

PROJECT REPORT

ON

A COMPREHENSIVE ANALYSIS OF GST IN INDIA

A project report Submitted to the department of Commerce, Amguri College in Partial Fulfilment of the Requirement of the Degree of Bachelor of Commerce in education of Dibrugarh University.



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Abstract

The Goods and Services Tax (GST), implemented on July 1, 2017, is regarded as a major taxation reform till date implemented in India since independence in 1947. GST was planned to be implemented in April 2010, but was postponed due to political issues and conflicting interest of stakeholders. The primary objective behind development of GST is to subsume all sorts of indirect taxes in India like Central Excise Tax, VAT/Sales Tax, Service tax, etc. and implement one taxation system in India. The GST based taxation system brings more transparency in taxation system and increases GDP rate from 1% to 2% and reduces tax theft and corruption in country. The paper highlighted the background of the taxation system, the GST concept along with significant working, comparison of Indian GST taxation system rates with other world economies, and also presented in-depth coverage regarding advantages to various sectors of the Indian economy after levying GST and outlined some challenges of GST implementation

INTRODUCTION

The word "tax" is derived from Latin word "taxare" meaning to estimate. A tax is not a voluntary payment or Tdonation, but enforced contribution, exacted pursuant to legislative authority and is contribution imposed by the government, whether under the name of toll, tribute, impost, duty, custom, excise, subsidy, aid, supply, or any other name (Chakraborty & Rao, 2010 ; Garg, 2014). Taxation was first imposed in Ancient Egypt around 3000 B.C.- 2800 B.C. during the first dynasty of the old kingdom. Records indicate from that period that the Pharaoh would conduct a biennial tour of the kingdom, collecting tax revenues from the people. Other data indications are granary receipts on limestone flakes and papyrus. Taxes are the only way for financing the public goods because of their inappropriate pricing in the market. It can only be levied by the government, via funds collected from taxes. It is highly important that the taxation system is designed in such an appropriate manner that it doesn't lead to any sort of market distortions and failures in the economy. The taxation laws should be highly competitive so that revenue can be raised in a highly efficient and effective manner.

In India, the taxation system was started in ancient times. The early taxation system's existence can be seen in many ancient books like *Manu - Smrti* and *Arthashastra*.

During the British empire, the entire taxation system of India was transformed. It was entirely in favor of the British empire, but it also incorporated modern and scientific techniques of taxation systems. Another remarkable transformation came in the year 1922 in the taxation system when Britishers established an entirely new administrative and taxation system in India. In this system, the taxation system was categorized in two main categories: Direct Taxes and Indirect Taxes. In India, the taxation system is entirely controlled, imposed, and updated by Central and State governments. The authority to levy tax is derived from the Indian Constitution, which allocates the power to levy taxes between Central Government System and State Government System.

The Indian Taxation System - Scenario Before GST

Tax policies play a vital role in any country's progress and have a direct impact on any country's economy in terms of efficiency and equity. A good taxation policy is that which takes care of the entire income distribution and also generates tax revenues in such a manner for Central and State Governments, which can lead to overall benefit in the nation's infrastructure, defense, public amenities, people's security, and a country's exports.

The entire framework to impose indirect taxes comes under Constitutional provisions of India. Article 246, Seventh Schedule gives the right to Central and State Governments to levy taxes and collect indirect taxes on the basis of goods and services transactions. The taxation system varies from manufacturer to manufacturer on point of sale or level of imports or exports. Indirect taxation based collection systems are based on origin, and are designed to impose tax and collect the same at the event of happening of any taxable activity.

The Figure 1 depicts a tabular representation of Indian indirect taxation system as per Article 246 of the Indian Constitution System. The following Table 1 gives a tabular representation of taxes imposed and collected by Central and State Governments of India.

(1) Journey of Indirect Taxation Tax & Important Turning Points in India : The following points highlight the

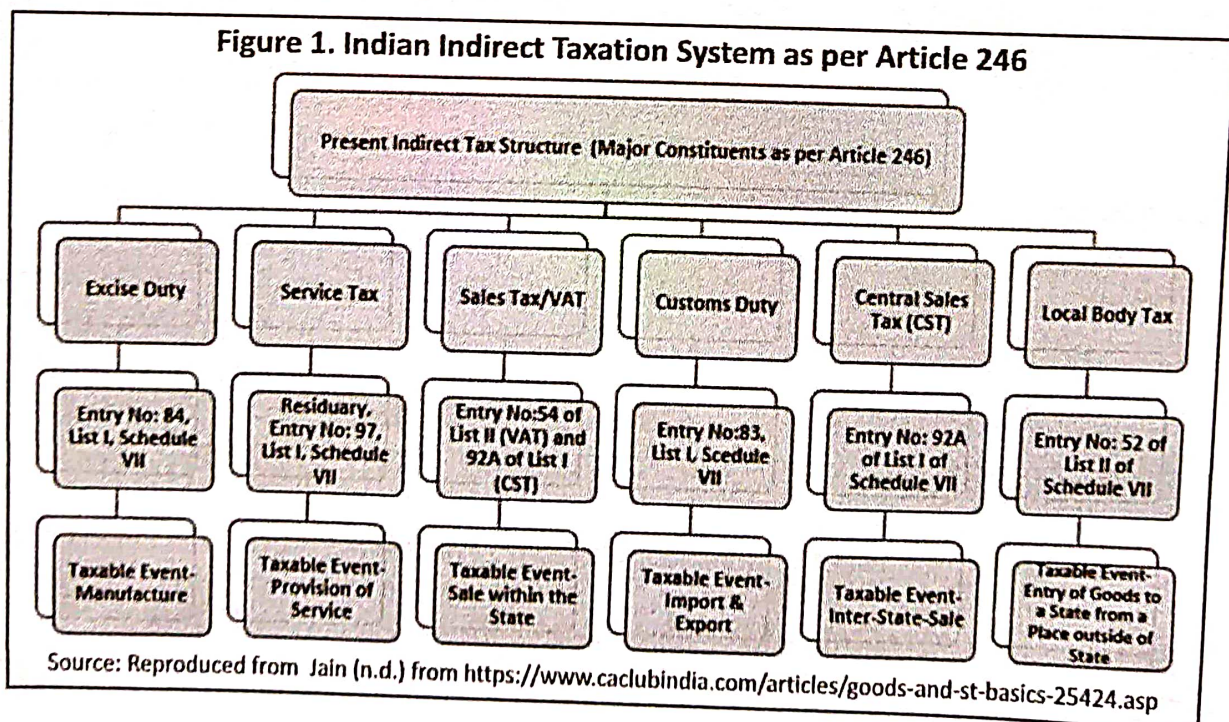


Table 1. Taxes Imposed and Collected by Central and State Governments in India

Name of Tax	When it was Imposed?	Imposed by	Collected by
Central Excise Duty	Goods manufactured in India (Excluding Goods manufactured in SEZ in India).	Central Govt.	Central Govt.
Service Tax	Any sort of service in territory (wherever applicable).	Central Govt.	Central Govt.
Sales Tax / VAT	Sales of Goods within state.	State Govt.	State Govt.
Customs Duty	Import of goods to India from any place outside Indian Territory or Export of goods outside Indian Territorial Border.	Central Govt.	Central Govt.
Central Sales Tax (CST)	Inter-State goods sale.	Central Govt.	State Govt.
Local Body Tax (Entry/Octroi)	Goods entry to a state outside of state.	State Govt.	State Govt.

journey of Indian indirect taxation and turning points, which reformed the taxation system till date before the introduction of GST taxation system in India.

1974: Report of LK Jha Committee suggested introduction of VAT system.

1986: Introduction of restricted VAT called "MODVAT".

1991: Chelliah Committee report recommended "VAT/GST" and recommendations accepted by the Government.

1994: Service Tax introduction.

1999: Empowered Committee formation on State VAT.

2000: Introduction of Uniform Floor State Tax Rates and abolition of tax-related incentives granted by State Governments.

2003: Implementation of VAT system in Haryana.

2004: Strong progress towards introduction of CENVAT.

2005-06: Implementation of VAT based taxation system in 26+ states in India.

2007: First GST Stuff released by Mr. P. Shome in January; Finance Minister speech carries the introduction of GST in Budget; CST phase out starts in April 2007; joint working group created and reports submitted.

2008: EC rolls out the GST Structure of Taxation System in April 2008.

2009: Date proposed for Implementation as April 1, 2010.

2010: Department of Revenue commented on GST discussion paper and finance minister suggested probable GST rate.

2011: Team was created to lay down the road map for GST and 115th Constitutional Amendment Bill for GST was laid down by the Parliament.

2012: Negative list regime for service tax was implemented.

2013: Parliamentary Standing committee submitted its report on the Bill.

2014: 115th Amendment Bill lapsed and was reintroduced in 122nd Constitutional Amendment Bill.

(2) Limitations and Issues Pertaining to the Existing Indian Taxation System : Various taxes are imposed on the Indian population by Central and State Governments like Central Excise, Service Tax, VAT, etc. Before the introduction of VAT in Sales Tax and CENVAT in Central Excise and Service Tax, the Indian Taxation System was very complex and this had cascading effects. The tax imposed on one destination was also taxed on another

destination. However, in recent times, the taxation system has seen remarkable revolutions.

Many changes in taxation were implemented, that is, VAT, and implementation of Service Tax by Central Government. In Central Excise taxation system, the government introduced CENVAT by setting off taxes on inputs, while producing output products. With introduction of VAT based taxation system in India, the foundation stone of GST implementation was laid.

The following points highlight the primary and severe issues pertaining in Indian indirect tax structure system :

- (i) The CENVAT (excise duty) was imposed on the products manufactured in India. But issues originated regarding product valuations. The issue regarding implementation of CENVAT only at the manufacturing level acted as a critical barrier to efficient and neutral flow of tax credit. This led to the replacement of VAT to GST in many countries.
- (ii) The Indian Constitution has distributed the taxation system between Central and State Governments. The State government has right to impose any sort of tax on any matter or item under the state. In Service Tax, the Central government enjoys the power to impose tax but in Work Contracts, the State government has the dominance. This sort of system creates distortions in revenue generation and distribution for the government.
- (iii) Various things like copyrights, patents, software are not considered for taxation system by the government. So, complexity again arose for classifying these goods under the taxation policies.
- (iv) With the booming of the service sector, the Central government has monopolistic right to impose tax. The State Governments, on the other hand, are losing their revenue by not imposing any tax on the service sector.
- (v) Considering CST on inter state sales of goods, no set off was allowed, which increased the cascading effect.
- (vi) For better monitoring and administration of taxes, major transformations in technology are required, which is costly and time consuming and has to be redressed.
- (vii) Lack of cross verification of returns filed under Central and State taxation systems led to lot of discrepancies.
- (viii) Under the Indirect taxation system, there were more than 15 different taxes which had to be filled under different norms. So, it required immediate and one system regulation of filling and calculating taxes.
- (ix) The Indian taxation system was cumbersome and full of burdens and different taxes on same products in different states led to high inflation, which had to be redressed.

Despite of the existence of multiple taxes in the Indian Economy like Excise Tax, Custom Duty, Service Tax etc., still the GDP of India is much less as compared to the GDP of other countries like USA - 13.84%, China - 6.99%, Japan - 4.3%, and France - 2.05%. So, the GDP data of various countries demonstrates that there is utmost need of tax reform, that is, implementation of Goods and Services Tax (GST) in India.

Research Methodology

This paper is based on exploratory research technique and data cited in this paper were collected via secondary sources available like statistical data available on various websites of Indian Government like Finance Ministry (finmin.gov.in), GST Council (gstcouncil.gov.in), GST Council Archives (gstindia.com), and many more ; literature review from journal papers ; annual reports ; newspaper reports ; and wide collection of magazine based

articles on GST. Based on the analysis of above mentioned data collection sources, the objectives of the study are defined and research design is drafted which is highly descriptive in nature.

Objectives of the Research Undertaken

The research has been undertaken and presented considering the following foremost objectives :

- ↳ To gain an in-depth understanding of GST taxation system evolution.
- ↳ Understanding in - depth the concept of new taxation system introduced - Goods and Services Tax (GST) in India.
- ↳ Understanding the features, working, and differentiating the current taxation system in India v/s GST.
- ↳ To evaluate the advantages and challenges surrounding GST.
- ↳ To evaluate the prospects of taxation position of various goods and services in India.
- ↳ To furnish the information for future research on GST based taxation system.

Scope of the Study

This paper provides a detailed insight regarding implementation of GST tax among various sectors of the country. GST after implementation will bring uniformity with tax rates and will also overcome lots of shortcomings in the Indian taxation system with regard to indirect taxation. The Good and Services Tax would surely be highly advantageous for major areas of the India economy.

Goods and Services Tax (GST) – Current Scenario

(1) Need for GST- Goods and Services Tax : As per the reports of Task Force on Goods and Services Tax (2009), the Indian taxation system led to misallocation of resources and lower productivity in terms of economic growth, international trade, and overall development of the Indian economy. Therefore, there was an emergent need to replace the existing tax system with a new engine of taxation of goods and services to attain the following objectives (Roychowdhury, 2012) :

- ↳ The tax incidence fell primarily on domestic consumption.
- ↳ The optimization of efficiency and equity of the Indian system is desired.
- ↳ There should be no export of taxes across the taxing jurisdiction.
- ↳ The Indian market should be brought under a single umbrella of common market.
- ↳ Enhancement to the cause of cooperative federalism.

Apart from the above listed objectives, Kelkar (2009) summarized the overall advantages of implementation of GST in India as follows:

It will bring about a phase change on the tax firmament by redistributing the burden of taxation equitably between manufacturing and services. It will lower the tax rate by broadening the tax base and minimizing expectations. It will reduce distortions... [and] foster a common market across the country and reduce compliance costs. It will promote exports. Perhaps more importantly, it will spur growth. (para 1)

(2) Introduction to the Goods and Services Tax (GST) : New Article 366 (12A) of the Indian Constitution (GST India.com, 2016) defined Goods and Services Tax (GST) to mean any tax on supply of goods or services or both except taxes on the supply of alcoholic liquor for human consumption. New Article 366(26A) defines service to mean anything other than goods. Existing Article 366(12) defines goods to include all materials, commodities, and articles.

As per the government, the Goods and Services Tax (GST) is regarded as a 'Reform' rather than amendment in the existing Indian taxation system to sort out all backdoors and cons of the indirect taxation system. India was one of the 123 countries in the world following the VAT taxation system. VAT was designed and introduced on January 17, 2005 at the Centre and State levels by finance minister P. Chidambaram. VAT replaced Central Excise Duty Taxation at the national level and Sales Tax System at the state level, bringing major reform in the taxation system.

Goods and Services Tax (GST) was proposed in 2014 to be implemented with effect from (w.e.f) June 2016. The GST implementation is "dual" in nature - one component is implemented by Centre (CGST) and another component by State (SGST). The base of tax would be the same by Centre and State governments. GST came into effect in India on July 1, 2017. With some major modifications, the GST would now have three prime models :

- (i) **Central GST :** GST to be levied by the Centre.
- (ii) **State GST :** GST to be levied by the States.
- (iii) **Dual GST :** GST to be levied by the Centre and the States concurrently.

GST is regarded as a comprehensive and one tax system on manufacture, sale, and consumption of goods and services at the national level. As GST is implemented, all other taxes have been discontinued. There is now one tax, that too at the national level, strictly under the control of the Central Government. Under GST, there is one tax for both goods and services, which is a clear tax policy and this will improve collections of tax. It would also lead to a clear system and abolish tax based theft and corruption at the national level. GST being a friendly taxation system for the corporate sector will provide easiness in tax policies, reduce inflation levels, and make the overall system more transparent.

(3) Importance of the GST Taxation System - Trade, Government, and Consumer : GST will overcome various issues of development via greater interactions between VAT/GST systems along with overcoming the potential risks of double taxation and unintended non-taxation systems. GST will lay a strong foundation of collecting tax at early stage of value addition. Every business/tax payer would be a part of controlling and collecting the tax and remitting the proportion of tax corresponding to its margin. GST will thereby flow through the business to tax supplies made to the final consumer.

GST Reforms will play a crucial role for trade, government, and consumers in the following manner :

(i) Trade : In order to harmonize trade and bring significant reforms to boost up development, GST will act as a stepping stone for the following parameters: (a) multiplicity of taxes will be reduced, (b) tax neutrality, especially for exports goods, (c) development of one nation or one common economic market, (d) simpler tax with fewer rates and exemptions, (e) effectiveness in reducing cost for domestic industries.

(ii) The Government : GST promises a lot for transparent working system for the government in the following manner : (a) easy and simple taxation system - one common tax across the country, (b) tax base broadening, (c) great improvements towards collections of revenues, (d) resource utilization would be more effective, (e) investments out of savings by consumers - due to mitigation of cascading effect, which contributes to increase in

availability of funds out of savings of consumer - which may be used for development.

(iii) The Consumer : For a normal Indian citizen, GST promises a lot in terms of better taxation system as follows: (a) reduction in the cost of goods and services due to significant elimination of cascading effect on taxes, (b) increase in household income and purchasing power, (c) increase in savings of common man, (d) high increase towards investment potential.

(4) Taxes Abolished and Items Exempted from GST : The Table 2 enlists the taxes to be subsumed in GST:

Government	List of Taxes
Central Government Taxes	Central Excise Duty Service Tax Additional Custom Duty Surcharges and all Cess
State Government Taxes	VAT/Sales Tax Entertainment Tax Entry tax not in lieu of Octroi Other taxes and Duties (Luxury Tax, Taxes on Lottery etc)
Taxes imposed by State Governments on Goods on Services	Stamp Duty Vehicle Tax Tax on Goods and Passengers Taxes and duties on Electricity

The following is the list of items exempted from Goods and Services Tax (GST): (a) all types of public services of the Government (Railways, Postal and Telegraphs, Public Sector Enterprises, Banks and Insurance, Health and Education services), (b) any service transactions between employer and employee either as service provider, receiver, or vice-versa, (c) education services provided by non-government schools and colleges, (d) health services provided by non-government agencies, (e) any unbranded food items.

(5) GST Council (GST Council, 2017) : In order to implement GST taxation effectively in India, the Constitutional (122nd Amendment Bill) was introduced and passed by Rajya Sabha on August 3, 2016 and by Lok Sabha on August 8, 2016. The GST council was framed officially on September 8, 2016 after clearance from the Honorable President of India.

As per Article 279A (1) of Amended Constitution, the GST Council was created by the President within 60 days of the commencement of Article 279A. The GST Council comprises of the following members : (a) Union Finance Minister- Chairperson, (b) The Union Minister of State, In - Charge Revenue of Finance - Member, (c) The Minister In-Charge or Taxation or any other minister nominated by each State Government - Members.

The GST Council was setup to perform the following duties : (a) taxes, surcharges, cess of Central and States which will be integrated in GST, (b) goods and services to be exempted from GST, (c) interstate commerce - IGST - distribution between State and Central governments, (d) registration threshold limit for GST, (e) GST floor rates, (f) calamities special rates, (g) provision with regard to special category rates, especially North-Eastern states.

(6) GST Models : Considering the importance of taxation reforms and other countries' based GST implementations, the following are the various GST models that are designed and proposed by experts for successful implementation of GST :

- (i) The Kelkar - Shah Model
- (ii) The Bagchi - Poddar Model
- (iii) The Australian Model
- (iv) The Canadian Model

(i) The Kelkar - Shah Model : It is based on "Grand Bargain" to merge various taxes like Central Excise, Service Tax, and VAT into one common tax. According to the model, GST can be implemented as per the following four stages :

- Stage 1: Establishing information technology systems.
- Stage 2: Building Central GST.
- Stage 3: Political effort of agreeing on "Grand Bargain".
- Stage 4: Interaction with States.

(ii) The Bagchi - Poddar Model : It is similar to the Kelkar - Shah Model, which envisions the combination of Central Excise, Service Tax, and VAT into one common umbrella of VAT. The difference between Kelkar-Shah and Bagchi-Poddar model is that Kelkar-Shah model proposes tax collection at Central and State levels, while the Bagchi-Poddar model stresses only on the Centre. The Kelkar - Shah model is like the Canadian Model, while the Bagchi - Poddar Model is like the Quebec model.

(iii) Australian Model : The Australian GST model is federal tax collected by the Central government and then distributed to the State government. But as India is a heterogeneous country, this model is not applicable in India.

(iv) Canadian Model : The GST in Canada is dual between the Centre and the States and has three varieties: (a) Federal GST and provincial retail sales taxes (PST) administered separately - followed by the largest majority, (b) Joint federal and provincial VATs administered federally (Harmonious Sales Tax - HST), (c) separate federal and provincial VAT administered provincially (QST) - only for Quebec as it is like a breakaway province.

(v) GST Models - Adopted by Foreign Countries : Among various countries which have adopted GST, France was the first country to adopt GST in the year 1960. The Table 3 enlists the GST models along with their applicability in different countries of the world.

Table 3. GST Models Implemented by Various Countries like Australia, China, USA, Brazil, Canada, and India

Name of the Model	Feature	Countries (Wherever Applicable)
National GST	Tax imposed by Central government with provision for sharing revenue with states.	Australia & China
State GST	Tax imposed by States.	USA
Non-Concurrent Dual GST	GST on goods imposed by State & on services imposed by Central government.	
Concurrent Dual GST	Tax imposed by Central and State governments on both Goods and Services.	Brazil, Canada, and India
Quebec Model	Separate taxation system for tax collection, administration, and enforcements by provinces.	