

GST – Process, Framework and Impact

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Introduction:

In the ever changing economic scenario globalization, liberalization and privatization policies of the Government, in recent years, have made an indelible impact by bringing into force new economic system in India. During the later part of the 20th century the globalization wind which swept across the countries embraced all the countries including those which were hitherto considered as conservative and communist, either by policy or rule. This opening up of domestic economies to international stakeholders has led to a number of opportunities to every participating country along with the threat of being exploited by the counter parts. So, it is a race. Race of the economies to grab economic benefits to the maximum possible extent by fulfilling the needed requirements. To what extent we are able to exploit the economic benefits depends upon the extent we are able to create an environment congenial for such an activity. Due to this fact it is imperative for every country to analyze the contemporary situation and find out and forecast the expectations of the world economic environment, so as to ascertain the demands to be fulfilled and accordingly set the stage by adopting necessary policies, to fulfill the demands of the globalised world and make fit oneself to exploit the opportunities to attain economic growth and thereby achieve all-round development of the country.

Over the centuries system of taxation has been shaped and reshaped to make it acceptable, effective and efficient. The journey of restructuring the tax system has been going on to make it more and more meaningful. While the innovations and developments in information and communication technology have made the tax system more objective, transparent and effective, the innovations and developments in finance and business models, globalization and liberalization policies, emergence of MNEs as lead players, increase in the international trade have contributed in making the tax system a complex one.

In recent years, India has been viewed as an attractive and dynamic investment destination, and has witnessed an increased presence of multinational enterprises (MNEs) and a consequential increase in cross-border trade. This has created many opportunities to the Government for improving tax system of the country. In India, since the inception of New Economic Policy (NEP) in 1991, a host of significant developments have taken place in the tax system. The significance of 'taxation' from the point of view of shaping the growth of the economy in the desired direction along with accruing adequate revenue to the Government needs no exaggeration. As the economy grows the tentacles of taxes become longer and stronger and help the Government in ensuring desired socio-economic results. Though the taxes are as old as mankind itself, the system governing the taxes is on continuous reform and modification. In the contemporary status, where the economy is huge in size, assesses are umpteen in number, revenue collected is mammoth in quantity and technology used in administration is complex and advanced the Government has herculean task of managing the tax department efficiently and effectively.

Need for GST:

India's recent progress towards economic growth stems from reforms undertaken after the 1991 fiscal crisis, which lifted India from decades of slow growth under socialist rule and offered an opportunity to improve living conditions in the immense, poor country. At the same time much had changed in India after the balance of payments crisis of 1991. Indian policies became more positive about promoting export and allowing foreign capital to participate in the process of India's growth.

Globalization and liberalization have become order of the day. The interdependence of economies in their move for development compelled the Governments of all the countries to follow the globalization policies adopted by the major economies of the world. To survive and grow in this economic order rational and competitive tax policies are being adopted by every country. India has also fallen in line with the requirement and has been initiating modifications in direct and indirect taxes. The recent proposals of Direct Taxes Code (DTC) and Goods and Services Tax (GST) are considered as path breaking in the economic restructuring in general and in the taxation area in particular.

Process and Framework of GST:

To implement comprehensive indirect tax reform in the country the then Union Finance Minister Mr. P. Chidambaram while presenting Union Budget for the year 2007-08 announced to the effect that GST would be introduced from 01/04/2010 and an Empowered Committee of State Finance Ministers was constituted. The Finance Minister said that the Committee would work with the Central Government to prepare a road map for introduction of GST in India.

After this announcement the Empowered Committee of State Finance Ministers decided to setup a joint working group on May 10, 2007. The Joint working group after intensive internal discussion and interaction with experts and representatives of Chambers of Commerce and Industry submitted its report to the Empowered Committee in Nov. 2007. After-words a spate of deliberations and discussions were held from among different interest groups including trade and industry bodies in the last seven-eight years.

In the budget speech during July 2014, the Finance Minister Mr. Arun Jaitly announced that the GST would be rolled-out by the beginning of financial year 2015-16. However, it did not materialize and the Finance Minister then hoped to implement it from 01/04/2016 and the Government tried its best to get the GST Bill passed in parliament. But it was struck in Upper-House after getting passed in Lower-House. Now, the Bill awaits its passing in Upper House.

In principle, GST is the same as the VAT already adopted by the states but with a wider base. While the VAT – which replaced the sales tax - was imposed only on goods, the GST will be a VAT on goods and services². In the current tax regime, states tax sale of goods but not services. The Centre taxes manufacturing and services but not wholesale/retail trade. The GST is expected to usher in a uniform tax regime across India through an expansion of the base of each into the other's territory. This is why a constitutional amendment was necessary³.

As per the GST bill the Centre will administer Central GST (CGST) and the States administer State GST (SGST). Compliance will be monitored independently at the two levels. The rates of both CGST and SGST will be fixed by the GST Council, whose members will be State Finance/Revenue Ministers and the Chairman will be the Union Finance Minister. Once the rates are set by the GST Council, individual states will lose their right to tax commodities at the rates they want⁴.

Impact of GST:

The major impact of introducing GST in India is the transformation in the fiscal structure of the Indian federal setup. The fiscal right of the states and centre to deal with goods and services independently will be taken away and both the Governments have to depend on each other's for managing the so called goods and services tax in future. This is a very hard blow to the freedom of participating governments in the federal system.

The states that have a total liberty now to decide about VAT rate on goods, VAT exemptions etc, will lose that right and have to participate in decision making and bargain. States' independent and individual right will be lost and they have to act as a whole; which means compromise amongst themselves and depend on the mercy of others

The industry and business fraternity, tax experts and economists and

consumer bodies and government are of the opinion that the replacement of Excise, VAT and Service Tax by GST would lead to a number of benefits to all the stakeholders.

The perceived benefits are –

- a. GST would eliminate to a large extent, the multiplicity of administrative mechanisms and tax rates across different states.
- b. It will reduce complexity in tax and increase compliance.
- c. It removes many of the cascading effects of indirect taxation.
- d. It will remove the documentary hassles, thereby saves huge administrative expenses and reduces litigations.
- e. Its positive impact on retail as a whole will make supply chain more cost effective.
- f. It is expected to address most of the complex issues in taxation like software, intangibles, composite contracts etc. and brings more clarity in the levy.
- g. It is expected to increase profitability of corporate and also increase accountability and transparency.
- h. Simplicity and uniformity in indirect taxation helps the industries in proper planning and implementation of their projects and making Indian products competitive and strengthening the economy.
- i. Its nature of incremental and transparent levy leads to reduction in generation of black money and lowers corruption.

Empirical Evidence:

A research study⁵ conducted recently reveals about the possible impact of GST. The impact is as perceived by 150 corporate undertakings belonging to both manufacture and service sectors and 150 tax experts across the country. Their perception about the possible out-come of the implementation of GST are gathered as below:

Table – 1:
Corporates' agreement on implementation of the GST

Implementation of the proposed Goods and Services Tax (GST) would make your Organization and Industry more competitive -		
Opinion	Frequency Percent	Frequency Count
Strongly Agree	31.3%	47
Agree	46.7%	70
Neither Agree nor Disagree	16.0%	24
Disagree	4.7%	7
Strongly Disagree	1.3%	2
Total	100%	150

Source: Field Survey.

The GST is expected to unify the fragmented market in India and reduce cascading impact. In this connection, the opinion was gathered from the respondents on competitiveness of GST. Table - 1 reveals that, 31.3% of the respondents strongly agreed and 46.7% of the respondents agreed that, “implementation of the proposed Goods and Services Tax (GST) would make their organization and industry more competitive”. While, 16% of the respondents were undecided, 4.7% and 1.3% of the respondents were disagreed and strongly disagreed, respectively, with the statement made.

In general, the overall picture generates the hope that, the GST will get good support from the majority of business & industrial community in India in the global environment.

Table – 2:
Corporates’ agreement on the intention of bringing GST

The intention of bringing GST is to broad-base the levy, have fewer tax rates, simplify procedures and computerize the tax administration -		
Opinion	Frequency Percent	Frequency Count
Strongly Agree	28.0%	42
Agree	62.7%	94
Neither Agree nor Disagree	5.3%	8
Disagree	2.0%	3
Strongly Disagree	2.0%	3
Total	100%	150

Source: Field Survey.

The opinion of the corporate on the Government’s intention of bringing the GST was also gathered. Table - 2 shows that, 28% of the respondents strongly agreed and 62.7% of the respondents agreed that, “the intention of bringing GST is to broad-base the levy, have fewer tax rates, simplify procedures and computerize the tax administration”. While, 5.3% of the respondents were neutral on this view, a small number i.e. 2% of the respondents in each group belonged to disagreed and strongly disagreed groups with the above statement.

This shows, the acceptance of proposed GST by the business and industry community.

Table – 3:
Corporates’ agreement on GST’s competency

The implementation of GST will improve the tax revenue in addition to improving the economy -		
Opinion	Frequency Percent	Frequency Count
Strongly Agree	22.0%	33

Agree	63.3%	95
Neither Agree nor Disagree	11.3%	17
Disagree	2.7%	4
Strongly Disagree	0.7%	1
Total	100%	150

Source: Field Survey.

Indirect taxes on goods and services at the state level constitute 85 per cent of own tax revenue of the state governments of which sales tax alone accounts for 61 per cent. A change in regime in recent times from cascading type sales tax to tax based on input-tax credit within taxation of goods, as well as the adoption of a uniform rates of tax, has resulted in buoyant revenues⁶. Hence, it is also believed that, the GST, along with simplifying many issues in consumption taxation, extends the revenue base of the Indian economy. The respondents have expressed their view on the role of GST in revenue collection. Table - 3 reveals that, 22% of the respondents strongly agreed and 63.3% of the respondents agreed that, “the implementation of GST will improve the tax revenue in addition to improving the economy”. While, 11.3% of the respondents were undecided, a small number (3.4%) of the respondents, combinedly, disagreed and strongly disagreed with the statement made.

Table – 4:
Corporates’ agreement on the role of GST in tax administration and litigation management

The implementation of GST improves tax administration and reduces the litigations –		
Opinion	Frequency Percent	Frequency Count
Strongly Agree	16.7%	25
Agree	58.7%	88
Neither Agree nor Disagree	20.0%	30
Disagree	3.3%	5
Strongly Disagree	1.3%	2
Total	100%	150

Source: Field Survey.

A tax regime may be called as advanced or developed if the scope for litigation is very less. In this regard, Table - 4 describes that, 16.7% of the survey participants strongly agreed and 58.7% of the participants agreed that, “the implementation of GST improves tax administration and reduces the litigations”. While, 20% of the participants were having neutral view, small groups with 3.3% and 1.3% of the participants disagreed and strongly disagreed, respectively, with the above belief.

The overall picture indicates that, more than 3/4th of the participants believe that, the GST will improve the tax administration along with reducing litigations.

Table – 5:
Experts' agreement on implementation of the GST

Implementation of the proposed Goods and Services Tax (GST) would make the Indian business & industry more competitive -		
Opinion	Frequency Percent	Frequency Count
Strongly Agree	38.7%	58
Agree	48.0%	72
Neither Agree nor Disagree	10.7%	16
Disagree	1.3%	2
Strongly Disagree	1.3%	2
Total	100%	150

Source: Field Survey.

The opinion was gathered from the tax experts on competitiveness and feasibility of proposed GST. Table - 5 elucidates that, 38.7% of the tax experts strongly agreed and 48% of the tax experts agreed that, the “implementation of the proposed Goods and Services Tax (GST) would make the Indian business and industry more competitive”. While, 10.7% of the tax experts were undecided, a further 1.3% of the tax experts in each group disagreed and strongly disagreed, respectively, with the statement.

Table – 6:
Experts’ agreement on the intention of bringing GST

The intention of bringing GST is to broad-base the levy, have fewer tax rates, simplify procedures and computerize the tax administration.		
Opinion	Frequency Percent	Frequency Count
Strongly Agree	12.0%	18
Agree	76.0%	114
Neither Agree nor Disagree	4.0%	6
Disagree	4.0%	6
Strongly Disagree	4.0%	6
Total	100%	150

Source: Field Survey.

The opinion of the tax professionals on the Government’s intention of bringing the GST was collected. Table - 6 reveals that, 12% of the tax professionals strongly agreed and 76% of the tax professionals agreed that, “the intention of bringing GST is to broad-base the levy, have fewer tax rates, simplify procedures and computerize the tax administration”. While, 4% of the tax professionals were having neutral view, 4% of the tax professionals in each group disagreed and strongly disagreed with the statement made.

Table – 7:
Experts’ agreement on GST’s competency

Implementation of GST will improve the tax revenue in addition to improving the economy.		
Opinion	Frequency Percent	Frequency Count
Strongly Agree	8.0%	12
Agree	72.0%	108
Neither Agree nor Disagree	12.0%	18
Disagree	4.0%	6
Strongly Disagree	4.0%	6
Total	100%	150

Source: Field Survey.

The respondents have expressed their view on the role of GST in revenue collection and economic growth. Table - 7 reveals that, 8% of the respondents strongly agreed and 72% of the respondents agreed that, “the implementation of GST will improve the tax revenue in addition to improving the economy”. While, 12% of the respondents were undecided, a further 4% of the respondents in each groups, disagreed and strongly disagreed with the statement made. This indicates, there would be improved revenue generation along with improvement in the economy.

Table – 8:
Experts’ agreement on the role of GST in tax administration and litigation management

The implementation of GST improves tax administration and reduces the litigations –		
Opinion	Frequency Percent	Frequency Count
Strongly Agree	14.7%	22
Agree	76.0%	114
Neither Agree nor Disagree	5.3%	8
Disagree	1.3%	2
Strongly Disagree	2.7%	4
Total	100%	150

Source: Field Survey.

Table - 8 describes the opinion of the respondents on anticipation of GST on tax administration. It reveals that, 14.7% of the surveyed tax experts strongly agreed and 76% of the tax experts agreed and hope that, “the implementation of GST improves tax administration and reduces the litigations”. While, 5.3% of the participants were having neutral view, a small number of 1.3% and 2.7%, of the participants disagreed and strongly disagreed, respectively, with the above opinion.

Conclusion:

The study shows that the stakeholders of GST have a very high expectations about the positive outcome of GST. One thing is sure that the GST will bring uniformity and long-term perspective to the indirect tax structure in India. The industry and business along with the consumers will be benefitted. However, while implementing the GST the Government has to the following conditions to derive the above stated benefits:

- a) Centre should take all the states into confidence.
 - b) State level taxes like Entertainment tax, Octroi are to be properly addressed.
 - c) Clarity of contentions issues and aspects is to be ensured.
 - d) Clear roadmap of GST along with proper administrative mechanism should be in place.
- Implementation of GST leads to a new turn in fiscal federation of the country.

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