NEW TAX REGIME - IMPLEMENTATION OF GOODS AND SERVICE TAX (GST) IN INDIA AND ITS CONTROL OVER THE TAX COLLECTION

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***Abstract*: Goods and Service Tax (GST) is a destination base indirect tax collected by central as well as state government to meet the public expenditure as a part of important mechanism of fiscal system of a nation. Unlike other prevailing indirect taxes Goods and Services Tax and is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services with a input tax credit facility on output tax liability at the national and state level in an uniform modus. In this study an attempt has been made to draw the road map in connection with levy and collection of GST and its sharing between Centre and state. Hence, GST is expected to unite the country economically as it will subsume various forms of taxes that are currently levied at different points subsuming the multiple types of taxes charged at different rate at present.**

***Keywords*: GST, IGST, SGST, CGST, Indirect Tax Structure.**

1. INTRODUCTION:-

Given the passage of the Constitution (122nd) Amendment Bill, 2014 for Goods and Services Tax (GST) in the LokSabha on 6th May, 2015, the Government of India seems committed to replace all the different kind of indirect taxes levied on goods and services by the Centre and States which is proposed to be implement by 1st April, 2016 (Budget Speech 2015 by Mr.ArunJaitley, Former Finance Minister, Government of India). Goods and Service Tax is a destination based tax collected in a multi-point of production, sales and rendering of services at uniform manner with a facility of claiming an input tax credit on output tax. In simple terms, GST may be defined as a tax on goods and services, which is liveable at each point of sale or provision of service, in which at the time of sale of goods or providing the services the seller or service provider may claim the input credit of tax which he has paid while purchasing the goods or procuring the service. It is basically a tax on final consumption. In a GST regime it is anticipated that the tax base will be comprehensive, as virtually all goods and services will be taxable, with minimum exemptions. GST will be a game changing reform for Indian economy by developing a common Indian market and reducing the cascading effect of tax on the cost of goods and services (Kumar, 2014). It will impact the Tax Structure, Tax Incidence, Tax Computation, Tax Payment, Compliance, Credit Utilization and Reporting leading to a complete overhaul of the current indirect tax system. India is going to implement the duel GST model for levy and collection of taxes. Where both Centre and States will simultaneously levy GST across the value chain.

Tax will be levied on every supply of goods and services. Centre would levy and collect Central Goods and Services Tax (CGST), and States would levy and collect the State Goods and Services Tax (SGST) on all transactions within a State. The input tax credit of CGST would be available for discharging the CGST liability on the output at each stage. Similarly, the credit of SGST paid on inputs would be allowed for paying the SGST on output. No cross utilization of credit would be permitted.

The Centre would levy and collect the Integrated Goods and Services Tax (IGST) on all inter-State supply of goods and services. The IGST mechanism has been designed to ensure seamless flow of input tax credit from one State to another. The inter-State seller would pay IGST on the sale of his goods to the Central Government after adjusting credit of IGST, CGST and SGST on his purchases. The exporting State will transfer to the Centre the credit of SGST used in payment of IGST.

The importing dealer will claim credit of IGST while discharging his output tax liability (both CGST and SGST) in his own State. The Centre will transfer to the importing State the credit of IGST used in payment of SGST. As per expert opinion and previous study like (Kumar, 2014; Garg, 2014; Bhiwandikar, 2013; Government of India, 2009), implementation of GST in India will absorbed the numerous indirect taxes in central as well as state level.

The taxes which are going to subsumed by the GST at Central level are:

1) Central Excise Duty;

2) Additional Excise Duties;

3) The excise Duty levied under the Medicinal and Toiletries Preparation Act;

4) Service Tax;

5) Additional Customs Duty);

6) Special Additional Duty of Customs;

7) Surcharges; and 8) Cesses.

And finally state level taxes and levies to be subsumed:

1) VAT/Sales tax;

2) Entertainment tax (unless it is levied by the local bodies);

3) Luxury tax;

4) Taxes on lottery, betting and gambling;

5) State Cesses and Surcharges in so far as they relate to supply of goods and services;

6) Entry tax not in lieu of Octroi. But Alcohol, tobacco, petroleum products shall continue to be outside the GST regime.

The remaining paper is structured as follows:- Section two summarizes the relevant literature related to the objectives of this proposed work. Section three discusses the methodology of research work. Section four presents the discussion to achieve the framed objectives and finally section five concludes the present research.

2. LITERATURE REVIEW

The first journey of GST (in some countries it is known as Value Added Tax) was started in France in the year 1950 AD (Lin, 2008; Palil& Ibrahim, 2012). Presently near about 160 countries are having the GST as a part of their indirect tax collection. Across the glove a wide range of Value Added Taxes are applicable with a highest rate of 40% in Gambia; 21% in Argentina and Belgium; 20% in Bulgaria, Austria, United Kingdom and Albania; 19.25% in Cameroon; Angola and Australia at 10%; Singapore 7%; and lowest rate of 5% is pertinent in Canada, Japan, Niue and Nigeria (Sanusi et al.,2015; Onji, 2009; Ezeoha&Ogamba, 2010).

Although, initially the Government of India proposes three rates namely 20% for goods, 16% for services 10% for essential items but it is yet to come out with a fixed and specific rate of GST to be levy and collected (Bhiwandikar, 2013). (Garg, 2014) Studied "Basic Concepts and Features of Good and Service Tax in India", and found that GST is the most logical steps towards the comprehensive indirect tax reform in India since independence. GST will create a single, unified Indian market to make the economy stronger. Experts said that GST is likely to improve tax collections and Boost India's economic development by breaking tax barriers between States and integrating India through a uniform tax rate. Implementation of GST will increase the tax compliance among the tax payers as each person in the value chain who gets input tax credit has an incentive to ensure that the previous persons has paid the tax. As a whole tax administration will be easier for the government (Sanusi et al., 2015).

Under GST, the taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions. India is a federal country where both the Centre and the States have been assigned the powers to levy and collect taxes through appropriate legislation. It has been proposed that there would be a "Dual GST "model in India, taxes will be levied by both centre (Central GST) and state (State GST) on Goods and Services. Hence, a dual GST would be according to the Constitutional requirement of fiscal federalism (Kumar, 2014). (Vasanthagopal, 2011) Studied "GST in India: A Big Leap in the Indirect Taxation System", and found that the positive impacts are dependent on a neutral and rational design of the GST, balancing the conflicting interests of various stakeholders, full politicalcommitment for a fundamental tax reform with a constitutional amendment. GST would be a big rise in the indirect taxation system and also give a new impetus to India's economic change. It is also noted that, buoyed by the success of GST, more than 160 countries have introduced GST in some form to other and is fast becoming the preferred form of indirect tax in the Asia Pacific region. Many study like (Kumar, 2014; Bhiwandikar, 2013; Garg, 2014) has been done which are basically stranded on understanding of concept of GST, and criticizing the existing taxation system in India. But none of the study fund which are in the ground of the explanation and understanding of mechanism of levy and collection of GST between centre and state. Hence this study has been undertaken by the researcher to explore the answer of the following research question. What would be the mechanism of levy and collection of GST between centre and state? What is the rationality of implementing the GST in India? What is the opportunities and challenges of GST?

To address the above mention research questions the present study has undertaken to achieve the following objectives:
1. To know the rationality behind the movement towards GST model.
2. To study the collection mechanism tax under GST regime.
3. To know the opportunities and challenges of GST implementation.

3. METHODOLOGY

Methodology is designed keeping in pace with the objectives set and to address the research problem. This paper made an attempt to sightsee the understanding about GST and the proposed mechanism of collection and sharing of taxes between center and state. It also tries to see the opportunities and mechanism of GST & its probable impact. This study is centered on secondary information and fact collected from books, journals, magazines, newspaper and websites. The study is conceptual in nature and it is supported more by facts than by numerical data. A pictorial demonstration has been used for lucid understanding about the mechanism of collection and sharing of GST between Centre and states and how the input credit is claimed. The study is further limited to the discussion of the possibilities of implementation of Goods and Service Tax in India for the International Competitiveness.

4. DISCUSSION AND ANALYSIS

This section is further subdivided into three sub-sections to discuss about the rationality, collection mechanism and opportunities and challenges of GST. Ratiationality Behind the GST Presently, the Constitution empowers the Central Government to levy excise duty on manufacturing and service tax on the supply of services. Further, it empowers the State Governments to levy sales tax or value added tax (VAT) on the sale of goods. This exclusive division of fiscal powers has led to a multiplicity of indirect taxes in the country. In addition, central sales tax (CST) is levied on inter-State sale of goods by the Central Government, but collected and retained by the exporting States. Further, many States levy an entry tax on the entry of goods in local areas. This multiplicity of taxes at the State and Central levels has resulted in a complex indirect tax structure in the country that is ridden with hidden costs for the trade and industry. Firstly, there is no uniformity of tax rates and structure across States. Secondly, there is cascading of taxes due to 'tax on tax'. No credit of excise duty and service tax paid at the stage of manufacture is available to the traders while paying the State level sales tax or VAT, and vice-versa. Further, no credit of State taxes paid in one State can be availed in other States. Hence, the prices of goods and services get artificially inflated to the extent of this 'tax on tax'. GST will have a far reaching impact on almost all the aspects of the business operations in the country, for instance, pricing of products and services; supply chain optimization; IT, accounting and tax compliance systems. What is the justification of GST? To answer this question this study begins by elaborating on the important concept of cascading effect of taxes. It is also, logically, referred to as "taxes on taxes". It is simple to illustrate suppose Mr.A sells goods to Mr. B after charging sales tax, and then Mr. B re-sells those goods to Mr. C after charging sales tax. While Mr. B was computing his sales tax liability, he also included the sales tax paid on previous purchase, which is how it becomes a tax on tax.

This was the case with the sales tax few years ago. At that time, a VAT system was introduced whereby every next stage dealer used to get credit of the tax paid at earlier stage against his tax liability. This reduced an overall liability of many traders and also helped to reduce inflationary impact this had on the prices.

Similar concept came in the duty on manufacture - The Central Excise Duty - much before it came for sales tax. The CENVAT credit scheme (earlier known as MODVAT) was also a welcome move by trade and industry where credit of excise duty paid at the input stages was allowed to be set-off against the liability of excise on removal of goods. With effect from 2004, this system was extended to Service Tax also. Moreover, cross utilization of credit between excise duty and service tax was also permitted. To a huge extent, the problem of cascading effect of taxes is resolved by these measures. However, there are still problems with the system that have not been resolved till date.

The problem is addressed here. The credit of Input VAT is available against Output VAT. In the same manner, the credit of input excise/service tax is available for set-off against output liability of excise/service tax. However, the credit of VAT is not available against excise and vice versa. We all know that VAT is computed on a value which includes excise duty. In the same manner, CENVAT credit is allowed only for the Excise duty paid on inputs, and not on the VAT paid on the input raw material. This shows that there is a tax on tax. Excise duty and service tax are levied by the Central Government, while the VAT is levied by the State Government, which is one of the reasons why such a cross-utilization of credits was not allowed.

However, this does not constitute a valid reason that justifies the cascading effect of taxes. For the people, it makes no difference if a tax is levied by the Centre or the State - a tax is a tax, and there is a tax on tax.

The GST is introduced to combat this problem, among many others. Hence, the introduction of GST would mark a clear departure from the scheme of distribution of fiscal powers envisaged in the Constitution. At the same time GST will also help to build a transparent and corruption-free tax administration (Sanusi et al., 2015) as it is evident from other developing country as well. The proposed dual GST envisages taxation of the same taxable event, i.e., supply of goods and services, simultaneously by both the

Centre and the States. Therefore, both Centre and States will be empowered to levy GST across the value chain from the stage of manufacture to consumption.

The credit of GST paid on inputs at every stage of value addition would be available for the discharge of GST liability on the output, thereby ensuring GST is charged only on the component of value addition at each stage. This would ensure that there is no 'tax on tax' in the country. GST will simplify and harmonize the indirect tax regime in the country. It is expected to reduce cost of production and inflation in the economy, thereby making the Indian trade and industry more competitive, domestically as well as internationally.

It is also expected that introduction of GST will foster a common or seamless Indian market and contribute significantly to the growth of the economy. Due to the seamless transfer of input tax credit from one stage to another in the chain of value addition, there is an in-built mechanism in the design of GST that would incentivize tax compliance by traders.

What is the mechanism of GST?

This section has dedicated to find out the mechanism of levying, collection and mutual sharing of taxes between state and Centre assuming a GST rate at 16 (sixteen) percent and taking some of the states and specific places in the country.

Case 1:

Sale in one state, resale in the same state: In this example, goods are moving from Mumbai to Pune. As it is a sale within a state, CGST and SGST will be levied central and state government respectively. The collection goes to the Central Government and the State Government as pointed out in the picture. Then the goods are resold from Pune to Nagpur. This is also a case intra state transaction, so CGST and SGST will be levied. Sale price is increased so tax liability will also increase. In the case of resale, the credit of input CGST and input SGST (INR 8) is claimed as shown; and the remaining taxes go to the respective governments.

Case 2:

Sale in one state, resale in another state: In this case, goods are moving from Indore to Bhopal. Since it is a sale within a state, CGST and SGST will be levied. The collection goes to the Central Government and the State Government as pointed out in the picture. Later the goods are resold from Bhopal to Lucknow (outside the state). Therefore, IGST will be levied. Whole IGST goes to the central government. Against IGST, both the input taxes are taken as credit But we see that SGST never went to the central government, still the credit is claimed. This is the drawback of GST system. Since this amounts to a loss to the Central Government, the state government compensates the central government by transferring the credit to the central government.

Case 3:

Sale outside the state, resale in that state: In this case, goods are moving from Delhi to Jaipur. Since it is an interstate sale, IGST will be levied. The collection goes to the Central Government. Later the goods are resold from Jaipur to Jodhpur which is within the state. Therefore, CGST and SGST will be levied. Against CGST and SGST, 50% of the IGST that is INR 8 is taken as a credit. But we see that IGST never went to the state government, still the credit is claimed against SGST. Since this amounts to a loss to the State Government, the Central government compensates the State government by transferring the credit to the State government.

In a nutshell, CGST and SGST shall be treated separately. The payment of CGST shall be allowed to be taken as input credit and will only be utilized against CGST payment on that particular goods and services. As far as SGST is concerned same rule will be followed i.e., cross utilization of input credit shall not be allowed between CGST and SGST.

(a) Recompenses of present tax system on implementation of GST in India:

Implementation of GST will leads to better compliance as each person in the value chain who gets input tax credit has an incentive to ensure that the previous person has paid tax. The other benefit is that the differentiation between goods and services is removed, and tax credit is available across this distinction. Having a uniform tax across India with input credit is also likely to remove the tax bottlenecks in transactions that span two or more states. This would help India evolve from a fragmented market structure to a single national market. Apart from full allowance of credit, there are several other advantages of introducing a GST in India:

1. Reduction in prices: Due to full and seamless credit, manufacturers or traders do not have to include taxes as a part of their cost of production, which is a very big reason to say that we can see a reduction in prices.

2. Increase in Government Revenues: This might seems to be a little vague. However, even at the time of introduction of VAT, the public revenues actually went up instead of falling because many people resorted to paying taxes rather than evading the same. However, the government may wish to introduce GST at a Revenue Neutral Rate, in which case the revenues might not see a significant increase in the short run.
However, in the long run it will increase due to high compliance and less avoidance. Under Goods and Services Tax, the tax burden will be divided equally between Manufacturing and services. This can be done through lower tax rate by increase Tax base and reducing exemptions.

3. Less compliance and procedural cost: Instead of maintaining big records, returns and reporting under various different statutes, all assesse will find comfortable under GST as the compliance cost will be reduced. Hence tax payers are no longer required to keep record of CGST, SGST and IGST separately.

4. Move towards a Unified GST: Internationally, the GST is always preferred in a unified form i.e., one single GST for the whole nation, instead of the dual GST format). Although India is adopting Dual GST looking into the federal structure, it is still a good move towards a Unified GST which is regarded as the best method of Indirect Taxes.

5. GST is a transparent Tax and also reduce numbers of indirect taxes. With GST implemented a business premises can show the tax applied in the sales invoice. Customer will know exactly how much tax they are paying on the product they bought or services they consumed.

6. GST will not be a cost to registered retailers therefore there will be no hidden taxes and the cost of doing business will be lower. This in turn will help Export being more competitive.

7. In GST System bothe Central GST and State GST will be charged on manufacturing cost and will be collected on point of sale. This will benefit people as prices will come down which in turn will help companies as consumption will increase.

8. Biggest benefit will be that multiple taxes like octroi, central sales tax, state sales tax, entry tax, license fees, turnover tax etc will no longer be present and all these will be brought under the GST.

Doing Business now will be easier and more comfortable as various hidden taxation will not be present.

(b) What are the challenges towards implementation of GST?

Although the GST will remove the numerous shortcomings of present tax system. However, for the successful implementation of the same, we must be cautious about a few aspects. Following are some of the factors that must be kept in mind about GST:

State governments have trade lobbies in the transportation and retail industry which claim that a monopolistic situation can be created with GST since it favors supply chain efficiencies for those with deep pockets. State governments believe GST will reduce revenues. The Central government and the Opposition have locked horns over what should and should not be part of GST. GST may only include 100 items in its purview; e-commerce may not be part of it.

It is really required that all the states implement the GST together and that too at the same rates. Otherwise, it will be really cumbersome for businesses to comply with the provisions of the law.

For smooth functioning, it is important that the GST clearly sets out the taxable event. Presently, the CENVAT credit rules, the Point of Taxation Rules are amended/ introduced for this purpose only. However, the rules should be more refined and free from ambiguity. However, this new GST move would have the same drawbacks of existing tax system because parliament would have power to make laws that override any law made by state legislatures.

The GST is a destination based tax, not the origin one. In such circumstances, it should be clearly identifiable as to where the goods are going. This shall be difficult in case of services, because it is not easy to identify where a service is provided, thus this should be properly dealt with. More awareness about GST and its advantages have to be made, and professionals like us really have to take the onus to assume this responsibility.

5. CONCLUSION

GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. GST is liveable on all supply of goods and provision of services as well combination thereof at a different stage of production, distribution of goods and rendering of services. GST will create a single, unified Indian indirect tax market subsuming all forms of prevailing taxes at present except alcohol, tobacco and petroleum products to make the economy stronger. Experts are argued that GST is likely to improve tax collections and boost India's economic development by breaking tax barriers between States and integrating India through a uniform tax rate. Under GST, the taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions (Garg, 2014).

In the new tax regime i.e. in GST structure in every steps of production/ distribution input tax credit will be allowed against the output tax liability. Even cross utilization between CGST and IGST as well as SGST and IGST will be allowed but between CGST and SGST will not be entertained. Any business transaction within a particular state shall be liable to pay SGST to state and IGST to Centre. However, interstate transactions are subject to IGST only which is equivalent to SGST plus CGST.

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