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GST REGIME - A FILLIP TO MAKE IN INDIA

Introduction

The Good and Services Tax (GST) was launched in India on July 1, 2017 in a midnight function at the Central Hall of Parliament by the Prime Minister in the august presence of the President of India. It was indeed a historic occasion and a paradigm shift as India moved towards 'One Nation, One Tax, One Market'. The global experience has shown that implementation of GST results in numerous benefits for all stakeholders. In the Indian GST regime, the consumers will benefit from lower prices due to removal of cascading in taxes and efficiency gains. The trade and industry will benefit because of uniform single indirect tax throughout the country, seamless flow of input tax credit, removal of tax related barriers at inter-state borders, reduced logistic costs, end to end IT enabled system and minimal interface with the tax authorities. The manufacturers will be able to take more rational decisions with regard to sourcing of raw materials, location of manufacturing and warehousing facilities. The Central and the state governments will witness tax buoyancy and the tax collection costs will reduce significantly. Exports will become more competitive as goods and services will be exported without any taxes embedded in them. 'Make in India' programme will get a major fillip due to increased ease of doing business and protection from cheap imports as all imports will be subject to Integrated GST, in addition to the basic customs duty. All these benefits will add significantly to the GDP growth of India in the medium and long run.

Evolution

The idea of GST was first mooted in the year 2000 during the Prime Ministership of Shri Atal Bihari Vajpayee and a committee was set up headed by the then West Bengal Finance Minister Shri Asim Dasgupta to design a GST model. In 2003, the Vajpayee government set up another task force under Shri Vijay Kelkar to recommend tax reforms. On February 28, 2006, the then Union Finance Minister in his budget for 2006-07 proposed that GST would be introduced from April 1, 2010. The Empowered Committee of State Finance Ministers (EC), which had formulated the design of State VAT, was requested to come up with a roadmap and structure for the GST. Joint Working Groups of officials having representatives of the States as well as the Centre were set up to examine various aspects of the GST and draw up reports specifically on exemptions and thresholds, taxation of services and taxation of inter-State supplies.

The FDP spelt out the features of the proposed GST and has formed the basis for the present GST regime.

The Constitution (122nd Amendment) Bill, 2014 was introduced in Lok Sabha on December 19, 2014 and was passed by Lok Sabha in May 2015. The bill was taken up in the Rajya Sabha and was then referred to the Joint Select Committee of the Rajya Sabha and the Lok Sabha on May 14, 2015. The Committee submitted its report on July 22, 2015.

The bill was passed by the Rajya Sabha on August 3, 2016 and in the Lok Sabha on August 8, 2016. After ratification by required number of state legislatures and assent of the President, the Constitutional amendment was notified as Constitution (101st Amendment) Act 2016 on September 8, 2016.

Constitution (101st Amendment) Act 2016:

The Constitutional amendment empowers the Centre and the States to levy and collect the Goods and Services Tax (GST). The GST has been defined as a tax on supply of goods or services or both, except supply of alcoholic liquor for human consumption.

On the other hand, five petroleum products viz. petroleum crude, motor spirit (petrol), high speed diesel, natural gas and aviation turbine fuel have temporarily been kept out and the GST Council can decide the date from which they shall be included in GST.

It will ensure that the GST is truly a destination based consumption tax, and there is seamless flow of input tax credit, even when goods are moving from one state to another.

The GST Council:

The Council comprises of the Union Finance Minister (Chairman of the Council), the Union Minister of State (Revenue) and the State Finance/Taxation Ministers of 29 states and two union territories with legislature (Delhi and Puducherry). The guiding principle of the GST

Council is to ensure harmonization of different aspects of GST between the Centre and the States as well as among States with a view to develop a harmonized national market for goods and services within India.

Recommendations to the Union and the States on the following:

1. the taxes, cesses and surcharges levied by the Centre, the States and the local bodies which may be subsumed under GST;
2. the goods and services that may be subjected to or exempted from the GST;
3. the date on which the GST shall be levied on petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas and aviation turbine fuel;
4. model GST laws, principles of levy, apportionment of IGST and the principles that govern the place of supply;
5. the threshold limit of turnover below which the goods and services may be exempted from GST;
6. the rates including floor rates with bands of GST;
7. any special rate or rates for a specified period to raise additional resources during any natural calamity or disaster;
8. special provision with respect to the North-East States, J&K, Himachal Pradesh and Uttarakhand;
9. any other matter relating to the GST, as the Council may decide.

The Constitutional amendment provides that every decision of the GST Council shall be taken at a meeting by a majority of not less than $3/4^{th}$ of the weighted votes of the members present and voting.

The vote of the Central Government shall have a weightage of $1/3^{rd}$ of the votes cast and the votes of all the State Governments taken together shall have a weightage of $2/3^{rd}$ of the total votes cast in that meeting.

One half of the total number of members of the GST Council shall constitute the quorum at its meetings.

Functioning of GST Council:

The Council was able to recommend draft legislations pertaining to the Central GST, the State GST, the Union Territory GST, Integrated GST and Compensation to the states and number of GST related Rules within a span of a few meetings.

Despite varying rates of VAT on goods in different states, all goods and services have been fitted into different slabs in a smooth manner. The newly created constitutional body, the GST Council, has emerged as a new model of cooperative federalism, where the centre and the states are willing to share and pool in their sovereignty and give fiscal space to each other.

Compensation to the States:

As GST is a destination based tax, there was apprehension amongst some states, particularly manufacturing states, that implementation of GST may result in loss of revenue for them. Therefore, the Constitution (One Hundred and First Amendment) Act, 2016 provides for compensation to the States for loss of revenue arising on account of implementation of the Goods and Services Tax for a period of five years. Based on the recommendations of the GST Council, the Goods and Services Tax (Compensation to States), Act 2017 has been fixed the revenues of the year 2015-2016 as the base year revenues and further a nominal annual growth rate of 14 per cent has been provided. The Act provides for levying of a cess, which shall be used for compensation to the states in case there is loss of recenue.

Deciding Tax Rates:

Firstly, to ensure that interests of poor and vulnerable sections of the society are protected and goods of mass consumption and essential commodities remain at affordable level.

Secondly, to ensure that the overall revenues of the States and the Centre are protected.

Thirdly, to see that the tax incidence on the goods and services does not increase or decrease substantially from the preset incidence of tax.

The Council carefully decided on four tax rates of 5 percent, 12 percent, 18 percent and 28 percent slabs. In additions, there is an exempt category also.

Supporting Medium and Small Enterprises:

The law provides for an exemption threshold where by it is not mandatory for a business whose aggregate turnover in a financial year is less than Rs. 20 lakh (Rs. 10 lakh for special category States) to register. Such small enterprises would be exempt from paying GST.

In addition, there is also a composition scheme under which an eligible registered person, whose aggregate turnover in the preceding financial year did not exceed Rs. 75 lakhs can opt to file summarised returns on a quarterly basis.

The taxpayers dealing in goods (both traders and manufacturers) and restaurant sector can only opt for the composition scheme.

Under the Composition Scheme, the manufacturer will pay tax at the rate of 1 percent; restaurant sector at the rate of 2.5 percent and traders at the rate of 0.5 percent of the turnover each under CGST Act and SGST Act.

Tackling Tax Leakages and Corruption:

The Indian GST will have a mechanism of matching of invoices. Input tax credit of purchased goods and services will only be available if the taxable supplies received by the buyer get matched against the taxable supplies received by the supplier.

This will not only check tax frauds and tax evasion, but also bring in more and more, businesses into the formal economy.

Conclusion:

The launch of GST in India with effect from July 1, 2017 is a transformative reform and will change the way businesses are done in India.

All stakeholders have welcomed the reform. The new GST regime will bring in more and more businesses into the formal economy. Radical change of this magnitude is bound to bring about some pain. The tax administrations, both at the centre and the states, are working hard to ensure that the transition is smooth. The gains of this little pain are going to be many and long lasting for the Indian economy.

GST - DAWN OF A NEW ERA

Introduction

India is a Union of States and politically we are one nation since 1947, but are we an economic union? GST has the potential to remove all these obstacles and forge India into one economic State or a common national market where the trade is really done without fear or favour in any State of the country.

Historically, the Central Government levies tax on manufacture (Central Excise duty), provision of services (Service Tax), inter-State sale of goods (CST - levied by the Centre but collected and appropriated by the States) and the State Government levy tax on retail sales (VAT), entry of goods in the State (Entry Tax), Luxury Tax, Purchase Tax, etc.

Adding complexity to the problem is the fact that these taxes were existing in silos i.e. there was no credit chain between the taxes paid to the Central government or the State government. Resultantly, there was cascading of taxes, tax arbitrage between the inter-State and intra-State sales spawning a vortex of unscrupulous elements who took advantage of these artificial barriers. Alongside the matrix of forms and cumbersome regulations combined with tardy and inefficient compliance mechanism made conduct of business in India a tribulation for most of the trade and industry.

These vexations experiences are going to be forgotten as a bad dream and what we are going to see is arrival of SMART governance with key attributes being smart, moral, accountable, responsive and transparent in the GST regime.

Key Features of GST:

1. The territorial spread of GST is whole of the country including the State of Jammu and Kashmir.
2. GST is applicable on "supply" of goods or services ad against the present concept of tax on the manufacturing of goods or on sale of goods or on provision of services.
3. It is based on the principle of destination based consumption taxation as against the present principle of origin based taxation.

4. Import of goods is treated as inter-State supplies and would be subject to IGST in addition to the applicable customs duties.
5. Import of services is treated as inter-State supplies and would be subject to IGST on reverse charge basis.
6. CGST, SGST/UTGST & IGST is levied at rates mutually agreed upon by the Centre and the States under the aegis of the GST Council (GSTC).
7. There are four tax slabs namely 5 percent, 12 percent, 18 percent, 28 percent for all goods or services. Precious metals would be subject to tax @ 3 percent whereas rough precious stones attracts tax @ 0.25 percent. Some specified goods or services have been exempted.
8. GST covers the entire gamut of goods and services except Alcohol for human consumption which is constitutionally out of GST. Besides, five petroleum products (Crude, Petrol, Diesel, ATF and Natural gas) are out of GST at present and can be brought into GST fold on recommendation of GST Council.
9. Common threshold exemption of Rs. 20 lakhs (Rs. 10 lakhs for special category States as specified in article 279A of the Constitution except State of Jammu & Kashmir) for both CGST and SGST/UTGST has been provided for. Besides, an option to pay tax under composition scheme (i.e. to pay tax at a flat rate without credits) is available to small taxpayers (other than specified category of manufactures and services providers) having an annual turnover of up to Rs. 75 lakhs (Rs. 50 lakhs for special category States as specified in article 279A of the Constitution except State of Jammu & Kashmir and Uttarakhand).
10. Exports and supplies to SEZ are zero-rated.
11. Credit of CGST paid on inputs may be used only for paying CGST on the output and the credit of SGST/UTGST paid on inputs may be used only for paying SGST/UTGST. In other words, the two streams of input tax credit (ITC) cannot be cross utilized, except in specified circumstances of inter-State supplies for payment of IGST.
12. Electronic filing of returns has to be done by different class of persons at different cut-off.
13. Various modes of payment of tax available to the taxpayer including internet banking, debit/credit card and National Electronic Funds Transfer (NEFT)/Real Time Gross Settlement (RTGS).
14. Refund of tax has to be sought by the taxpayer or by any other person who has borne the incidence of tax within two years from the relevant date.
15. System of self-assessment of the taxes payable by the registered person has been provided for.
16. Audit of registered persons to be conducted in order to verify compliance with the provisions of the Act.
17. An anti-profiteering clause has been provided in order to ensure that business passes on the benefit of reduced tax incidence on goods or services or obth to the consumers.
18. Elaborate transitional provisions have been provided for smooth transition of existing taxpayers to GST regime.

Benefits of GST:

A. Make in India

(i). Will help to create a unified common national market for India, giving a boost to Foreign investment and "Make in India" campaign;

(ii). Will mitigate cascading of taxes as Input Tax Credit will be available across goods and services at every stage of supply;

(iii). Harmonization of laws, procedures and rates of tax;

(iv). More efficient neutralization of taxes especially for exports thereby making our products more competitive in the international market and give boost to Indian Exports;

(v). Average tax burden on companies is likely to come down which is expected to reduce prices and lower prices mean more consumption, which in turn means more production thereby helping in the growth of the industries. This will create India as a "Manufacturing Hub".

B. Ease of Doing Business:

(i). Simpler tax regime with fewer exemptions;

(ii). Reduction in the multiplicity of taxes that are at present governing out indirect tax system leading to simplification and uniformity;

(iii). Reduction in compliance costs - No multiple record keeping for a variety of taxes- so lesser investment of resources and manpower in maintaining records;

(iv). Simplified and automated procedures for various processes such as registration, returns, refunds, tax payments, etc;

(v). All interaction to be through the common GSTN portal-minimal public interface between the taxpayer and the tax administration;

(vi). Common procedures for registration of taxpayers, refund of taxes, uniform formats of tax return, common tax base, common system of classification of goods and services will lend greater certainty to taxation system.

C. Benefit to Consumers

(i). Final price of goods is expected to be lower due to seamless flow of input tax credit between the manufacturer retailer and supplier of services;

(ii). Average tax burden on companies is likely to come down which is expected to reduce prices and lower prices mean more consumption.

Conclusion

Looking at GST from a myopic view point only shades of indirect tax reform will be visible. But if we have a comprehensive view of this transformational reform it can be seen as a business change, a social regeneration, a revolution that will reenergize the sagging wheels of our economic growth, a booster dose for the immunity of our economy from the vagaries of world developments and last but not the least a future where the head will be held high and minds will be free.

CREATING A STRONG IT BACKBONE

Introduction

The new Goods and Services Tax subsumes 17 Central and state taxes and 22 types of Cess into one single tax, thereby eliminating the complexity of multiple taxes, cascading of taxes and thus achieving significant simplification in indirect taxation. Thirty four state VATs has 97 different types of returns to be supported with 317 annexures and 28 declarations. Similarly Central Excise has 13 Return Forms which were required to be supported by one declaration. Even the Challan used was of twelve types. All these have been replaced by twelve forms and one challan which are uniform across the country. Not only does GST make it more convenient to pay taxes and file returns, it also promises to reduce the burden of compliance and radically improves the ease of doing business.

GST envisages credit of Input tax credit (ITC) of 80 lakh taxpayers to be processed within ten days after filing of monthly returns which is expected to contain 2.6 to 3.0 billion business to business invoice data.

The IT backbone has come up in the form of GST System consisting of GST Portal and IT platform - the highly advanced technological infrastructure that has made the timely roll out of the new tax regime possible. The GSTN has successfully developed a common GST Portal that acts as a one stop shop for all businesses, taxpayers and other stakeholders involved in the indirect taxation system.

GSTN: The IT enabler of GST

The Government of India and State Government came together to create the Goods and Services Tax Network (GSTN) a Special Purpose Vehicle as non-government, not-for-profit Company where Centre holds 24.5 percent shares and all States collectively hold 24.5 percent. The remaining shares are held by five private financial institutions. This structure brings flexibility of private sector while ensuring that strategic control remains with the government.

The GST System Project is a unique and complex IT initiative. It is unique as it seeks, for the first time to establish a uniform interface for the tax payer and a common and shared IT infrastructure between the Centre and States.

GSTN has partnered Infosys as its Managed Service Provider (MSP) for the next five years.

How it Works

The GSTN has been designed to work as a one-stop shop for all indirect tax stakeholders providing services like common registration, creation of challan for payment through designated banks and upload of business to business invoice data to create return. GSTN has also been asked to provide backend modules like assessment, appeal, enforcement etc. to 27 States and UTs. GSTN rolled out the registration module on 8th of November 2016 to onboard taxpayers registered under VAT, Service Tax, Central Excise and other taxes to be subsumed in GST.

Payment of taxes has also started taking place using one Challan for all types of taxes which are prepared on the GST portal. Once the Challan is created with GSTIN, name of taxpayers, amount under various tax heads and sub-heads etc., the taxpayer has two options to pay the tax. He can either use net-banking facility out of 25 authorized banks or print the challan and take it to an authorized bank for payment over the counter (OTC).

Making Compliance Easy

In the GST regime, all normal and casual taxpayers are expected to furnish their outward supply details of each month by the 10th of the subsequent month in GSTR 1 format. As part of this effort, GSTN has designed an offline tool and a simple excel based template that will facilitate the taxpayers in preparing and filing their monthly returns with maximum ease and minimal cost.

Small taxpayers making sales to consumers only, will not have any business to business invoices and thus their return will have just five line items representing five tax rates.

The taxpayer can taxpayer can prepare the details of his outward supply on weekly or any other suitable regular interval which can then be uploaded on GST portal.

Improving Ease of Doing Business

The objective of GSTN is not just to simplify the compliance work but also make the process of paying taxes simple and convenient. By reforming this indicator alone, we can significantly improve upon India's rankings on the global scale on the Ease of Doing Business criteria. Designed as a self-service mode, which is simple and adaptable for mobile systems as well, the interface will play a major role in empowering business and entrepreneurs and easing their tax paying procedures.

Conclusion

With a successful implementation of the GST, powered by the GSTN, India is looking forward to make major gains in the ease of doing business criteria. The implementation is expected to boost businesses and propel the economy's growth story.

BALANCING FEDERAL FISCAL RELATIONS

Introduction

By giving away their constitutional ability to tax, states have bet big time on the success of the new all-India tax Goods and Services Tax.

States has fought long and hard to get the Centre to bring in a cess which is expected to raise about Rs. 50,000 crore to be divided among states to compensate for any loss in revenues.

The problem with GST is that, the tax, like all taxes, is dependant on the economy doing well. Conceptually, the GST should broaden the tax base. The tax GDP ratio could increase to 16 percent from the current 10 percent.

Due to prevailing uncertainty about the revenue outcome from the GST implementation, the outlook for revenue receipts of states could turn uncertain.

States, on the other hand, face an ever increasing cost curve. With the 7th Pay Commission being implemented, their wage bills are expected to go up considerably. A rush to write off farm loans started by Uttar Pradesh, has till now seen three state governments agreeing to write off loans.

India's public debt, which is the sum total of central and state debt, as a percentage of GDP already stands at 67 percent, the highest among major Asian economies, except for Japan.

This time round if all states were to write off farm loans, and pay for this act by taking fresh loans, their new debt would amount to Rs. 3 lakh crore, finance ministry officials have calculated. This kind of debt taking is unsustainable at any given time, but at this juncture when we are experimenting with a new tax structure and do not know how state finances will behave - whether they will go up or down, this is obviously even more risky and the states know so.

The Gross Fiscal Deficit-GDP ratio in 2015-16 has already breached the 3 percent ceiling considered fiscally prudent for the first time since 2004-05.

However, officials also point out that 45 percent of the indirect taxes are not covered by GST such as items like real estate, petroleum products, alcoholic beverages etc., and the state will have the ultimate right to tax them and even increase taxes on them.

The GST Bill promises that in time the GST Council will move these items into the GST fold. However, it is more than likely that states will in time realize that they do need to have some measure of financial independence. This, coupled with the need to build a financial cushion, would possibly see them working actively to retain these items of taxation in their portfolio.

One may recall, that when the issue of division of financial powers between the Union and provinces came up in the Constituent Assembly, many MPs including form the Congress had argued in favour of giving more powers to state.

Observes point out that if states were to give away their freedom to increase taxes in respect of at least some goods, their ability to raise resources to address problems unique to them would be compromised.

Legally speaking the GST Amendment Act effectively transfers the power of taxation over large swathes of possible taxation to an unelected body. Effectively, the GST Council, set up by the Act, takes on the power of deciding tax rates from both the Parliament and State Legislature and these have to be implemented across the country.

The fact remains that this Council will now be the Supreme legislative body in determining tax rates on all goods and services through the length and breadth of the country and not the directly or indirectly elected Members of Parliament and State legislature.

In essence, this will be like an educated super-body elected by Electors without any direct responsibility to citizen-voters.

Entry taxes by municipal bodies, entertainment tax levied by local bodies, stamp duties, products such as alcohol and fuels, and electricity cesses are still not covered by GST.

In India, however, the Centre not only enjoys sole rights over direct taxes, a portion of which it may give to states, but it also now enjoys the exclusive right to nearly half of the GST proceeds.

Conclusion

It is yet to be seen how the Indian polity will respond to the challenge to the eventual implementation of the Goods and Services tax.

In case, states eventually decide to seek a fiscal arrangement which is less straight-jacketed they could then either chose.

What the future holds for India's tax structure and balance of powers between the Union and states is something which the Indian polity shall decide over time.

GST MEANS EASE OF DOING BUSINESS

Introduction

With the implementation of GST, India joins the league of over 160 odd countries, including Germany, Italy, UK, South Korea, Japan, Canada, Australia, Russia, China, Singapore and Malaysia, which have introduced a GST/VAT regime. France was the first country to implement a GST regime way back in 1954 to address the problem of tax evasion. The introduction of GST in India is a big step in the direction of improving the country's ranking in the ease of doing business. Currently, India is placed at a lowly 130th position out of 190 countries in the World Bank's *Doing Business* report 2017.

Impact of GST on Ease of Doing Business

- Companies faced major issues with respect to registration of VAT, excise, customs and service tax; movement of goods; dealing with tax authorities; settling tax disputes; availing tax incentives and obtaining timely tax refund.
- In the previous regime, states were imposing different tax rates, resulting in disadvantage for businesses working in states with higher tax rates.

- Transfer of goods across state borders involved payment of taxes in both states, besides resulting in compliance cost.
- Non-uniformity in taxes across states created uncertainty and confusion in business decisions. Taxes levied on goods and services had no clear mechanism for rebates on taxes paid in the previous stages.
- Effective implementation of GST will result in redressal of all these issues, and many more, by way of simplifying tax compliance, reducing the restrictions in inter-state movement of goods, mitigating the tax burden, facilitating timely realization of tax refunds, and so on.
- Sharply improving the country's global ranking in 'Paying Taxes' in the World Bank's Doing Business Report, where it ranks poorly at 172 out of 190 economies.

Major Benefits

Some of the major benefits of GST on ease of doing business can be enumerated as the following:

1. Easier Compliance

Taxpayers can register, file, make payments and claim refunds online at anytime from anywhere without having to interface with tax officials.

2. Easier Inter-State Movement of Goods

This would bring down the logistics costs (in money as well as time terms) for businesses and prices for consumers. Check posts have been abolished across all state borders, and there is evidence that travel time of trucks has significantly reduced.

3. Single Interface for All

The GSTN provides a single interface of tax-payers with tax authorities and a single platform for resolving differences.

4. Reduction in Tax Burden

Unlike the previous regime, GST allows availing credit on taxes on raw material and inputs levied in the previous stages of the value chain, which mitigates the cascading effect.

5. Creates Common Market

Manufacturers will be able to take more rational decisions regarding sourcing of raw materials, location of manufacturing and warehousing facilities and sale of output, as India becomes one big common market post implementation of GST.

6. Enhancing Export Competitiveness

GST, by avoiding cascading taxes and reducing the burden of tax compliance, should help in boosting exports.

7. Reducing Bias

GST, by helping doing business in the country tax neutral, irrespective of the location of the business, addresses this issue by minimizing the sector and state variation in compliances as well as rates.

8. Improves Ease of Doing Business for MSMEs

MSMEs with an annual turnover of Rupees 5 lakh were required to register for VAT. MSMEs also stand to benefit from the provision of input credit on taxes under GST, which would help them become more competitive.

Way Forward

GST promises to improve the ease of doing business, reduce the tax burden for both producers and consumers, and increase the governmental tax collection. This reform touches the lives of all three major stakeholders of the economy comprehensively - Consumers, Producers and the Government.

The direct benefits for businesses include reduced compliance cost, reduction in tax burden, and easier movement of goods across states, among several others.

India should speedily move towards a single rate, which is also low, with minimum exemptions possible. It is also important that going forward, the model must do away with separate registrations and tax filings in all states of operation for businesses that work in different states.