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Goods and Services Tax (GST): A New Tax Reform in India

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ABSTRACT

One of the most debated topics at present is definitely Goods and Services Tax (GST). GST is levied on supply of goods or services or both at each stage of supply chain starting for manufacture or import and till the last retail level. With India being a federal set up where both the Central and State Government have independent powers of taxation. GST brings most traders in to the tax net, makes movement of commodities freer in the country and attracts foreign investors with a unified market with a single tax. With the implementation of GST, the tax GDP ratio is expected to increase to 16% from current 10%. Further with the implementation of GST on 1st July, 2018 India joins the league of over 160 countries including Germany, Italy, UK, South Korea, Japan, Canada, Australia, Russia, China, Singapore and Malaysia to address the problem of tax evasion. The introduction of GST in India is a big step in the direction of improving the country's ranking in the ease of doing business. Currently, India is placed at a low of 130th position out of 190 countries in the World Bank's Doing Business Report, 2017. Among other benefits, GST is expected to improve the ease of doing business, in tax compliance, reduce the tax burden by eliminating tax on tax, improve tax administration, mitigate tax evasion, broaden the organised segment of the economy and boost tax revenues for the exchequer. Being the single best tax reform undertaken by the Government in 70 years of Independence coining the concept of 'One - Nation, One - Market, One - Tax', GST has put forth a number of challenges and myriad problems for the overall growth and development of Indian economy. It is in the above perspective; this paper highlights the background, history, objectives and the challenges of GST in the present tax scenario in India. The paper further explores various advantages of GST in India. Finally, the paper examines and draws out a conclusion with some pragmatic suggestions for smooth functioning of GST for achieving the overall growth and development in the Indian economy.

Keywords: GST, Tax Evasion, GDP, Taxation, Single Tax, Tax Burden, One - Nation, One - Market, One - Tax.

I. INTRODUCTION

Goods and Services Tax (GST), a historical tax reform since independence, which is expected to transform the indirect taxation landscape in the country, came into effect from July 1, 2017. Heralded as a 'destination tax', the GST is a tax on goods and services which will be paid at the point of receiving. GST will be levied on all transactions such as sale, transfer, purchase, barter, lease or import of goods and/or services. Involving both the Central and State levies, GST will be administered together by the Centre and the States. It has dual model including central goods and service tax (CGST) and states goods and service tax (SGST). CGST will subsume central indirect taxes like central excise duty, central sales tax, service tax, special additional duty on customs, counter veiling duties whereas indirect taxes of state governments like state VAT, purchase tax, luxury tax, octroi, tax on lottery and gambling will be replaced by SGST. Integrated goods and service tax (IGST) also called interstate goods and service tax is also a component of GST.

The GST will subsume present indirect taxes of Central Excise, Customs, Central Sales tax, Service Tax under Union List and Sales Tax, Value Added Tax, Entry Tax, Purchase Tax, State Excise duty, Luxury Tax, Entertainment tax, Octroi, Tax on consumption or sale of electricity, etc. under State List. Thus, it is aiming at a comprehensive GST as a substitute for a multi-tax regime. With the GST being properly formulated by appropriate calibration of rates and adequate compensation where necessary, there may also be revenue/ resource gain for both the Centre and the States, primarily through widening of tax base and possibility of a significant improvement in tax-compliance. In other words,

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the GST may usher in the possibility of a collective gain for industry, trade, agriculture and common consumers as well as for the Central Government and the State Governments.

The biggest tax reform since independence, GST will pave the way for realisation of the goal of 'One Nation - One Tax – One Market'. Thus, GST is expected to make movement of goods freer across the country making life easier for manufacturers, producers and investors. Under GST, each good or services will be taxed at one of the following four rates: 5%, 12%, 18% and 28% or it could be exempted from tax. There is a special rate of 0.25% on rough precious and semi-precious stones and 3% on gold. Under GST regime, exports and supplies to SEZs are zero rated and all the taxes paid while purchasing and manufacturing the goods including the taxes paid on raw material and services are returned to the exporter to make the exports competitive. The sellers or service providers collect the tax from their customer, who may or may not be the ultimate customer, and before depositing the same to the exchequer, they deduct the tax they have already paid. Exports will be zero-rated in entirety unlike the present system where refund of some of the taxes does not take place due to fragmented nature of indirect taxes between the Centre and the States. This tax seeks to align the Indian taxation system with the global standards and norms particularly with Europe and USA, the main trading partners. GST is largely technology driven and will reduce the human interface to a great extent with the use of GSTN.

II. OBJECTIVES OF THE STUDY

Keeping in view the following objectives of this study, this paper is largely based on secondary data collected from various magazines, newspapers, Journals, reports, books etc:

1. To study the historical background of the Indirect Tax system in India.
2. To examine the need, justification and growth of GST in India.
3. To assess the various issues and challenges which India is facing with respect to GST implementation and
4. To give some pragmatic measures so that GST is implemented smoothly and India's growth and development is not hampered in the long run.

III. BRIEF HISTORY OF TAXATION IN INDIA

The word tax is derived from the Latin word 'taxare' meaning to estimate. A tax is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority" and is any contribution imposed by government whether under the name of toll, tribute, impost, duty, custom, excise, subsidy, aid, supply etc. In India, VAT was introduced at the Central level for a selected number of commodities in terms of MODVAT with effect from March 1, 1986, and in a step-by-step manner for all commodities in terms of CENVAT in 2002-03. Subsequently, after Constitutional Amendment empowering the Centre to levy taxes on services, these service taxes were also added to CENVAT in 2004-05. Although the growth of tax revenue from the Central excise has not always been especially high, the revenue growth of combined CENVAT and service taxes has been significant.

Prior to the introduction of VAT in the Centre and in the States, there was a burden of multiple taxation in the pre-existing Central excise duty and the State sales tax systems. Before any commodity was produced, inputs were first taxed, and then after the commodity got produced with input tax load, output was taxed again. This was causing a burden of multiple taxation (i.e. tax on tax) with a cascading effect. Moreover, in the sales tax structure, when there was also a system of multi-point sales taxation at subsequent levels of distributive trade, then along with input tax load, burden of sales tax paid on purchase at each level was also added, thus aggravating the cascading effect further. Not only were the rates of sales tax numerous (often more than ten in several States), and different from one another for the same commodity in different States, but there was also an unhealthy competition among the States in terms of sales tax rates – so-called 'rate war' – often resulting in, revenue-wise, a counter-productive situation.

When VAT was introduced in place of Central excise duty, a set-off was given, i.e., a deduction was made from the overall tax burden for input tax. In the case of VAT in place of sales tax system, a set-off was given from tax burden not only for input tax paid but also for tax paid on previous purchases. With VAT, the problem of 'tax on tax' and related burden of cascading effect got removed.

The first preliminary discussion on State-level VAT took place in a meeting of Chief Ministers convened by Dr. Manmohan Singh, the then Union Finance Minister in 1995. After overcoming many hurdles, all the States and union territories started implementing VAT beginning April 1, 2005. The major milestones in the Indian Indirect Tax reforms is depicted in the Table – 1 below:

Table No – 1: Major Milestones in Indian Indirect Tax Reform

Year	Type of Tax
1974	Report of L. K. Jha Committee suggested VAT should be introduced
1986	Introduction of a restricted VAT called 'MODVAT'
1991	Report of the Chelliah Committee recommended VAT/Goods & Services Tax (GST) & recommendations accepted by Government
1994	Introduction of Service Tax @ 4%

1999	Formation of Empowered Committee on State VAT
Jan 2000	• Implementation of uniform floor sales tax rates (1%, 4%, 8% & 12%) • Abolition of tax related incentives granted by States
April 2003	VAT Implemented in one State
Sep 2004	Significant progress towards a Central VAT/ GST - Integration
April 2005-06	VAT Implemented in 26 States
April 2006	VAT implemented in 5 more States
2007	▪ First GST stuffy released By Mr. P. Shome in January ▪ F.M. Announces for GST in budget Speech ▪ CST phase out starts in April 2007 ▪ Joint Working Group formed and report submitted
2008	EC finalised the view on GST structure in April 2008
2009	First discussion paper on GST was released and commission submitted report proposing GST to be implemented from 1.4.2010
2010	Department of Revenue commented on GST discussion paper and Finance Minister suggested probable GST rate.
2011	Team was set up to lay down road map for GST and 115th Constitutional Amendment Bill for GST was laid down in Parliament
2012	Negative list regime for service tax was implemented
2013	Parliamentary Standing Committee submitted its report on the Bill to Parliament
2014	115th Amendment Bill lapsed and was reintroduced in 122nd Constitutional Amendment Bill
2015	Arun Jaitley, New Finance Minister of India revealed in his Budget Speech in February, 2015 that GST would be implemented by April, 2016
2016	Constitution of GST Council through 101st Amendment Act, 2016
1st July, 2017	Finally GST implemented in India

Source: 1. S. Madhavan (2007 [1]), Roadmap to the Goods and Services Tax, Price Waterhouse Coopers, India.
2. Akanksha Khurana & Aastha Sharm (2016[2]), Goods And Services Tax In India - A Positive Reform for Indirect Tax System, International Journal of Advanced Research, Volume 4, Issue 3, 500-50.

In the GST, both the cascading effects of CENVAT and service tax are removed with set-off, and a continuous chain of set-off from the original producer's point and service provider's point upto the retailer's level is established which reduces the burden of all cascading effects. This is the essence of GST, and this is why GST is not simply VAT plus service tax but an improvement over the previous system of VAT and disjointed service tax (Draft paper by Empowered Committee [3]).

Moreover, with the introduction of GST, burden of Central Sales Tax (CST) will also be removed. The GST at the State-level is, therefore, justified for:

i. Additional power of levy of taxation of services for the States
ii. System of comprehensive set-off relief, including set-off for cascading burden of CENVAT and service taxes
iii. Subsuming of several taxes in the GST and
iv. Removal of burden of CST. Because of the removal of cascading effect, the burden of tax under GST on goods will, in general, fall.

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Generally for services to be taxed global best practices are considered. The supply is sub-classified as destination and consumption based from taxation perspective. Further, the supply to be taxed could be Business-to-Business or Business-to-Consumer depending on the feasibility in individual case.

IV.GST: A NEW BEGINNING FOR INDIA

The Good and services tax (GST) is the biggest and substantial indirect tax reform since 1947. GST is a destination based single tax on the supply of goods and services from the manufacturer to the consumer, which has replaced multiple indirect taxes levied by the Central and the state governments, thereby converting the country in to a unified market as shown in the table - 2:

TABLE NO – 2:Indirect Taxes Subsumed by GST

S.No.	Taxes Levied by Central Government	Taxes Levied by State Governments
1.	Central Excise Duty	State VAT
2.	Duties of Excise (Medicinal and Toilet	Central Sales Tax

	Preparations)	
3.	Additional Duties of Excise (Goods of Special Importance)	Luxury Tax
4.	Additional Duties of Excise (Textiles and Textile Products)	Entry Tax (all forms)
5.	Additional Duties of Customs (CVD)	Entertainment and Amusement Tax (Except when levied by local bodies)
6.	Special Additional Duty of Customs (SVD)	Taxes on Advertisements
7.	Service Tax	Purchase Tax
8.	Central Surcharge and Cesses so far they relate to supply of goods and services	Taxes on Lotteries, Betting and Gambling
9.	-	State Surcharge and Cesses so far as they relate to Supply of goods and services

Source: Hashim, Danish A and Kumari, Varsha (2017), GST Means Ease of Doing Business, Yojana, August.

The main idea of GST is to replace existing taxes like VAT, excise duty, service tax and sales tax. It will be levied on manufacture sale and consumption of goods and services. GST is expected to address the cascading effect of the existing tax structure and result in uniting the country economically. It is not an additional tax but it is a system to examine the interstate transactions of goods and services and to further assure that the tax should be received by the importer state as GST is a destination based tax.

Generally, the dealers registered under GST (Manufacturers, Wholesalers and retailers and service providers) charge GST on the price of goods and services from their customers and claim credits for the GST included in the price of their own purchases of goods and services used by them. While GST is paid at each step in the supply chain of goods and services, the paying dealers don't actually bear the burden of the tax because GST is an indirect tax and ultimate burden of the GST has to be taken by the last customer. This is because they include GST in the price of the goods and services they sell and can claim credits for the most GST included in the price of goods and services they buy. The cost of GST is borne by the final consumer, who can't claim GST credits, i.e. input credit of the tax paid.

The introduction of GST at the Central level will not only include comprehensively more indirect Central taxes and integrate goods and service taxes for the purpose of set-off relief, but may also lead to revenue gain for the Centre through widening of the dealer base by capturing value addition in the distributive trade and increased compliance. It is a comprehensive tax regime levied on manufacture, sales and consumption of goods and services. The concept of GST is a tax on every economic supply in the distribution chain. The taxable event is 'supply of goods' and 'supply of services'. Any transfer of right to use goods will constitute supply of goods, and, any supply not involving goods will be supply of service. However, the tax is worked out on the value-added component of the supply. This is achieved by working tax on the full intrinsic value of the goods or service and giving set off/credit of tax suffered at previous stage, called input stage, to avoid cascading effect. Thus, the entire supply chain upto final consumer gets taxed with in-built mechanism of input stage credit. In this system, the final consumer ends up bearing the full burden of tax without any set off benefit.

As supplies not involving goods will be supply of service, the ambit for services will be very large. It is pertinent to mention that till 1994 there was no tax on services and this tax was introduced by the then Finance Minister and present Prime Minister Dr. Manmohan Singh. The logic behind this tax was "When goods are taxable why not service?" There is no separate Service Tax Act and Service Tax Department in India and taxes on services in our country are governed by some of the provisions of Finance Act, 1994 and Service Tax Rules, 1994 and the department concerned is Central Excise department. In our country the whole service sector is not taken under the service tax net and instead a selective approach is adopted. In 1994 only three services were brought under service tax net and the number has been increasing every year since then. Today, the number of services under the service tax net is near about 100.

V. CENTRE - STATE ADMINISTRATION OF GST: THE GST COUNCIL[4]

A significant feature of constitutional (101st) amendment Act, 2016 which paved the way for introduction of Goods and Services Tax in India has the provision relating to constitution of the GST Council (Goyal, Arun, 2017 [3]). The structure of the Council is unique and comprises of the Union Finance Minister (Chairman of the Council), the Union Minister of State (Revenue) and the State Finance Ministers of 29 states and two union territories with legislature (Delhi and Pondicherry). The Centre has a one-third voting share and the states two-thirds. The Council will recommend rates/bands, exemptions, thresholds, a model GST law, principles of levy, an integrated GST (IGST) apportionment and the principles to govern place of supply. The guiding principle of the GST Council is to ensure harmonisation of different aspects of GST between the Centre and the States as well as among States with a view to develop a harmonised national market for goods and services within India.

[4]The Constitution, as amended, requires the GST Council to be constituted under article 279A of the Constitution. Accordingly, it was constituted by the President on 12 September 2016 vide notification dated 15th September.

The newly created constitutional body, the GST Council has emerged as a new model for cooperative federalism, where the centre and the states are willing to share the pool in their sovereignty and give fiscal space to each other. The Council has taken unbelievable fiscal and tax related decisions through consensus and is seen as an example to be followed in other spheres for cooperation between the centre and the states.

The Goods and Services Tax Network[5] (GSTN) which is responsible for IT backbone is geared up to match more than 3 billion invoices per month. This would be a self-regulating mechanism. This will not only check tax frauds and tax evasion, but also bring in more and more businesses into the formal economy. In new GST regime, the tax payer can register, file returns and make payment of taxes on a single portal on the net. Even in a rare case, if the tax payer is to interact with only one authority, either from the State Government or from the Central Government and the State Government is being cross empowered to take action in one another's law. Thus, corruption will be checked to a larger extent as it will become increasingly difficult for the taxpayer to evade taxes and he will have minimal interaction with the tax authority.

The GSTN is entrusted with the following major functions:

- Facilitating registration
- Filing of returns
- Providing MIS reports to the Centre/State Governments
- Accounting of fund transfers between central and state governments
- Matching of tax payment details with authorised banks
- Running the matching engine for matching, reversal and reclaim of ITC

One of the main objectives of GST would be to eliminate the cascading impact of taxes on production and distribution cost of goods and services. The exclusion of cascading effects i.e. tax on tax will significantly improve the competitiveness of original goods and services which leads to beneficial impact to the GDP growth. It is felt that the GST would serve a superior reason to achieve the objective of streamlining indirect tax regime in India which can remove cascading effects in supply chain till the level of final consumers only when all such above mentioned indirect taxes are completely included in GST. It is understood that alcohol, tobacco and petroleum products will not be enclosed by GST as alcohol and tobacco are considered as Sin Goods, and governments do not like to allow free trade on these property. GST is proposed to fulfil the following objectives:

- GST would help to eliminate the cascading effects of production and distribution cost of goods and services. This would help to increase GDP and then to economic condition of the country. A reformed tax is one that reduces production distortions and administrative hurdles, thus clearing the way for higher productivity of goods and services (Shome, Parthasarathi, 2017[5]). That, in turn, will produce more and add up to a higher GDP. In turn, this should then generate more revenue for the authorities.
- GST would eliminate the multiplicity of indirect taxation and streamline all the indirect taxes which would be beneficial for manufacture and ultimate consumer.
- GST would be able to cover all the shortcomings of existing VAT system and hopefully serve the economy health.
- Incidence of tax falls on domestic consumption
- The efficiency and equity of system is optimized
- There should be no export of taxes across taxing jurisdiction
- The Indian market should be integrated into single common market
- It enhances the cause of co-operative federalism.

VI. MAJOR BENEFITS OF GST

Kelkar (2009) has concisely summarized the expected benefits of GST in the following words:

"It will bring about a phase change on the tax firmament by redistributing the burden of taxation equitably between manufacturing and services. It will lower the tax rate by broadening the tax base and minimizing expectations. It will reduce distortions… [and] foster a common market across the country and reduce compliance costs… It will promote exports…perhaps more importantly, it will spur growth."

In general, GST is expected to benefit and empower citizens in the following ways:

1. Reduction in overall tax burden
2. No hidden taxes
3. Development of a harmonised national market for goods and services
4. Higher disposable income in hand for health, education and essential needs (Gupta Upendra, 2017)
5. Consumer to have wider choices
6. Increased economic activity
7. More employment opportunities
8. GST provide comprehensive and wider coverage of input credit setoff, you can use service tax credit for the payment of tax on sale of goods etc.
9. CST will be removed and need not to pay. At present there is no input tax credit available for CST

[5] It is the IT platform that will be used in order to record all GST related transactions.

10. Many indirect taxes in state and central level have been included under GST. As such we need to pay a single GST instead multiple taxes.
11. Uniformity of tax rates across the states
12. Ensure better compliance due to aggregate tax rate reduction
13. By reducing the tax burden the competitiveness of Indian products in international market is expected to increase and thereby development of the nation
14. Prices of goods are expected to reduce in the long run as the benefits of less tax burden would be passed on to the consumer.

VII. SPECIAL FEATURES OF GST IN INDIA

The following are some of the major features of GST implemented in India:

1. **Single Tax:** As already mentioned GST being a destination based single consumption tax on the supply of goods and services seeks to replace 17 indirect taxes (8 Central and 9 State Levels) and 23 Cesses of the Centre and States, eliminating the need for filing multiple returns and assessments and rationalising the tax treatment of goods and series along the supply chain from producers to consumers.
2. **Registration:** Dealers will have to register for GST. These dealers will include the suppliers, manufacturers, service providers, wholesalers and retailers. If a dealer is not registered, he normally cannot charge GST and cannot claim credit for the GST he pays and further cannot issue a tax invoice.
3. **Four Tax Slabs and Charging Tax:** The dealers registered under GST are required to charge GST at the specified rate of tax on goods and services that they supply to customers. In India, GST is a four tier tax structure of 5%, 12%, 18% and 28%, with lower rates for essential items and the highest for luxury and de-merit goods that also attracts an additional cess to compensate states for any loss in indirect tax revenue. The GST payable is included in the price paid by the recipient of the goods and services. The supplier must deposit this amount of GST with the Government.
4. **Input Tax Credit:** If the recipient of goods or services is a registered dealer, he will normally be able to claim a credit for the amount of GST he has paid, provided he holds a proper tax invoice. This 'Input Tax Credit' is set-off against any GST (Out Put), which the dealer charges on goods and services, which he supplies, to his customers. Since the Central GST and State GST are to be treated individually, taxes paid against the Central GST shall be allowed to be taken as ITC for the Central GST and could be utilized only against the payment of Central GST. Cross utilization of ITC between the Central GST and the State GST would not be permitted except in the case of inter-State supply of goods and services.
5. **Ultimate Burden of Tax on Last Customer:** The net effect is that dealers charge GST but do not keep it, and pay GST but get a credit for it. This means that they act essentially as collecting agents for the Government. The ultimate burden of the tax falls on the last and final consumer of the goods and services, as this person gets no credit for the GST paid by him to his sellers or service providers.
6. **Tax Period:** The tax period will have to be decided by the respective law and normally it is monthly and/or quarterly. On a particular tax period, which is applicable to the dealer concerned, the dealer has to deposit the tax if his output credit is more than the input credit after considering the opening balance, if any, of the input credit.
7. **GST PAN Linked System:** Each taxpayer would be allotted a PAN-linked taxpayer identification number with a total of 14/15 digits. This would bring the GST PAN-linked system in line with the prevailing PAN-based system for Income tax, facilitating data exchange and taxpayer compliance.
8. **Refunds:** If for a tax period the input credit of a dealer is more than the output credit then he is eligible for refund subject to the provisions of law applicable in this respect. The excess may be carried forward to next period or may be refunded immediately depending upon the provision of law.
9. **Exempted Goods and Services:** Certain goods and services have been declared as exempted goods and services and in that case the input credit cannot be claimed on the GST paid for purchasing the raw material in this respect or GST paid on services used for providing such goods and services.
10. **Zero Rated Goods and Services:** Generally, export of goods and services are zero-rated and in that case the GST paid by the exporters of these goods and services is refunded. This is the basic difference between Zero rated goods and services and exempted goods and services.
11. **Tax Invoice:** Tax invoice is the basic and important document in the GST and a dealer registered under GST can issue a tax invoice and on the basis of this invoice the credit (Input) can be claimed. Normally a tax invoice must bear a tax invoice number, name of supplying dealer, address, Tax Identification Number (TIN) coupled with the name and address of the purchasing dealer, TIN and description of goods sold or service provided.
12. **Two Components - CGST and SGST:** The GST is 'dual' in nature and has two components: one levied by the Centre (referred to as CGST) and the other levied by the States (referred to as SGST). The CGST and the SGST would be applicable to all transactions of goods and services made for a consideration except the exempted goods and services. The Central GST and State GST are to be paid to the accounts of the Centre and the States individually.

13. **Anti-Profiteering Measure:** This is another important issue which needs to be taken into active consideration to make GST implementation a success. In order to stop undue profiteering from changes in the tax systems, an anti-profiteering clause/measure has been added to the GST (Jethmalani, 2017[4]). These measures prevent entities from making excessive profits due to the GST. Since the GST, alongwith ITC, is eventually expected to bring down prices, a National Anti-profiteering Authority (NAA) has been set up to ensure that the benefits that accrue to entities due to reduction in costs is passed on to the consumers.
14. **Submission of Periodical Returns and Easier Compliance :** The taxpayer would need to submit periodical returns, in common format as far as possible, to both the Central GST authority and to the concerned State GST authorities. In the previous tax regime, business had to file several returns for multiple taxes, face multiple authorities and suffer long bureaucratic delays for assessment of different indirect taxes. GST, by merging all indirect taxes into one single tax, has made the compliance much easier. Using GSTN taxpayers can register, file, make payments and claim refunds online at anytime from anywhere without having to interface with tax officials. This makes the compliance process easier, transparent, faster and paperless and sets the stage for enhanced productivity and efficiency of business going forward.

VIII. MAJOR CRITICAL ISSUES AND CHALLENGES FOR IMPLEMENTATION OF GST IN INDIA

GST as the new system of taxation has been acknowledged as beneficial in a number of ways, there remains concerns' regarding its implementation. If handled poorly, GST as the tax reform could have long term repercussions on the Indian economy as s whole. The need of the hour is that the Centre government as well as the State governments need to be pro-active in order to resolve the following issues:

1. **Transitional Issues:** There are many areas which have to be addressed as s apart of transition to GST. There are concerns about registration, carry forward of credits and taking ne credits, pending refund/rebate claims, review of contracts, change of taxable event for incomplete transactions, pending assessments, job work transactions, treatment of stock in hand, filing of returns. Etc. The need for smooth transition is imperative for success of GST

2. **Revenue Sharing Mechanism:** Presently most of the States need substantial share in the central taxes apart from revenue raised at their own level under constitutional power. This is due to imbalance economic development and other reasons. The dual GST model will off-set certain industry from Centre to States thereby reducing revenue generation for the Centre. Accordingly, the Centre will have to depend on the revenue from the revenue-rich States to share with revenue-low States. The challenge is multi-fold – proper revenue accounting and collection, technological up-gradation, revamping baking channel for State-wise revenue allocation, political support, etc. Due to the inherent need of different States for revenue, any new tax regime to be successful, it must ensure that the States get their requisite revenue for proper governance and development. With the growth of economy, the need for revenue would be constantly on the rise and the Central Government will have to do a balancing act between the revenue-rich States and revenue-low States by properly sharing the revenue as per their needs.

3. **Effective Credit Mechanism:** The challenge for the Government is to introduce a seamless mechanism of credit across India. The success of dual GST model will depend on effective credit mechanism to avoid cascading effect of multi-stage taxation in the supply chain. The credit mechanism is the lifeline of GST. As far as Central GST is concerned, there is no difficulty in giving credit of Central. But, in case of State GST presently there are issues in giving credit in relation to inter-State transactions. Moreover, the credit should be allowed for all inputs, raw materials, capital goods, input services and all business expenses treating the business entity as a unit since GST is a broad based tax. It is therefore essential to define input and input services liberally so that the credit mechanism is litigation-free. Otherwise a single litigation issue at any point of supply chain will affect all the following points in the supply chain.

4. **Treatment of Inter-State Transactions:** In case of destination based principle of taxation, the recipient State will have to levy the tax as per the law of the dispatching State. This is bound to create problems if there is no uniform law and rates across India. This requires tax collected by the recipient State to be credited to the exporting State. For the Governments it would be a challenge to allocate revenue to the respective States without proper administrative and supervisory machinery. The banks as an intermediary can play a key role in collection and transfer of revenue to respective States in the present GST model. The person collecting the tax on his supply in case of inter-State transactions should deposit the tax in the account of the State where the supply has been made. Then on the basis of revenue reports of the respective Governments, the banks can allocate the revenue to the respective States or the Central Government, as the case may be. The banking system needs to be revamped for this purpose. The challenge can be met by proper training, upgradation of tax administration with technological interface.

5. **Defining Place of Supply or Consumption:** The concept of place of supply or consumption presents complication in respect of certain services and intangible properties. The challenge is one of legal conception to define the place of supply or consumption.

6. **Dealing with Transitional Issues:** There are a large number of customs duty exemption notifications governing various schemes under the current Foreign Trade Policy which are intrinsically linked to the system of extant regime under customs and central excise. The benefit is quantified in terms of customs or central excise duties as applicable presently. The transition to GST will affect such schemes and a great amount of uncertainty will hover over all these areas for businesses leading to confusion and administrative issues. A large number of bonds executed by the importer and exporters with the Government will have to be suitably amended for changed liability in view of new GST. The challenge for the Government is to make the transition a smooth exercise.

7. **Job Work:** In case of jobbing activities, the job worker should be allowed credit of raw materials/inputs consumed by him for value-added supply for payment of GST. In case the job worker's activity results in finished goods, the challenge is to allow credit of job worker's GST to the principal. The job worker will be paying GST on his job charges. The principal will sell the finished goods at a price which will include the job charges paid to the job worker. Thus, the principal should be allowed to take credit of job worker's GST for payment of GST against his own supplies. Such special provisions should be incorporated in the GST of Union and States.

8. **Centralised Administration for Large Units:** Large tax paying units with branches/factories/distribution network across India will face problem in multiplicity of compliances. However, the respective State GST may not exempt such units. The challenge would be to provide ease of compliance to such units. For large tax paying units, the concept of centralized registrations, credit/set off and payment should be introduced to avoid multiplicity of compliances under different taxing jurisdictions and it should be under the Central GST.

9. **Managing Explosion of Assesses:** The dual GST model will widen the tax net by taxing every economic supply in the distribution network. This will lead to an explosion of assesses. The new GST regime requires a paradigm shift in taxation. It will not only add a new flavour to GST but will also align India with global tax system. This new regime will see India as one economic entity with uniform tax structure. It will necessitate some of the businesses to restructure their distribution network to reduce additional tax burden on the consumer with a view to be price competitive. Though it will generate revenue in a neutral and transparent way, the Government will have to ensure that the ultimate consumer is not burdened with tax beyond his capacity.

10. **Tax Threshold:** A common threshold exemption of Rs. 20 lakh (Rs. 10 lakh for special category States as specified in article 279A of the Constitution except State of Jammu & Kashmir) for both CGST and SGST/UTGST has been provided for. Besides, an option to pay tax under composition scheme[6] is available to small taxpayers (other than specified category of manufacturers and service providers) having an annual turnover of upto Rs. 75 lakh (Rs. 50 Lakh for specified category States as specified in article 279A of the Constitution except State of Jammu & Kashmir and Uttarkhand). The threshold limit for turnover above which GST would be levied will be one area which would have to be strictly looked at.

11. **Impact on Small Business Enterprises:** the impact of GST on small enterprises if often cited as a concern. There may be three categories of small enterprises in the GST regime:

   a. Those below the threshold of Rs. 20 lakh (Rs. 20 lakh in case of specified) who need not to register under the GST. Practically they can only be in business to consumer traders/manufacturers/food service providers.
   b. Those between the threshold and composition turnover of Rs. 75 lakhs have the option to pay 2.5% in case of manufacturers and 1% in the case of traders. Given the possibilities of ITC, not all small enterprises that do B2B business may seek the turnover tax option. Practically they can only be in business to consumer traders/manufacturers/food service providers.
   c. The third category of small enterprises above the turnover threshold would need to be within the GST framework.

12. **Nature of taxes:** The taxes that are included in GST would be excise duty, countervailing duty, cess, service tax, and state level VATs among others. Interestingly, there are numerous other states and union taxes that would be still out of GST.

13. **Number of Enactments of Statutes:** There will two types of GST laws, one at a centre level called CGST and the other one at the state level called SGST. There are different tax rates for goods and services at the Central Level and at the State Level, and further division based on necessary and other property based on the need, location, geography and resources of each state.

14. **Rates of Taxation:** It is true that a tax rate should be devised in accordance with the state's necessity of funds. Whenever states feel that they need to raise greater revenues to fund the increased expenditure, then, ideally, they should have power to decide how to increase the revenue.

15. **GSTN Functionality and Tax Management:** One of the lynch pins of the India's GST is the integrated technology network that will allow for seamless documentary recording of debts and dispersal of credits. Alongwith the registration challenge, the GSTN has also been dealing with auditing issue. Ascertaining and verifying the accuracy of the data within the GST would be seen to be a herculean task, given its 70 million expected users.. Lack of transparency, lack of trust on account of private entity (51% is owned by private financial institutions) and refusal of data access to the Comptroller and Auditor General of India for auditing purposes are other critical issues which need to be taken care of. Besides, success of any tax reform measures depends on the inherent simplifications of the system, which leads to the high conformity with the administrative measures and policies. As such making GST implementation a success responsibility lies with the both Centre and the States for its proper management and putting in place enough infrastructure.

16. **High Revenue Neutral Rate (RNR):** RNR is the rate which neutralize revenue effect of state and central government due to change in tax system, means ,the rate of GST which will give at least the same level of revenue that is currently earned by state and central governments from indirect taxes is known as RNR. Due to high RNR:

   a. Competitive edge of India in Asian giants will decrease and domestic industry may be wrecking.

[6] To pay tax at a flat rate without credits.

b. Tax evasion and smuggling will increase.

c. Regressive nature of indirect taxes will badly affect the purchasing power of poor people which will have negative impact on human development index.

So, for implementing GST smoothly, RNR should be minimized. This can be achieved by inclusion of petrol, liquor, land, electricity within the ambit of GST which will enhance the tax base and increase revenue of government.

17. Compensation to States: Due to GST which has subsumed VAT **-** a major contributor of tax revenues to state governments, State governments will face revenue loss for sure and they will be more dependent on finance commission for tax devolution (currently 42%). To neutralize their revenue losses states are demanding compensation from union government. As per 14 finance commission union has to compensate states for maximum of five years with tapering effects. For first three years 100% compensation reduced to 75%and 50% in fourth and fifth year respectively. This compensation by union will lead to fiscal burden. This fiscal target must be achieved for faster economy growth and full capital account convertibility in future. Industrialized states will be at loss in GST regime due to its destination based feature. It will demotivate the manufacturing industry and incite states to import more in order to increase their tax revenue. It is not good for manufacturing industry as well as for India because boosted manufacturing sector is the main driver of our economic growth in future.

18. IT Infrastructure: IT infrastructure will play a vital role in full implementation of IGST as union will electronically distribute IGST to states. To grapple the data base a strong network is required which is managed by GSTN (Goods and Service Tax Network). GSTN has major responsibility to tackle biggest challenge of IT infrastructure in a time bound manner.

19. Other Issues: Union government need to coordinate with 30 states for 'input credit' due to transfer of credit in SGST.

- State tax officials need training and development from time to time for implementation of GST. Further, GST law heavily banks on IT and hence proper training has to be given to departmental officers for effective usage and implementation.
- Assessing the manner and quantum of input credit as available under GST
- Analysing the impact of other laws and integration with customs and Foreign Trade Policy
- Evaluation of the competiveness and the demand for the products in the backdrop of the new GST rate structure to ensure that products are neither overpriced nor under priced.
- Analysts say that real estate market will be cramped by GST and it may result in 12% down turn in demanded of new houses because of increased cost up to 8%. (A study commissioned by Curtin university of technology)

IX. CONCLUSION, RECOMMENDATIONS AND SUGGESTIONS

Financial experts say that the lower GST rate may lead to a decline in inflation. Economic growth may not improve significantly in the short-term even though it will benefit to all Corporates, industry and the government in the medium to long term. Most economists forecast inflation to come down as GST rates for most goods have been fixed at a lower rate (Ashok, TN, 2017[6]). India Incorporates has a major task on hand as most manufacturing units and industries would now have to recognise their businesses under GST through GSTN. With a successful implementation of the GST, powered by the GSTN, India is looking forward to make major gains in the ease of doing business criteria. The implementation is expected to boost businesses and propel the economy's growth trajectory.

It can be concluded from the above discussion that GST will provide relief to producers and consumers by providing wide and comprehensive coverage of input tax credit set-off, service tax set off and subsuming the several taxes. Efficient formulation of GST will lead to resource and revenue gain for both Centre and States majorly through widening of tax base and improvement in tax compliance. It can be further concluded that GST will have a positive impact on various sectors and industry. Although implementation of GST requires concentrated efforts of all stakeholders viz. a. viz. Central and State Government, trade and industry. Thus, necessary steps should be taken.

Last but not the least, it can be said that inspite of number of challenges and problems, GST ushers a transparency to measure taxes levied on a product, bringing an end to the host of hidden and embedded taxes that were been paid so far. GST is anticipated to facilitate free flow of goods and services across the country and therefore, has the potential to add upto 2% to India's GDP (Sanghvi Samyak, 2017[7]). Further reduction in multiplicity of taxes will lead to confidence building of foreign investors thus giving a boost to Foreign Direct Investment in the country.

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