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Implementation of goods and service tax (gst) in india: prospectus and challeneges

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ABSTRACT: *There are blended reaction, ambiguous, controversies and viewpoint among the Manufactures, traders and society about the Goods and Services Tax (GST) to be implemented by Government of India from 1st April 2017 this year. Distinct new organizations from all around the world focused on the bill unifying the country and it being an achievement of the government. As the Goods and Services Tax Bill was passed in the Rajya Sabha, it also brought India at the centre of the global economy. With the passing of the bill, many international newspapers published their views on how the GST Bill brings a new wave of economic reform in the country. The paper highlights the background, Prospectus and challenges in Implementation of Goods and services Tax (GST) in India. Certainly, the paper examines and draws out a conclusion.*

Keywords:Rajya Sabha, global economy, goods and services tax

INTRODUCTION

Taxes are the only method for financing the public goods because they cannot be priced a in the market. They can only be provided by governments, funded by taxes.It is important the tax regime is designed in such a way that it does not become a source of distortion in the market or result in market failures. The tax laws should be such that they increase a given amount of revenue in a productive, effective and unbiased manner. Tax policies play an extensive role on the economy through their impact on both efficiency and fairness. A good tax system should keep in view the problems of income distribution and also at the same time must aim to generate tax revenues in the direction to support government expenditure on public services and infrastructure advancement. GST stands for Goods and Services Tax. It is a domestic trade tax that will be imposed in the form of a value added tax on all goods and services -in practice with some exceptions. A value added tax exempts all inputs in addition to capital goods. Therefore, it becomes a general tax on domestic consumption. It is a comfortable and economically effective way of taxing consumption. If it is levied at a single rate and there are only very less exemptions, it becomes an equivalent tax on consumption. In order to make sure that the tax burden is apportioned according to the consumption of distinct individuals, it must be levied on the basis of the principle of destination, that is to say that the tax on a good should go to the state in which the concerned consumer lives. This inevitably takes place if the tax is imposed at only the central level, or if the state is a unitary one with only one level of taxation. In a federation, there are distinguished issues to be cleared up if GST is to be imposed at the level of the states as well as the federal government.

CONCEPT OF GOODS AND SERVICE TAX

GST is a comprehensive indirect tax on manufacture, sale and consumption of goods and services at national level. One of the biggest taxation reforms in India the (GST) is all set to integrate State economies and boost overall growth. Presently, companies and businesses pay lot of indirect taxes such as VAT, service tax, sales tax, entertainment tax, octroi and luxury tax. Once GST is enforced, all these taxes would fail to exist. There would be only one tax, that too at the national level, overseen by the central government. GST is also distinct in the way it is imposed — at the final point of consumption and not at the manufacturing stage. Currently, distant tax rates are imposed to goods and services. Under GST, there would be only one tax rate for both goods and services. The goods and services tax will actually be a more important improvement towards a exhaustive indirect tax reforms in the country. Integration of goods and services taxation would give India a world class tax system and improve tax collections. It would end distortions of differential treatments of manufacturing and service sector. GST is anticipated to discover a business friendly environment, as price levels and hence inflation rates would come down in addition to as a uniform tax rate is implied. It will also improve government's fiscal health as the tax collection system would become more transparent, making tax evasion difficult. The GST is expected to replace all the indirect taxes in India. At the centre's level, GST will replace central excise duty, service tax and customs duties. At the state level, the GST will replace State VAT. VII.

GST - HOWIT WORKS IN INDIA

The GST system is based on the same conception as VAT. Here, set-off is available in respect of taxes paid in the past level against the GST charged at the time of sale. The GST model has some aspects which are as follows:

Components: GST will be divided into two components namely, Central Goods and Service Tax and State Goods and Service

Applicability: GST will be applicable to all Goods and Services sold or provided in India, except from the list of exempted goods which fall outside its purview.

Payment: GST will be charged and paid separately in case of Central and State level.

Input Tax Credit: The facility of Input Tax Credit at Central level will only be available in respect of Central Goods and Service tax. In other words, the ITC of Central Goods and Service tax shall not be allowed as a set-off against State Goods and Service tax and vice versa.

IMPACT OF GST ON INDIAN ECONOMY

The Goods and Service Tax (GST) bill is expected to have expansive ranging complications for the ramificated taxation system in the country. It is likely to boost the country‘s tax to GDP ratio and also hinder inflation. However, the remake is likely to aim the manufacturing sector but may make things hard to do for the services sector. Though there are expectations that the GDP growth is likely to go up by 1 to 2 %, the results can only be analysed after the GST implementation. The response is mixed from countries around the world. While the New Zealand economy had a higher GDP growth, it was lower in case of Canada, Australia and Thailand after the GST was implemented. The one per cent tax that has been proposed as a sop to appease the States for compensating their loss of revenue from the inter-state CST is likely to play a spoil sport. It is probable that it may affect the GDP adversely. The Congress is already opposing the 1 per cent tax. The GST rate is expected to be around 17-18% and can be assumed as a tax impartial rate. This tax rate is not likely to give any incremental tax revenue to the government. The rate will turn out advantageous for the manufacturing sector where the tax rate is around 24% at present. The major manufacturing sectors that will benefit the most are FMCG, Auto and Cement. This is because they are currently reeling under 24 to 38 per cent tax. The sector which is going to be adversely affected is the services sector. Already there has been a hike from 12 to 14% from the 1st of June this year. Another 4 per cent increase will break their backs. The uniformity in the taxation rate is fine but it should not result in disparity for the goods and services sectors. Nobody has an idea of the implications it will have in the services sector if the government introduces a higher GS Tax rate like 20% or 24%. The greater GST rate will certainly boost the tax to GDP ratio, while giving financial muscle to the government for raising the capital expenditure. This is possible to spur growth in the economy. There is doubtlessly a silver lining to the whole exercise. The unorganised sector which relishes the cost advantage comparable to the taxation rate can be brought under the GST bill. This will bring a plenty of unorganized players in the fields like electrical, paints, hardware etc. under the tax net. It will take a lot of scrupulous planning in the exertion of the GST reform for occupying the unorganized sector under its extent. For one it will widen the tax reach and secondly it will be advantage to the organized players who lose out revenue to the unorganized sector at current. There are still a lot of unchartered territories which need to be looked into through parliamentary discussions in the sessions. This will bring sanctity to the taxation system beyond damaging any of the sectors unfavourably.

CHALLENGES OF GST IN INDIAN CONTEXT

At this time, lots of speculations are going as to when the GST will absolutely be applicable in India. Examining into the political environment of India, it implies that a little more time will be required to assure that everybody is satisfied. The states are confounded as to whether the GST will create their revenues. Although the Central Government has pronounced the states about coverage in case the revenue falls down, still a little doubtfulness can be a relentless draw back. However, for the successful implementation of the same, there are few challenges which have to face to implement GST in India.

Following are some of the factors that must be kept in mind about GST:

1. Firstly, it is absolutely mandatory that all the states implement the GST together and that too at the same rates. Otherwise, it will be certainly cumbersome for businesses to abide with the provisions of the law. Further, GST will be very benefit if the rates are alike because in that case taxes will not be a factor in investment location decisions, and people will be capable to spotlight on profitability.
2. For easy functioning, it is valuable that the GST undoubtedly sets out the taxable event. Currently, the CENVAT credit rules, the Point of Taxation Rules are rectified/ introduced for this purpose only. However, the rules should be more refined and free from vagueness.
3. The GST is a target based tax, not the provenance one. In such circumstances, it should be certainly identifiable as to where the goods are going. This shall be troublesome in case of services, on account of it is not easy to identify where a service is provided, thus this should be properly handle with.

CONCLUSION

Tax policies play a significant role on the economy through their impact on both efficient and equity. The ongoing tax reforms on moving to a goods and services tax would impact the national economy, International trade, firms and the consumers There has been a good deal of criticism as well as assessment of the proposed Goods and Services Tax tenure. It is considered to be a major improvement over the pre-existing central excise duty at the national level and the sales tax system at the state level, the new tax will be a further significant

breakthrough and the next logical step towards a comprehensive indirect tax reform in the country This will reduce litigation on classification issues. It is also expected that implementation of GST in the Indian framework will lead to commercial benefits which were untouched by the VAT system and would essentially lead to economic development. Hence GST may usher in the feasibility of a composite gain for industry, trade, agriculture and common consumers as well as for the Central Government and the State Government. Sooner or coming after, the GST will without any doubt knock the doors of India.And when that happens, we as future torch bearers of the profession are required to be prepared and fully equipped with our knowledge regarding GST. Forewarned is forearmed. Thus, we must be ready to deal with GST and many other changes that are going to take place in India. Slowly, India shall move to join the world wide standards in taxation, corporate laws and managerial practices and be among the leaders in these fields.

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