ROLE OF GST FOR EASE OF DOING BUSINESS IN INDIA

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ABSTRACT

Goods and Service Tax (GST) is one of the structural reforms in the field of indirect taxation. In India, the value chain of business process consist of incidence of multiple and double taxation from the stage of production to the consumption. It also observed that existing indirect taxation structure and practices has some loopholes to evade tax at different stages. The federal structure of indirect taxation allows the state government to exempt or impose higher tax rate on goods, and levy tax on the inter-state transfers. This has created end price differences between the states or production centers versus consumption centers. The GST reform helps the Indian economy to harmonize the imposition tax at the stage of production, distribution and consumption of goods/services. It will increase the efficiency of distribution system and price structure of goods offered to the market. In the era of globalization, the price inequalities due to the cascading effect of taxation has to be removed and the market to be efficient to decide the price without any difference in the place and time. The present paper elucidates the drawbacks of existing indirect taxation structure; and introduces the concept of GST and its role to consolidate the Indian market to become a global competitive one.

Key Words: *Goods and Services Tax; Value Added Tax, Double Taxation; Cascading Effect.*

INTRODUCTION

Introduction of Goods and Services Tax (GST) in India is one of the big moves to revamp the existing Indirect Taxation system. It is widely accepted that the taxation policies should ensure efficiency and equity in the economy. Indirect tax enables the government to the equitable and fair distribution of goods and services across the country; and mobilization of the budgeted revenue. Lack of uniformity in the indirect taxes imposed by the different State Government has created cascading effect on the price of the goods/services. This has resulted inefficiencies in the production and distribution of goods/services within the domestic market. It act as laggards in the free flow of goods and services to the market; and adversely affected the international competitiveness of the economy or market. The proposed GST will remove all these disparities in the existing indirect taxation structure of India; and boost the economy to be more efficient in the production and distribution of goods/services throughout the country.

DATA BASE AND METHODOLOGY

The paper aims to examine the role of GST for the economic growth and competitiveness of Indian economy. The study elucidates the implications of GST in the existing indirect taxation structure, and benefits of these reforms on the different stakeholders of the economy. The present deliberations are conceptual in nature and explain the different concepts used in the proposed GST regime. Data base used for the study was collected from the secondary sources such as publications of Institute of Chartered Accountants of India, Institute of Cost and Works Accountants of India, Institute of Company Secretaries of India, The Associated Chambers of Commerce of India; and different websites related with the subjects. The study covers information status

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of the subject up to the period of November 2016.

REVIEW OF LITERATURE

Recently, some of the scholars have discussed different dimensions of the proposed GST from the conceptual stage itself. The study stated that under GST, the taxation will be equitably divided among producers and service providers, and lower tax rate will be levied to the goods/services when compared to the existing tax system (Morrissey, 2003). There was a study conducted by the National Institute of Public Finance and Policy on a state-wise analysis on the revenue implications of GST and estimation of Revenue Neutral Rate (RNR) revealed that GST rate in a three rate structure would be higher than the general rate of Value Added Tax (VAT) at 12.5 per cent, and around 12.5 per cent in two rate structure. However, there is a scope of trimming the number of commodities in lower tax rate category, which can give higher base for the standard rate and lower revenue neutral rate. If, both goods and services are taxed at the same rate, the RNR will come down (Kavita Rao, 2013). The proposed GST will create a single and unified market to make the economy stronger, and benefit both corporate and the economy. It will boost economic development by breaking tax barriers between states and integrating India through a uniform tax rate (Girish Garg, 2014). It has been stated that the transition of economy in to a new GST regime will arise new challenges and issues; and could have a lasting impact on the economy/business. Some of these issues are one time/short-term in nature; and others are long-term and recurring in nature. The business firms have to identify those favorable and adverse issues; and formulate appropriate strategies to overcome negative impact on the cost and revenues of the organization (Rajkumar, 2015). The study observed that the GST will reduce the cost of Indian goods and services in the international market due to the minimization of cascading and double taxation effect in the economy. Further, it will result in increasing tax revenue of the Government; and achieve more transparency and efficiency in the tax collection system (Thowseaf, 2016). The National Council of Applied Economic Research (NCAER) had estimated that the proposed GST will boost Gross Domestic Product (GDP) of India by one per cent to two per cent. The Credit Rating Information Services of India Ltd (CRISIL) stated that GST is the best way to mobilize revenue to the Government and reduce the fiscal deficit. It is going to impact all sections of the society from small businessmen to conglomerate type of business organizations (Satish, 2016).

RESULTS AND DISCUSSIONS

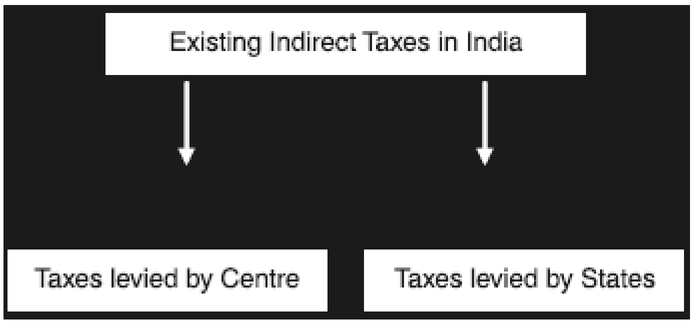
The present paper makes an attempt to review the structural characteristic in existing system of indirect tax followed by the country, and point out the major drawbacks of the system. Later part of the discussions introduces major concepts used in the GST regime and its different types followed in different countries. Further, it also highlights the core benefit sought from the implementation of GST and its positive impacts on the economy.

4.1. Existing Structure of Indirect Taxation

It has been found that the cascading effect of taxes is one of the major drawbacks of existing indirect taxation system followed by the country. This is mainly due to the federal administrative structure followed by the country which allows both the Central and State Government to levy taxes separately on goods and services at different stages of production to consumption. Presently, there are two layer structures of indirect taxes in

India. Certain categories of taxes are imposed by the Union Government; and others are levied by the State Government and local bodies. In practice, customs duty, excise duty, service tax and Central Sales Tax (CST) are levied by the central government; and VAT/sales, entry tax, state excise, property tax, agricultural tax, and *octroi* are charged by the State Government and Local bodies (Figure 1). There are many possible transactions which come under the ambit of two or more of these taxes, and value of the second tax is calculated on the value arrived at by adding the value of first tax tom the transactions. This method of tax computation is more complex in nature, and leads to the multi-staged/cascading effect on the cost of goods and services. This unscientific method of tax computation will prevent availability of cheap labour and free flow of other factors of production between the States; and incurring inflated price at the stage of final consumption.

The existing indirect tax structure in Indian can be classified into two categories i.e., Taxes levied by the Central Government, and Taxes levied by the State Government. Customs duties such as export and import duties are levied by the Union Government and the rate of customs duties depends on the categories of the goods under the Customs Tariff. Central excise duty is levied on goods manufactured in India, which have been specified in the Central Excise Tariff Act. There are three types of Central Excise Duties viz., Basic Duty, Additional duty of Excise, and Special Excise Duty. Service Tax was introduced in India in 1994 by the Central Government, and it is levied on specified taxable services at the rate of 12 per cent. The effective rate of service tax including education *cess* is 12.36 per cent. Central sales tax is imposed on the sale of all goods by a dealer in the course of inter-state trade or outside a State or in the course of import into or export from India.



Taxes levied by Centre	Taxes levied by States
- Customs Duty	- State VAT/ Sales Tax
- Central Excise Duty	- State Excise on few products
- Service Tax	- Luxury Tax
- Central Sales Tax	- Entry Tax/ Octroi
(Tax retained by states)	- Other ancillary taxes

Figure 1: Existing Structure of Indirect Taxes in India

Central Sales Tax (CST) is generally payable on the sale of all goods by a dealer in the course of inter-state trade or commerce or, outside a state or, in the course of import into or, export from India. Recently, the ceiling rate on CST has been reduced from four per cent to three per cent. Value Added Tax (VAT) is state specific and each state has its own VAT specific Act and Rules, and the VAT rate varies from State to State i.e. four per cent to 15 per cent (Table 1).

Table 1: Tax Rates of Existing Structure of Indirect Taxation

Tax	Taxing Authority	Applicable on	Headline tax rate
Customs duty	Central Government	Import of goods in India	Effective Customs duty - 28.85%*
Excise duty	Central Government	Manufacture of goods in India	12.36%*
Service tax	Central Government	Provision of specified categories of services – (All services except those specified in a negative list proposed to be taxed as per Finance Act 2012)	12.36%
Value Added Tax ('VAT')	State Government	Sale of goods within the state	Varies from state to state; generally ranges between 4%-15%
Central Sales Tax ('CST')	Central Government	Inter-State sale of goods	2% or VAT rate applicable on the goods in the state where the movement of goods commences
Entry tax	State Government	Entry of goods into a state/ local area for consumption use or sale	Varies from State to State
R&D cess	Central Government	Import of technology in India under foreign collaboration	5%

* *Actual rate may vary according to the product description*

Source: Doing Business in India ERNST & YOUNG LLP, 2013, www.ey.com/India.

at the final point of consumption. It is tax on goods and services with value addition at each stage of sale or purchase in the supply

4.2. Concept of GST

Goods and Service Tax is a comprehensive tax imposed on manufacture, sale and consumption of goods and service at a national level under a single domain. It is a consolidated tax based on a uniform rate of tax fixed for both goods and services payable chain from the producer's/service provider's point to the retailer's level where the final consumer should bear the tax. It can be classified in to three types, viz., Gross Income type, Production type, and Consumption type (Figure 2).

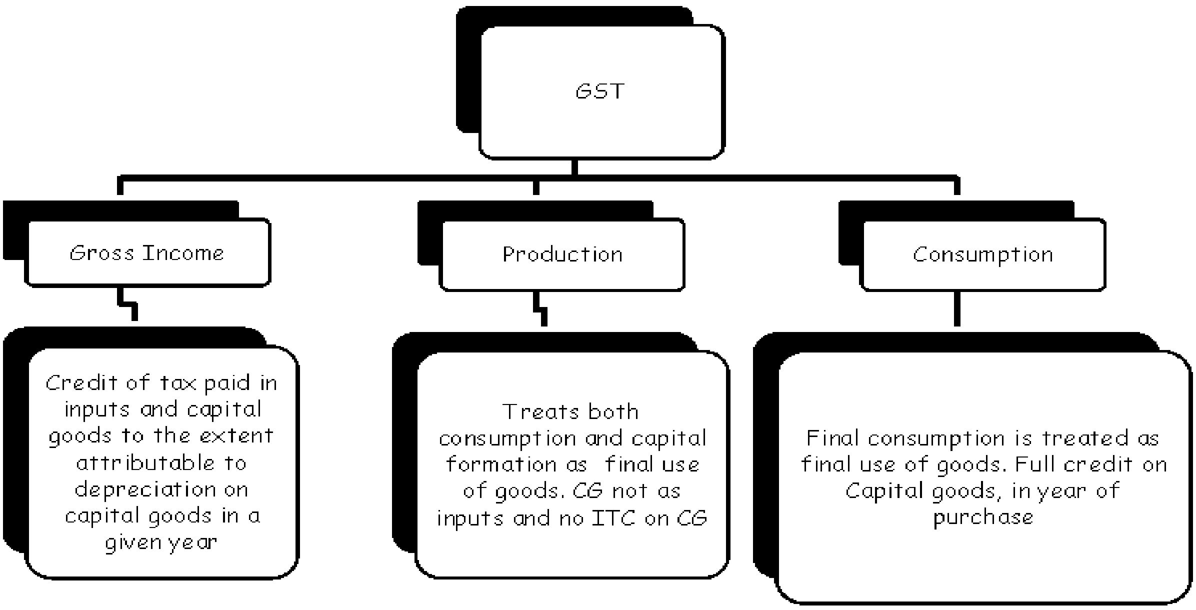


Figure 2: Type of GST and its Corresponding Features.

In the case of Gross income type, the credit of tax paid in inputs and capital goods attributable to depreciation of capital goods in any year; and spread over the life of the capital goods. Production type GST considers both consumption and capital formation as final use of the goods. Hence, capital goods bought by the distributor are not taken as input, and input tax credit is not available on taxes paid on capital goods. But, in consumption type, final consumption is considered as final use of goods, and full credit on capital goods is available in the year of purchase.

GST can be imposed based on the two principles i.e. Origin vs Destination. In the case of Origin principle, GST will be imposed on the value added of all taxable products produced domestically. But, under the destination principle, GST will be imposed on the value of all taxable products consumed domestically. The distinction between these two principles is based on the location of production and consumption. The proposed GST in India is going to follow the principle of destination based, and consumption based GST. This principle of GST provides economic neutrality and ease of administration; and restricts tax burden to final consumption goods. It also contributes towards increased international competitiveness and sustainability of domestic industries.

4.3 Models of GST

GST is one of the widely accepted indirect taxation system followed in more than 160 countries across the world (Table 2). Internationally, GST has been structured as a destination based comprehensive tax on sale/consumption of goods and services within a country. France was the first country implemented GST in 1960. The tax rate of GST countries varies from five per cent to 40 per cent across Asia, Europe, Africa and South American continents.

Table 2: Countries Implemented GST with Rates of Taxes

Sr. No.	Region	No. of Countries	Tax Rate (Range)
1.	ASEAN-*(Thailand& Philippines)*	7	7-12%
2.	Asia-(Iran & Tajikstan)	19	5-20%
3.	Europe-(Jersey& Hungary)	53	5-27%
4.	Oceania-(Niue & New Zealand)	7	5-15%
5.	Africa-(Nigeria & Gambia)	44	5-40%
6.	South America-(Brazil & Uruguay)	11	10-22%
7.	Caribbean, Central & North America (Canada & Barbados)	19	5-17.5%
	Total No. of Countries	160	

Sources: *An Insight of Goods & Services Tax (GST) in India,* Tax Research Department, The Institute of Cost Accountants of India, Vol. 1, October 2015.

The model of GST followed across the World is different viz., National GST Model, State GST Model, Non-concurrent Dual GST Model, Concurrent Dual GST Model, and Quebec Model. The salient features of these models are shown in the Table 3. The countries like Australia and China follows National GST model, therein tax levied by

Table 3: Salient Features of Different Models of GST across the World

GST Model	Main Features	Applicable in Countries
National GST	Tax levied by Centre with provisions for revenue sharing with Provinces/States	Australia, China
State GST	Tax levied by Provinces/States	USA
Non-concurrent Dual GST	GST on Goods levied by State & on Services levied by Centre	
Concurrent Dual GST	Tax levied by Centre & State on both Goods & Services	Brazil & Canada "India's Proposed Model"
Quebec Model	Separate legislation for Federal/ Provinces – Tax collection, Administration, Enforcements, etc. by Provinces	

Centre with provision for sharing with States/Provinces. In State GST model countries like USA, the taxes are levied by Provinces/States. Countries like Brazil and Canada follows Concurrent Dual GST model, wherein the tax levied by the Centre and State on both goods and services. In Quebec model, separate legislations are passed by the Centre and State Government for their respective tax collection and administration.

(b) It allows dual levy of tax concurrently by the Central and the State Government, but independently.

(c) The Central and State Government levy tax on a common base, and imposition of tax/duty will be identical.

Under Concurrent Dual GST model taxes will be imposed as per place of supply of goods and services (Figure 3). The present

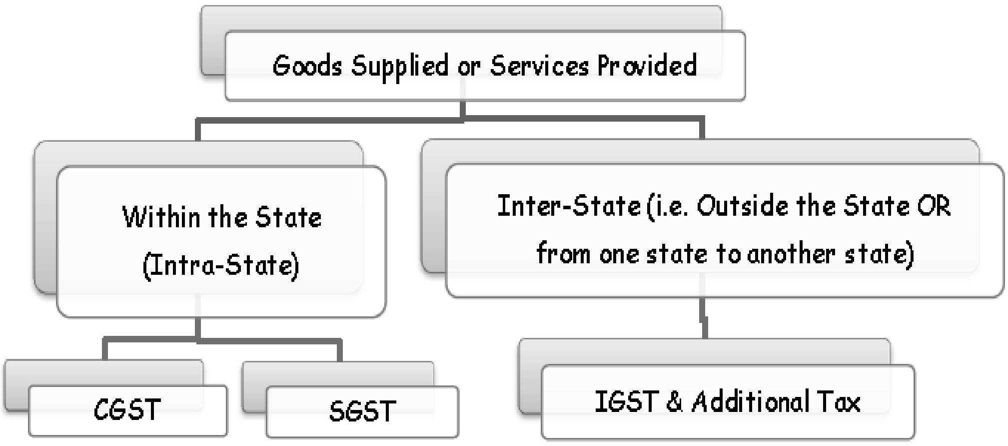


Figure 3: Concurrent Dual GST Model

India is going to adopt Concurrent Dual GST model because of the following features match with the Indian context.

(a) The Constitution of India empowers both Centre and State Government to impose tax on domestic goods and services.

taxes such as excise duty, service tax, customs duty etc will be merged under Central GST (CGST), and taxes like sales tax/VAT, entertainment tax and other State taxes will be included in State GST (SGST). Inter-State or outside State transactions will be come under Integrated GST (IGST). Inter-

State supply and consumption of goods and services are related with inter-state movement of goods, and import of goods & services. The Concurrent Dual GST model consider sale transactions within the State will have two components of taxes such as SGST belongs to the State, and CGST goes to the Central Government. The sale transactions outside the State or transactions of sale from one State to another have only one type of tax come under IGST, which goes to the Central Government (Table 4).

In short, goods/services produced and consumed within the same State apply taxes of CGST and SGST. When goods/services produced and consumed in different States (Inter-State) will be taxed under IGST. GST is not applicable to any export of goods and services. But, when goods and services imported, CGST and SGST will be imposed to such transactions (Table 5).

Table 4: Existing Taxation (Old) Model *Vs* Concurrent Dual GST (New) Model

Transaction	NEW system	OLD System	Comments
Sale within the state	SGST and CGST	VAT & Excise / ST*	Under the new system, a transaction of sale within the state shall have two taxes, SGST – which goes to the State; and CGST which goes to the Centre
Sale outside the state	IGST	CST & Excise / ST*	Under the new system, a transaction of sale from one state to another shall have only one type of tax, the IGST – which goes to the Centre

Table 5: Levying of Taxes under GST

<table>
<tr><th>Indirect Taxes</th><th>GST</th><th>Goods/Services Produced & Consumed in same State</th><th>Goods/Services Produced & Consumed in different States (Inter-State)</th><th>Goods & Services Exported</th><th>Goods & Services Imported</th></tr>
<tr><td>Excise Duty</td><td rowspan="4">CGST</td><td rowspan="8">CGST rate + SGST rate Levied</td><td rowspan="8">Integrated GST</td><td rowspan="8">GST not Applicable</td><td rowspan="8">CGST rate + SGST rate Levied</td></tr>
<tr><td>Service Tax</td></tr>
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4.4 GST Council

The formation of GST council is one of the important bodies connected with the implementation of new taxation regime. The enactment of the 122nd constitution amendment bill provides setting up of federal bodies to oversee and administer GST system in India. It is constituted by the representation from all the State Government and Central Government. This council will promote cooperative federalism and takes decision affecting both Central and State government by consulting each other.

4.5 Impacts of GST

Under GST system, all taxes will be integrated, and tax burden will be equitably distributed between manufacturing and services. It is levied only at the final destination of consumption and not on various points from manufacturing to retail outlet. This will remove economic distortions and leads to the development of a common national market. In the GST system, both Central and State Government collects taxes at the point of sale (POS) and it is charged on manufacturing cost. Consumers will be benefited by this movement as final prices of goods and services may likely to come down. This will boost economic activities related with all sectors of the economy. It creates a positive impact on the growth rate of GDP in the economy. The new taxation system is simpler and increase efficiency of tax collection and administration. It will avoid cascading effect of indirect taxation and removing State trade barriers. This will build a transparent and corruption-free administration (Figure 4).

The introduction of GST in India generates huge opportunities and impact on the business activities. At the outset, it simplifies the existing indirect tax structure in India, and trade barriers between the States would be disappeared within a span of time. It is expected to have far-reaching impact on the business activities. It will be benefited to all types of business activities, and organization from small firms to conglomerates. The impact of GST on business activities may affects suppliers/ vendors management, distribution management, pricing of products/ services, cash flows etc. of the organizations and improves the overall performance of the business to certain extent (Table 6). Major opportunities of business due to the adoption of GST, open the doors to firms for better and efficient supply chain /distribution management; efficient pricing mechanism, viable inter-state procurement of goods, removal multiple taxes on goods and services, efficient system management etc.

The business organizations have to support the introduction of GST in India to get advantages on the easiness of doing business (Figure 5). They have to make an assessment on the changes to the existing indirect tax imposed at different stages of value chain processes. Its implications on the supply chain of the business concern need to be analyzed, and make/devise necessary strategic plans to manage it more efficiently and effectively. It will also make a substantial change in the accounting and reporting

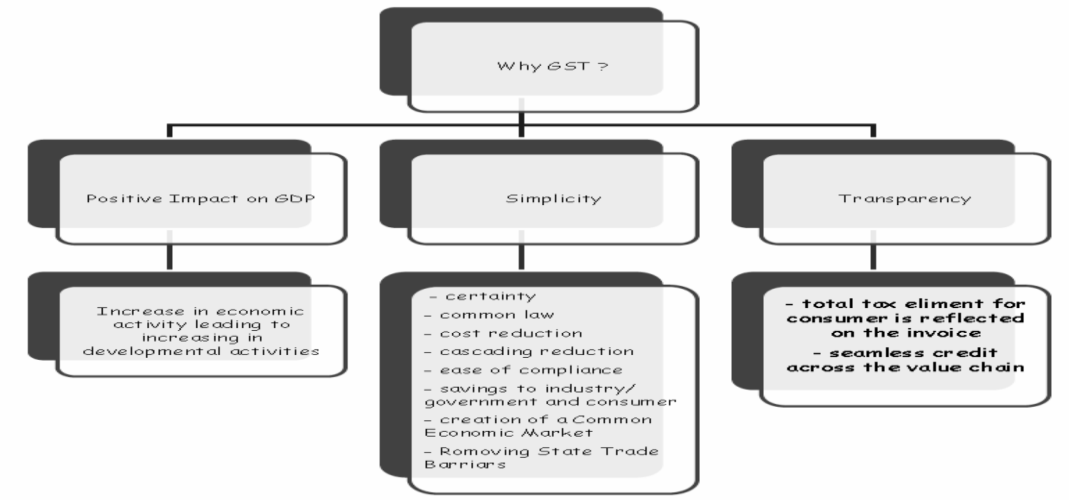

Figure 4: Core Benefits from GST Regime

Table 6: Opportunities to Business Organizations while Implementing GST

Sourcing	• Inter-state procurement could prove viable • May open opportunities to consolidate suppliers/vendors • Additional duty/CVD and Special Additional duty components of customs duty to be replaced
Distribution	• Changes in tax system could warrant changes in both procurement and distribution arrangements • Current arrangements for distribution of finished goods may no longer be optimal with the removal of the concept of excise duty on manufacturing • Current network structure and product flows may need review and possible alteration
Pricing and profitability	• Tax savings resulting from the GST structure would require re-pricing of products • Margins or price mark-ups would also need to be re-examined
Cash flow	• Removal of the concept of excise duty on manufacturing could result in improvement in cash flow and inventory costs as GST would now be paid at the time of sale/supply rather than at the time or removal of goods from the factory
System changes and transaction management	• Potential changes to accounting and IT systems in areas of master data, supply chain transactions, system design • Existing open transactions and balances as on the cut-off date need to be migrated out to ensure smooth transition to GST • Changes to supply chain reports (e.g., purchase register, sales register, services register), other tax reports and forms (e.g., invoices, purchase orders) need review • Appropriate measures such as training of employees, compliance under GST, customer education, and tracking of inventory credit are needed to ensure smooth transition to the GST regime

Figure 5: Impact of GST on Business

system followed by the business. So, the business organizations have to initiate necessary changes/modification in the technology, programmes and compliance system of the organization to cope up with the new system. Further, the firm has to make relevant changes in the area of management training programmes conducted by the business for the employees of the organization.

CONCLUSIONS AND IMPLICATIONS

Indian economy is one of the fastest growing economies in the world. In the era of globalization, economic policies taken by the Government of India will act as a catalyst to the growth of Indian economy. The fiscal and monetary policies have greater impact on the developmental agenda set by the Government. The taxation policies and system implemented in the country need to be more efficient, competitive, equitable, transparent, and inclusive one. It has been observed that the existing indirect tax structure in India has many drawbacks, which is not conducive to the different stake holders of economy for realizing their objectives. There are lots of impediments to the developments of Indian economy. Existing indirect taxation structure is one of the setbacks in the developmental path of the economy. So, the revamping of the existing tax structure is to be done very urgently to make Indian economy more vibrant and dynamic. Introduction of GST is one of the initiatives taken by the Government to transform the economy into globally competitive one. This move may help the business organizations to remove the disparities in the production and distribution system, and maximize efficiency in the allocation of resources across the country without any regional disparities. The input and output tax will be uniform throughout the country, and the price charged from the customers will be reasonable/equitable. In order to transform Indian economy in to global competitive market, at the outset, it is essential to eliminate domestic trade barriers within the country itself. The proposed GST may have some negative implications on the economy in respect of diminishing effect in the revenue collection of State Government, and regulatory constraints on the federal structure followed by the country. Appropriate measures to be taken by the authorities to solve some of these issues connected with administrative/fiscal policies implemented by the Central and State Governments. The GST Council has greater role in this regard.

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