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Challenges of gst

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GST

It has been long pending issue to streamline all the different types of indirect taxes and implement a ―single taxation‖ system. This system is called as GST *(GST is the abbreviated form of Goods & Services Tax)*. The main expectation from this system is to abolish all indirect taxes and only GST would be levied. As the name suggests, the GST will be levied both on Goods and Services.

GST was first introduced during 2007-08 budget session. On 17th December 2014, the current Union Cabinet ministry approved the proposal for introduction GST Constitutional Amendment Bill. On 19th of December 2014, the bill was presented on GST in Loksabha. The Bill will be tabled and taken up for discussion during the coming Budget session. The current central government is very determined to implement GST Constitutional Amendment Bill.

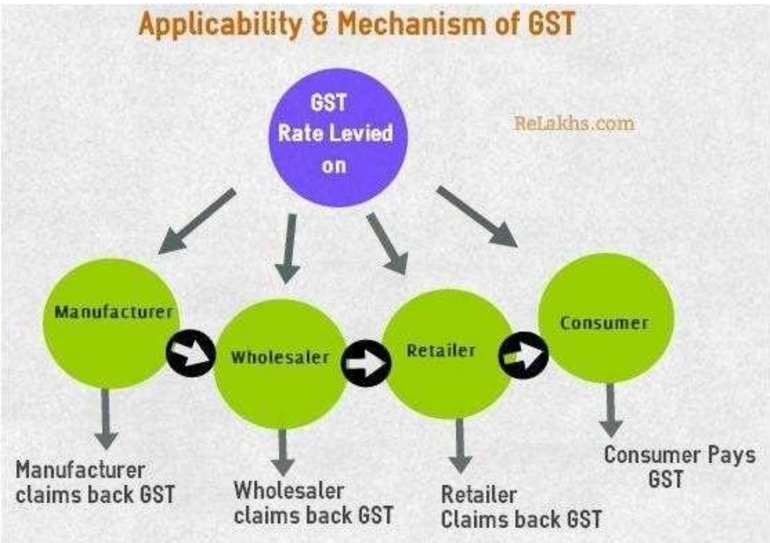
GST is a tax that we need to pay on supply of goods & services. Any person, who is providing or supplying goods and services is liable to charge GST.

Scope of GST

GST is a consumption based tax/levy. It is based on the ―Destination principle.‖ GST is applied on goods and services at the place where final/actual consumption happens.

GST is collected on value-added goods and services at each stage of sale or purchase in the supply chain. GST paid on the procurement of goods and services can be set off against that payable on the supply of goods or services.The manufacturer or wholesaler or retailer will pay the applicable GST rate but will claim back through tax credit mechanism.

But being the last person in the supply chain, the end consumer has to bear this tax and so, in many respects, GST is like a last-point retail tax. GST is going to be collected at point of Sale.



The GST is an indirect tax which means that the tax is passed on till the last stage wherein it is the customer of the goods and services who bears the tax. This is the case even today for all indirect taxes but the difference under the GST is that with streamlining of the multiple taxes the final cost to the customer will come out to be lower on the elimination of double charging in the system.

Let us understand the above supply chain of GST with an example:

GST Supplychain example (Assuming GST rate @ 8%)				
Supply of Goods	**GST Flow**	**Input Costs (ex-GST)**	**Sale Price (ex-GST)**	**GST Collected**
A weaver sells a fabric to a tailor for Rs 108 per metre	The weaver pays GST of Rs 8	**0**	**Rs 100**	**Rs 8**
The tailor sells a ready made completed shirt to a retailer for Rs 270	The tailor pays GST of Rs 12 (After input tax claim. Weaver claims tax credit for Rs 8)	**Rs 100**	**Rs 250**	**Rs 12**
The retailer sells the readymade shirt in his showroom for Rs 540	The retailer pays GST of Rs 20 (After input tax claim. Tailor claims tax credit for RS 12)	**Rs 250**	**Rs 500**	**Rs 20**
You purchase the shirt for Rs 540	No Tax credit claim. You pay entire GST Rs 40 @ 8%	**NA**	**NA**	**Total : Rs 40**
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The current tax structure does not allow a business person to take tax credits. There are lot of chances that double taxation takes place at every step of supply chain. This may set to change with the implementation of GST.

Indian Government is opting for Dual System GST. This system will have two components which will be known as

- **Central Goods and Service Tax** *(CGST)* and
- **State Goods and Service Tax** *(SGST).*

The current taxes like Excise duties, service tax, custom duty etc will be merged under CGST. The taxes like sales tax, entertainment tax, VAT and other state taxes will be included in SGST.

GST will be levied on the place of consumption of Goods and services. It can be levied on :

- Intra-state supply and consumption of goods & services
- Inter-state movement of goods
- Import of Goods & Services

Indirect Taxes	GST	Goods/Services Produced & Consumed in same State	Goods/Services Produced & Consumed in different States (Inter-State)	Goods & Services Exported	Goods & Services Imported
Excise Duty	CGST	CGST rate + SGST rate Levied	Integrated GST	GST not Applicable	CGST rate + SGST rate Levied
Service Tax					
Custom Duties					
Central Sales Tax					
State Sales Tax	SGST				
Entertainment Tax					
State VAT					
Professinal Tax					

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Benefits of GST Bill implementation

- The tax structure will be made lean and simple
- Average tax burden on forms to come down
- The entire Indian market will be a unified market which may translate into lower business costs. It can facilitate seamless movement of goods across states and reduce the transaction costs of businesses.
- It is good for export oriented businesses. Because it is not applied for goods/services which are exported out of India.
- In the long run, the lower tax burden could translate into lower prices on goods for consumers.
- The Suppliers, manufacturers, wholesalers and retailers are able to recover GST incurred on input costs as tax credits. This reduces the cost of doing business, thus enabling fairer prices for consumers.
- Relatively large segment of small retailers will wither be exempted from tax ir will suffer very low tax rates
- GST boosts foreign investments
- It can bring more transparency and better compliance.
- Generate more employment
- Number of departments *(tax departments)* will reduce which in turn may lead to less corruption
- More business entities will come under the tax system thus widening the tax base. This may lead to better and more tax revenue collections.
- Companies which are under unorganized sector will come under tax regime.

Challenges for implementing Goods & Services Tax system

- The bill is yet to be tabled and passed in the Parliament
- To implement the bill there has to be lot changes at administration level, Information Technology integration has to happen, sound IT infrastructure is needed, the state governments has to be compensated for the loss of revenues and many more..
- GST, being a consumption-based tax, states with higher consumption of goods and services will have better revenues. So, the co-operation from state governments would be one of the key factors for the successful implementation of GST

Since GST replaces many cascading taxes, the common man may benefit after implementing it. But it all depends on _what rate the GST is going to be fixed at?' Also, Small Traders may be exempted from it.

France was the first country to introduce this system in 1954. Nearly 140 countries are following this tax system. GST could be the next biggest tax reform in India. This reform could be a continuing process until it is fully evolved. We need to wait few more months for more details on Goods & Services Tax system.

GST It will help realise the goal of ―One Nation-One Tax-One Market.‖ GST is expected to benefit all the stakeholders – industry, government and consumer. Experts believe that GST will lower the cost of goods and services, boost to the economy and make Indian products and services globally competitive, and even boost initiatives like ‗Make in India'.According to Ministry of Finance ,Gst wil make India a common market with common tax rates and procedures and remove economic barriers‖.GST is expected to improve ease of doing business in India.In the Gst regime,exports will be zro-base in entirely.This is unlike the present system where refund of some of the taxes does not take place to fragmented nature of indirect taxes between the Central and the States.

GST Rate Structure: A four-tier GST tax slabs have been decided by the Finance ministry. Below are the details;

- **Zero Tax rate** : There won't be any tax on almost 50 % of items in the Consumer Price Index basket, including grains used by the common man.
- **5% Tax slab** : This is applicable on items of mass consumption used by common people.
- There would be two standard rates of **12% and 18%** under the GST regime.
- All the items *(especially luxury items)* which are now taxed at around 30% will fall under **28% GST rate** slab.
- An additional cess would also be levied on luxury cars, tobacco products & aerated drinks besides the highest tax rate (28%).
- The tax rate proposal will now be placed in Parliament for its approval.

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