

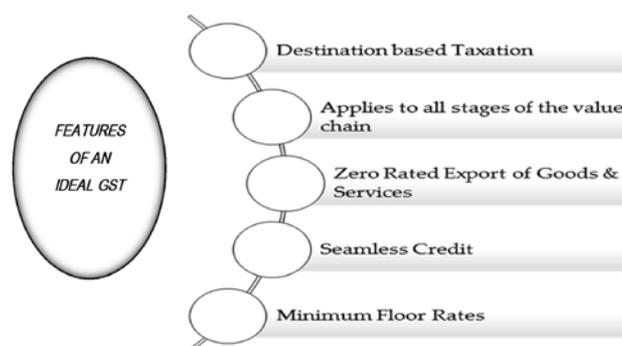
## GST- A Catalyst for Growth



*In the Indian context, Goods and Services Tax (GST) would be a comprehensive indirect tax levied on supply of goods or services, which will work towards integrating the state economies and enhancing economic growth. The GST structure aims to craft a simple, transparent and efficient indirect taxes regime in India which is imperative in the emerging economic environment. In totality, implementation of comprehensive GST in India is expected to lead to efficient allocation of factors of production, thus leading to economic gains, increased exports, enhanced economic welfare and returns to factors of production viz, land labour and capital. Implementation of GST in India will contribute to the nation's GDP and developing a Common National Market across borders.*

(Contributed by Indirect Taxes Committee of the ICAI. Comments can be sent to [itdc@icai.in](mailto:itdc@icai.in))

Features of an ideal GST are listed below:



### Brief History

The idea of notional GST was first mooted by the Kelkar Task Force in 2004. In March 2011, the Central Government brought in the 115<sup>th</sup> Constitution Amendment (GST) Bill, 2011 but could not pass it. Since this bill lapsed, the Central Government has introduced the 122<sup>nd</sup> Constitution Amendment (GST) Bill, 2014 in December 2014 with certain modifications in the earlier bill. The same was passed in the Lok Sabha on 6th May 2015 and submitted to the Select Committee of the Rajya

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Sabha for submitting its report in the first week of the monsoon session. The Hon'ble Finance Minister Shri Arun Jaitley has proposed to launch the GST in India from 1<sup>st</sup> April 2016, as also stated in his budget speech of the year 2015-16.

## Benefits of GST

GST will create a single, unified Indian market to make the economy stronger. The basic motive of GST is to benefit the consumers as well as the Government, thus creating a win-win situation for both. Some of the benefits of GST are enlisted below:

### (a) Abolition of Multiple Layer of Taxes

Implementation of GST in India will integrate the existing line of taxes like Central Excise, Service Tax, Sales Tax, Value Added Tax etc. into one tax i.e. GST. This will help in avoiding multiple taxes currently being levied on products and services. For example, in the case of Restaurant Services we end up paying both Service tax and VAT making taxable amount approximately 140% for the total amount (VAT on 100% Value and Service Tax on abated 40% Value).

### (b) Mitigation of Cascading Taxation

Under the GST regime, the final Tax would be paid by the Consumer of the goods/services but there would be an input tax credit system in place to ensure that there is no cascading of taxes. GST would be levied only on the value added at every stage, unlike the present scenario wherein Tax is also required to be paid on Tax in a few cases i.e. VAT is payable on Excise duty.

### (c) Development of Common National Market

GST would introduce a uniform taxation law across states and different sectors in respect to indirect taxes, which would make it easier to supply goods and services hassle-free across the country. This will help in removing economic distortions, promote exports and bring about development of a common national market. This will definitely give a boost to India's tax-to-gross domestic product ratio and thus help in promoting economic efficiency and sustainable long term economic growth.

### (d) Increase in Voluntary Compliance

Under the GST regime, the process will be simple

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and articulate with a lesser scope for errors. As all the information will flow through the common GST network, it would make tax payment and compliances a regular norm with lesser scope for mistakes. It will only be upon the payment of tax, that the consumer will get credit for the taxes they pay on inputs. This will generate an automatic audit trail of value addition and income across the production chain, creating a unified base of tax potential that can be tapped. Thus, the GST model will do away the need of the current patchwork of indirect taxes that are fractional.

### (e) Reduced Litigation

Taxation under GST would reduce litigation on account of clarity regarding the jurisdiction of taxation as against the present structure where there still exists an uncertainty regarding jurisdiction of taxation by the Centre and State like in the case of Software, Right to use of Goods, etc. In the GST Regime, with a single tax law in place, there would be smooth assessments as compared to the present multiple assessments in different tax laws.

### (f) Efficient Administration by the Government

Presently, on account of multiplicity of taxes and their cascading effects, lack of integrated network, the administration of indirect taxes is a mammoth task for the government which also adds to the compliance & administration costs. Under the proposed GST regime, with unified tax rate, simple input tax credit mechanism and integrated GST Network, information would be readily available and administration of resources would be easy and efficient for the Government. There would be a single tax, reduced errors and litigations, thus resulting in reduced administration costs too.

### (g) Will act as a Tax Booster for the Government

With a wider tax base, minimum floor rates,

facility of seamless credit, the Goods & Services Tax would prove to be an efficient tax booster for the government. With ease of compliance and integrated network data, tax collection would be much easier for the government.

### GST Structure in India

India is a federal economy where the Centre and the States have the concurrent power to levy and collect taxes through appropriate legislations. Consistent with its federal structure, First Discussion Paper released by the Empowered Committee on 10th November 2009 proposed a dual structure GST in India. A 'Dual rate structure' consisting of CGST [Central Goods and Services Tax] and SGST [State Goods and Services Tax] would be applicable on all transactions involving supply of goods or services except the exempted goods & services, goods outside the purview of GST and transactions below the prescribed threshold limit.

However, the Inter-State transaction of taxable Goods and Services will be taxed vide Integrated GST (IGST) model. The scope of the IGST model is that the Centre would levy IGST which would be approximately CGST plus SGST on all the inter-state transactions of taxable goods & services. Under IGST, the exporting state will transfer to the Centre the credit of SGST used in payment of IGST, the importing dealer would claim credit of IGST while discharging his output tax liability and the Centre will transfer to the importing state the credit of IGST used in payment of SGST.

The administration of CGST would be with the Centre and for SGST it would be with the respective states. Keeping in mind the taxpayers' convenience, functions such as assessment, scrutiny, audit etc. would be undertaken by the authority collecting the tax with due information sharing between the Centre & the States. The assessee would submit periodical returns to both CGST authority & concerned SGST authority. This would ensure a self-monitoring mode and maintain an uninterrupted credit chain on inter-state transactions.

### Input Tax Credit Mechanism

Input Tax Credit under CGST & SGST would be treated separately and cross utilisation of credit between CGST & SGST would in general not be allowed i.e. the credit balance of CGST and SGST could only be utilised for discharging CGST &

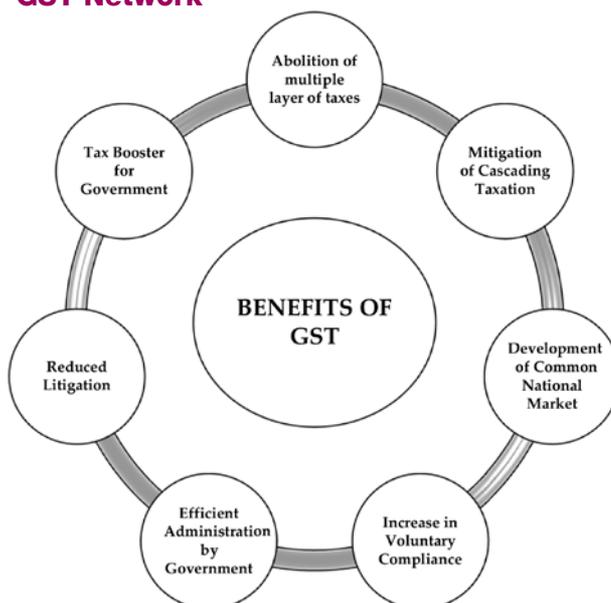
SGST liabilities respectively. In case of inter-state transactions, the Inter-State seller will pay IGST on value addition after adjusting available credit for IGST, CGST & SGST.

### GST Rate – Revenue Neutral Rate

In the proposed GST regime, the revenue of the Government would not be the same in comparison with the present tax structure due to tax credit mechanism or otherwise. Therefore, an adjustment in tax rate is required to avoid reduction in revenue of the Government. Hence, the rate of tax will have to be suitably adjusted, to ensure that tax revenue does not reduce. This rate is termed as 'Revenue Neutral rate' (RNR). It is the rate at which tax revenue remains the same despite giving credit of duty paid on inputs and other factors.

It is proposed to adopt a two rate structure – a lower rate for basic & necessary items and a standard rate for goods & services in general. There may also be a special rate for precious metals. Exports will be zero-rated under GST and full credit will be available of the GST paid on import of goods & services. The success of GST will largely depend on the determination of the ideal rate at the Central level as well as State level, which should be acceptable to the public and revenue neutral to Government.

### GST Network

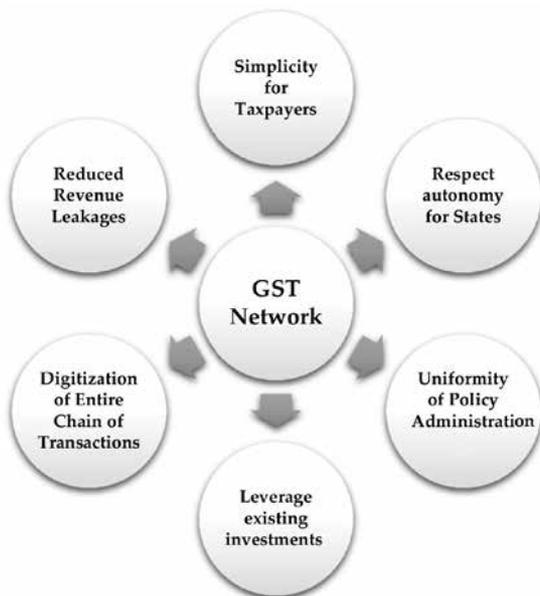


For gaining the maximum out of the benefits of GST, a well-designed and well-functioning

# Taxation

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IT system is imperative. In this regard, on 28<sup>th</sup> March 2013, GSTN – SPV has been incorporated as a Section 25 Company registered under the Companies Act to provide a robust IT-infrastructure and service backbone, to capture, process and exchange the information amongst various stakeholders. GST Network would support various functions like Registrations, Returns, Challans, Audits, Appeals, Refunds, Inter-state transactions, Flow of Information, etc. For managing the GST data at the Centre as well as at the State level, a robust GST Network is required with the following features:



## Challenges to overcome

Implementation of GST will impact all the sections of the society – from a small businessman to a huge conglomerate and from a tiny state to a developed state. Along with boosting the economic growth, introduction of GST will also pose some challenges for the economy. The first and foremost challenge



is the requirement of the 122<sup>nd</sup> Constitution Amendment (GST) Bill, 2014 to be passed and assented by the President of India. Once passed, the next challenges would include drafting of CGST & SGST laws, need for efficient administration, sharing of resources between the Centre and the State, Dispute Resolution, Compensation by the Centre to States incurring revenue losses, Determination of Revenue Neutral Rate (RNR), implementation of robust IT infrastructure etc.

## Conclusion

For a developing economy like India, it is imperative to be globally more competent and utilise its resources efficiently. The taxation policies should be so defined so as to maximise the economic efficiencies and minimise distortions & impediments towards resource utilisation, capital formation and international trade. In totality, implementation of comprehensive GST in India is expected to lead to efficient allocation of factors of production thus, leading to economic gains, increased exports, enhanced economic welfare and returns to factors of production *viz.* land labour and capital.

The implementation of GST in India will contribute to the nation's GDP and develop a Common National Market across borders. Further, it will impact various business areas like pricing, costing, margins, supply chain management, tax compliances/incentives, IT systems etc. In addition to the challenges it is expected to bring, implementation of GST would also bring in various professional opportunities to support the assesseees with transition to new regime, audit & assurance, corporate consultancy, network support services, accounting & taxation services, tax planning, post implementation support and much more. ■