover.

Suggestion

If you are not registered or required to be registered for GST, you do not include GST in the price of your sales and you can not claim credits for any GST included in the price of your purchases, even if they are for your business. But if you are able to claim the business expense as an income tax deduction, you can claim the entire expense, including GST, on your income tax return. If you are registered or required to be registered for GST, you include GST in the price of most goods and services you sell. There are three classifications of sales - taxable sales, GST-free sales and input taxed sales. Taxable sales include GST, these are the most common type of sales as they relate to sales in the course of operating your business with Australia. GST-free sales do not include GST but you can still claim the GST credits included in the price of the taxable purchases. Examples of GST-free items are most basic food, some medical services, aids and appliances, health and care services, childcare, etc. Input taxed sales

do not include GST and you can't claim the GST credits included in the price of the taxable purchases. Two most common input taxed sales for small businesses are financials supplies and renting or selling certain supplies of residential premises. A requirement of being registered is the completion of a Business Activity Statement (BAS) on a monthly, quarterly or annual basis. The tax period applicable will depend on your individual circumstances

Need for compensation during implementation of GST

Despite the sincere attempts being made by the Empowered Committee on the determination of GST rate structure, revenue neutral rates, it is difficult to estimate accurately as to how much the States will gain from service taxes and how much they will lose on account of removal of cascading effect, payment of input tax credit and phasing out of CST[14]. In view of this, it would be essential to provide adequately for compensation for loss that might emerge during the process of implementation of GST for the next five years. This issue may be comprehensively taken care of in the recommendations of the Thirteenth Finance Commission. The payment of this compensation will need to be ensured in terms of special grants to be released to the States duly in every month on the basis of neutrally monitored mechanism. Tax Rates in developed countries is quite rational, as compared to VAT rate proposed by States in India which is 18-20%[15].

Recommended the following Central Taxes should be, to begin with, under Goods and Services Tax:

Central Excise Duty, Additional Excise Duties, The Excise Duty levied under the Medicinal and Toiletries Preparation Act, Service Tax, Additional Customs Duty, commonly known as Counter Vailing Duty (CVD), Special Additional Duty of Customs - 4% (SAD) ,Surcharges, and Cesses. VAT / Sales tax Entertainment tax (unless it is levied by the

local bodies), Luxury tax, Taxes on lottery, betting and gambling ,State Cesses and Surcharges in so far as they , relate to supply of goods and services, Entry tax not in lieu of Octori[1]

Conclusion

GST is a superior system to the current sales tax system that currently exists, and the change to GST will improve the business world as investors will not have there capital tied down in taxes. India may study each country, however rate should be inline with the revenue neutral rate applicable to Indian Economy as such. Revenue neutral rate as shown in the study of NCAER and Task force report is 12%, proposed GST rate in India shall also be 12%[17].

While deciding the tax rate government must keep in mind the basic of Economics, which is also proven fact that higher indirect taxes can cause **cost-push inflation** which can lead to a rise in inflation expectations. No only this but higher indirect taxes also affects the household's on lower income group.

We believe that any rate above this 12% would hamper our productivity and efficiency as an economy. If we see the internationals laws of GST / VAT very carefully, we could pick more or less a common list of exemption which generally includes; transportation, health care, education, Exports, books or newspapers

The key to economic growth is how businesses thrive and succeed. With the success of the private sector, government will have more revenue to spend on development projects, the employment level will increase which will lead to an improvement in the standard of living. We can say like this confidently because in the time of crises also India stands strongly in the world economies. The structure and composition of taxes and accounting regulations in India is very good. It helps India to maintain the economy stable in any critical situation. Goods and Service Tax (GST) is also one of the type of tax levied on the people of India by the government. It is a very new for the Indian public's the name itself suggests that it is a tax levied on goods and services.

References:

1. Ahmad, Ehtisham, Satya Poddar A.M. Abdel-Rahman, Rick Matthews, and Christophe Waerzeggers (2008), ***Indirect Taxes for the Common Market;*** Report to the GCC Secretariat.
2. Ahmad, Ehtisham (2008), "Tax Reforms and the Sequencing of Intergovernmental Reforms in China: Preconditions for a *Xiaokang* Society," in Lou Jiwei and Wang Shuilin (eds), ***Fiscal Reforms in China,*** The World Bank.
3. Ahmad, E. and N. Stern (1984), "The theory of tax reform and Indian indirect taxes,"***Journal of Public Economics,*** 25, 259-98.
4. Ahmad, E and N. Stern (1991), ***The theory and practice of tax reforms in developing countries,*** Cambridge University Press.
5. Aujean, Michel, Peter Jenkins and Satya Poddar (1999), "A New Approach to Public Sector Bodies", 10 ***International VAT Monitor*** 144 (1999).
6. Bagchi, Amaresh et al (1994), "***Reform of Domestic Trade Taxes in India: Issues and Options***", National Institute of Public Finance and Policy, New Delhi.
7. Barrand, Peter (1991), "The Treatment of Non-Profit Bodies and Government Entities under the New Zealand GST", ***International VAT Monitor***, January 1991.
8. Bird, Richard and Gendron (1998), "Dual VATs and Cross-border Trade, Two Problems and One Solution", ***International Tax and Public Finance*** 5(3), 1998 Canada Department of Finance (1987), ***Federal Sales Tax Reform***, Government of Canada, 1987.
9. Empowered Committee of State Finance Ministers (2008), ***A Model and Roadmap for Goods and Services Tax in India***, New Delhi.
10. Keen, Michael and Stephen Smith (2000), "Viva VIVAT!", ***International Tax and Public Finance***, Vol. 7, 741-751
11. Kelkar, Vijay, et al (2004), "***Report on Implementation of the Fiscal Responsibility and Budget Management Act, 2003***", Ministry of Finance, Government of India, New Delhi.
12. Preparing for goods & service tax: challenges and issue Source: The Financial Express July 28, 2009 Author: Rajeev Dimri, Partner www.mcconachiestedman.com.au

13. Input-Output Transactions Table - 2003-04, (2008): Central Statistical Organisation (CSO), Ministry of Statistics and Programme Implementation (MOSPI), Government of India.

14. National Accounts Statistics (2008): Central Statistical Organisation (CSO), Ministry of Statistics and Programme Implementation (MOSPI), Government of India.

15. Annual survey of Industries (2004-05): Central Statistical Organisation (CSO), Industrial Statistics Wing, Ministry of Statistics and Programme Implementation (MOSPI), Government of India.

16. Kuo, C.Y., Tom McGirr, Saya Poddar (1988), "Measuring the Non-neutralities of Sales and Excise Taxes in Canada", ***Canadian Tax Journal***, 38, 1988.

17. McLure, Charles (2000): "Implementing subnational VATs on internal trade: The compensating VAT (CVAT)." ***International Trade and Public Finance***, Vol. 7,