GST REGIME A FILLIP TO MAKE IN INDIA

GST: Introduction	• launched in India on July 1, 2017. • India moved towards 'One Nation, One Tax, One Market.' • the consumers will benefit from lower prices due to removal of cascading in taxes and efficiency gains.

Long Term Benefits	• The trade and industry will benefit
	  ◦ because of uniform single indirect tax throughout the country,
	  ◦ seamless flow of input tax credit,
	  ◦ removal of tax related barriers at inter-state borders,
	  ◦ reduced logistic costs,
	  ◦ end to end IT enabled system and minimal interface with the tax authorities.
	• The manufacturers will be able to take more rational decisions with regard to sourcing of raw materials, location of manufacturing and warehousing facilities.
	• The Central and the state governments will witness tax buoyancy and the tax collection costs will reduce significantly.
	• Exports will become more competitive as goods and services will be exported without any taxes embedded in them.
	• 'Make in India' programme will get a major fillip due to
	  ◦ increased ease of doing business and protection from cheap imports as all imports will be subject to Integrated GST, in addition to the basic customs duty.
	• All these benefits will add significantly to the GDP growth

Why a Constitutional Amendment?	• As prior to the Constitutional amendment the fiscal powers between Centre and the states were clearly demarcated as per the entries in the Union List and the State list. • The Centre had the powers to levy tax on the manufacture of goods (except alcoholic liquor for human consumption, opium, narcotics etc.) while the states had the power to levy tax on the sale of goods. • In case of inter-state sales, the Centre had the power to levy a tax (the Central Sales Tax) but the tax was collected and retained entirely by the states. As for services, only the Centre was empowered to levy the Services Tax. • Amendment was required in the Constitution so as to concurrently empower the centre and the states to levy and collect GST. • The dual GST introduced in India is in keeping with the Constitutional requirements of fiscal federalism.
GST Internationally	• The GST has already been introduced in nearly 160 countries and France was the first to introduce GST in the year 1954.
GST Timeline	• Year : 2000 The idea of GST was first mooted in the year 2000 during the Prime Ministership of Shri Atal Bihari Vajpayee and a committee was set up headed by the then West Bengal Finance Minister Shri Asim Dasgupta to design a GST model. • Year : 2003 In 2003, the Vajpayee government set up another task force under Shri Vijay Kelkar to recommend tax reforms. • Year: 2006

	On February 28, 2006, the then Union Finance Minister in his budget for 2006-07 proposed that GST would be introduced from April 1, 2010. • Year: 2010-2014 - Deadlock As introduction of GST required constitutional amendment, the political consensus could not be garnered for a long time. • Yea : 2014-15 The Constitution (122nd Amendment) Bill, 2014 was introduced in Lok Sabha on December 19, 2014 and was passed by Lok Sabha in May 2015. • Year: 2016 - Final passage of Bill The bill was passed by the Rajya Sabha on August 3, 2016 and in the Lok Sabha on August 8, 2016. After ratification by required number of state legislatures and assent of the President, the Constitutional amendment was notified as Constitution (101st Amendment) Act 2016 on September 8, 2016. The Constitutional amendment paved the way for introduction of Goods and Services Tax in India.
Constitution (101st Amendment) Act 2016:	• The Constitutional amendment empowers the Centre and the States to levy and collect the Goods and Services Tax (GST). • **The GST has been defined as a tax on supply of goods or services or both, except supply of alcoholic liquor for human consumption.** • **Thus, alcohol for human consumption has been kept out of the GST by way of definition of the GST in the Constitution.** • **Five petroleum products viz. petroleum crude, motor spirit (petrol), high speed diesel, natural gas and aviation turbine fuel have temporarily been kept out and the GST Council can decide the date from which they shall be included in GST.** • **On interState supply of goods and services, an Integrated GST (IGST) would be levied and collected by the Centre. It will ensure that the GST is truly a destination based consumption tax, and there is seamless flow of input tax credit, even when goods are moving from one state to another.**
The GST Council	• The Council comprises of the Union Finance Minister (Chairman of the Council), the Union Minister of State (Revenue) and the State Finance/Taxation Ministers of 29 states and two union territories with legislature (Delhi and Puducherry). • The guiding principle of the GST Council is to ensure harmonization of different aspects of GST between the Centre and the States as well as among States with a view to develop a harmonized national market for goods and services within India. • Every decision of the GST Council shall be taken at a meeting by a majority of not less than 3/4th of the weighted votes of the members present and voting. • The vote of the Central Government shall have a weightage of 1/3rd of the votes cast and the votes of all the State Governments taken together shall have a weightage of2/3rd of the total votes cast in that meeting. One half of the total number of members of the GST Council shall constitute the quorum at its meetings • The weightage of voting has been so assigned that it is not possible for either the Centre or the states to take any decision unilaterally.

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<tr><td></td><td>It has emerged as a new model of cooperative federalism, where the centre and the states are willing to share and pool in their sovereignty and give fiscal space to each other.</td></tr>
<tr><td>The Council is tasked to make recommendations to the Union and the States on the following:</td><td>(i) he taxes, cesses and surcharges levied by the Centre, the States and the local bodies which may be subsumed under GST;
(ii) The goods and services that may be subjected to or exempted from the GST;
(iii) The date on which the GST shall be levied on petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas and aviation turbine fuel;
(iv) Model GST laws, principles of levy, apportionment of IGST and the principles that govern the place of supply;
(v) The threshold limit of turnover below which the goods and services may be exempted from GST;
(vi) The rates including floor rates with bands of GST;
(vii) Any special rate or rates for a specified period to raise additional resources during any natural calamity or disaster;
(viii) Special provision with respect to the North-East States, J&K, Himachal Pradesh and Uttarakhand; and
(ix) Any other matter relating to the GST, as the Council may decide.</td></tr>
<tr><td>GST council – decisions</td><td>Threshold limit for exemption to be Rs. 20 lac (Rs. 10 lac for special category states) Compounding threshold limit to be Rs 50 lac with –
<table><tr><th>Categories</th><th>Tax rate</th></tr><tr><td>Traders</td><td>1%</td></tr><tr><td>Manufacturers</td><td>2%</td></tr><tr><td>Restaurants</td><td>5%</td></tr></table>
Government may convert existing area based exemption schemes into reimbursement based scheme
Four tax rates namely 5%, 12%, 18% and 28% Some goods and services would be exempt Separate tax rate for precious metals
Other decisions
Cess over the peak rate of 28% on specified luxury and sin goods To ensure single interface - all administrative control over
• 90% of taxpayers having turnover below Rs. 1.5 cr would vest with state tax administration
• 10% of taxpayers having turnover</td></tr>
<tr><td>Compensation to the States:</td><td>As GST is a destination based tax, there was apprehension amongst some states, particularly manufacturing states, that implementation of GST may result in loss of revenue for them.
Therefore, the Constitution (One Hundred and First Amendment) Act, 2016 provides for compensation to the States for loss of revenue arising on account of implementation of the Goods and Services Tax for a period of five years.
Based on the recommendations of the GST Council, the Goods and Services Tax (Compensation to States), Act 2017 has been enacted.
The Compensation Act has fixed the revenues of the year 2015-2016 as the base year revenues and further a nominal annual growth rate of 14 per cent has been provided.</td></tr>
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<tr><td></td><td>The Act provides for levying of a cess, which shall be used for compensation to the states in case there is loss of revenue. This cess shall be levied on luxury items and goods.</td></tr>
<tr><td>Deciding Tax Rates</td><td>Balancing three objectives.
to ensure that interests of poor and vulnerable sections of the society are protected and goods of mass consumption and essential commodities remain at affordable level.
to ensure that the overall revenues of the States and the Centre are protected.
to see that the tax incidence on the goods and services does not increase or decrease substantially from the present incidence of tax.
Decided on four tax rates of 5 per cent, 12 per cent, 18 per cent and 28 per cent slabs. In addition, there is an exempt category also.</td></tr>
<tr><td>Supporting Medium and Small Enterprises</td><td>1. Exemption threshold where by it is not mandatory for a business whose aggregate turnover in a financial year is less than Rs. 20 lakh (Rs. 10 lakh for special category States) to register.
Such small enterprises would be exempt from paying GST.
2. Composition scheme under which an eligible registered person, whose aggregate turnover in the preceding financial year did not exceed Rs. 7 5 lakhs can opt to file summarised returns on a quarterly basis.
The taxpayers dealing in goods (both traders and manufacturers) and restaurant sector can only opt for the composition scheme.
Under the Composition Scheme, the manufacturer will pay tax at the rate of 1 per cent; restaurant sector at the rate of 2.5 per cent and traders at the rate of 0.5 per cent of the turnover each under CGST Act and SGST Act.
However, the service providers and the tax payers making inter-state supplies or making supplies through e-commerce operators are not eligible for the composition scheme.</td></tr>
<tr><td>Tackling Tax leakages and Corruption</td><td>The Indian GST will have a mechanism of matching of invoices.
Input tax credit of purchased goods and services will only be available if the taxable supplies received by the buyer get matched against the taxable supplies received by the supplier.
The Goods and Services Tax Network which is responsible for IT backbone is geared up to match more than three 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.
The tax-payer can register, file returns and make payment of taxes on a single portal on the net.
Cross Empowering: Even in a rare case, if the tax-payer is to interact with the tax authorities, he will have to interact with only one authority, either from the State Government or from the Central Government as tax officers of the Central Government and the State Government are being cross empowered to take action in one another's law.
Impact: Reduction of corruption and evasion of taxes on account of minimal interaction with officials</td></tr>
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Creating a Unified Taxation Regime

Acts Cleared by Parliament for GST	1)Central GST Bill, 2017; 2)The Integrated GST Bill, 2017; 3)The GST (Compensation to States) Bill, 2017; and 4)The Union Territory GST Bill, 2017.
GST Imp features	• Goods and services will be taxed at the following rates, 0.25 per cent, 5 per cent, 12 per cent, 18 per cent, 28 per cent. • There is a special rate of 0.25 per cent on rough precious and semi-precious stones and 3 per cent on gold. • 1986, the then Prime Minister Vishwanath Pratap Singh introduced the Modified Value Added Tax (MODVAT). • It will subsume various indirect taxes including central excise duty, services tax, additional customs duty, surcharges, state-level value added tax and octroi. • Other levies which are currently applicable on inter-state transportation of goods are also likely to be done away with in the GST regime. • The following taxes will be bound together by the GST: Central Excise Duty, Commercial Tax, Value Added Tax (VAT), Food Tax, Central Sales Tax (CST), Octroi, Entertainment Tax, Entry Tax, Purchase Tax, Luxury Tax, Advertisement tax.
Goods and Services Tax Dual GST Model	• GST will be levied on all transactions such as sale, transfer, purchase, barter, lease, or import of goods and/or services. India will adopt a dual GST model, meaning that taxation is administered by both the Union and State Governments. • Transactions made within a single state will be levied with Central GST (CGST) by the Central Government and State GST (SGST) by the government of that state.
IGST	• For inter- state transactions and imported goods or services, an Integrated GST (IGST) is levied by the Central Government. • GST is **a consumption based ta**x, therefore, **taxes are paid to the state where the goods or services are consumed not in the state in which they were produced.**
Securities	• There will be no GST on the sale and purchase of securities. That will continue to be governed by Securities Transaction Tax (STT).
GSTN	• **A non-profit organization has been formed to create a platform for all the concerned parties i.e. stakeholders, government, taxpayers to collaborate on a single portal.** • The portal will be accessible to the central government which will track down every transaction at its end while the taxpayers will be having a vast service to return/ file their taxes and maintain records. • The IT network will be developed by private firms which will tie up with the central government and will take its share of stakes accordingly. • The known authorized capital of GSTN is Rs. I0 crore (US$ l.6 million) in which Central Government holds 24.5 per cent of shares while the state government holds 24.5 per cent and rest are with private banking firms.
Inflation	• One expects 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 both India Inc. and the government in the medium term, financial experts say.
Shake Up Corporate	• The new tax regime will force many companies to restructure their operations. Companies will now insist to vendors and suppliers to furnish invoices as GST will

Entities and their Operations:	make it impossible for firms to evade taxes. Big companies stand to benefit as they have a supply chain in order and can offset taxes paid on inputs. Smaller firms may end up spending more as compliance cost will rise.
How to pass Benefits of Lower Tax to the Public?	• While the GST Council, headed by Finance Minister, is expected to keep a close watch on whether companies are passing on the benefit of lower taxes to consumers, experts are, however, divided on their opinion on the implementation of t**he policy of anti-profiteering.** "…. They (corporates) would aim to retain partly (if not fully) the indirect benefits from the saving in logistics costs, streamlining of business processes and the seamless flow of input credits," Financial Services company Nomura is quoted as saying. Though GST laws focus on **anti-profiteering measures-the benefits of the reduction in the tax rate and input credit shall be passed on by a commensurate reduction in prices** - such measures are difficult to implement and would be a retrograde step, similar to price controls, if implemented in haste, Nomura claimed
GST effect on the govert's revenue kitty	• it seems to be on the wait and watch mode. Services, including banking and telecom, get more expensive, as also purchase of flats, ready-made garments, monthly mobile bills and tuition fees.

GST - Dawn of a New Era

SMART governance	• SMART governance with key attributes being smart, moral, accountable, responsive and transparent in the GST regime
UTGST	• levy of Union territory GST ("UTGST" or "Union territory tax") on intra-Union territory supplies that take place in Union territories without legislatures.
Key Features of GST:	1. The territorial spread of GST is whole of the country including the State of Jammu and Kashmir. 2. GST is **applicable on "supply" of** goods or services as against the present concept of tax on the manufacture of goods or on sale of goods or on provision of services. 3. It is based on the principle of **destination based consumption** taxation as against the present principle of origin based taxation. **4. Import of goods is treated as inter-State supplies and would be subject to IGST in addition to the applicable customs duties.** **5. Import of services is treated as inter-State supplies and would be subject to IGST on reverse charge basis.** 6. CGST, SGST /UTGST & IGST is levied at rates mutually agreed upon by the Centre and the States under the aegis of the GST Council (GSTC). 7. There are four tax slabs namely 5 per cent, 12 per cent, 18 per cent and 28 per cent for all goods or services. Precious metals would be subject to tax @ 3 per cent whereas rough precious stones attracts tax @ 0.25 per cent. Some specified goods or services have been exempted. 8. Exports and supplies to SEZ are zero-rated. 9. Credit of CGST paid on inputs may be used only for paying CGST on the output and the credit of SGST/UTGST paid on inputs may be used only for paying

	SGST/UTGST. In other words, the two streams of input tax credit (ITC) cannot be cross utilized, except in specified circumstances of inter-State supplies for payment of IGST. 10. Refund of tax has to be sought by the taxpayer or by any other person who has borne the incidence of tax within two years from the relevant date. 11. System of self-assessment of the taxes payable by the registered person has been provided for. 12. Audit of registered persons to be conducted in order to verify compliance with the provisions of the Act. 13. **An anti-profiteering clause has been provided in order to ensure that business passes on the benefit of reduced tax incidence on goods or services or both to the consumers**.
	Benefits of GST
A. Make in India	1. Will help to create a unified common national market for India, giving a boost to Foreign investment and "Make in India" campaign; 2. Will mitigate cascading of taxes as Input Tax Credit will be available across goods and services at every stage of supply; 3. Harmonization of laws, procedures and rates of tax; 4. More efficient neutralization of taxes especially for exports thereby making our products more competitive m the international market and give boost to Indian Exports; 5. Average tax burden on companies is likely to come down which is expected to reduce prices and lower prices mean more consumption, which in turn means more production thereby helping in the growth of the industries. This will create India as a "Manufacturing Hub".
B. Ease of doing business	1. Simpler tax regime with fewer exemptions; 2. Reduction in the multiplicity of taxes that are at present governing our indirect tax system leading to simplification and uniformity; 3. Reduction in compliance costs – No multiple record keeping for a variety of taxes - so lesser investment of resources and manpower in maintain records . 4. Simplified and automated procedures for various processes such as registration, returns, refunds, tax payments, etc; 5. All interaction to be through the common GSTN portal - minimal public interface between the taxpayer and the tax administration; 6. Common procedures for registration of taxpayers, refund of taxes, uniform formats of tax return, common tax base, common system of .classification of goods and services will lend greater certainty to taxation system.
C. Benefit to Consumers:	1. Final price of goods is expected to be lower due to seamless flow of input tax credit between the manufacturer, retailer and supplier of services; 2. Average tax burden on companies is likely to come down which is expected to reduce prices and lower prices mean more consumption.

Creating a Strong IT Backbone

The Scale of GST	• It subsumes 17 Central and state taxes and 22 types of Cess into one single tax, thereby eliminating the complexity of multiple taxes, cascading of taxes and thus achieving significant simplification in indirect taxation. • Thirty four state VATs had 97 different types of returns to be supported with 317 annexures and 28 declarations. • Similarly, Central Excise had 13 Return Forms which were required to be supported by one declaration. • Even the Challan used was of twelve types. All these have been replaced by twelve forms and one challan which are uniform across the country. • GST make it more convenient to pay taxes and file returns, it also promises to reduce the burden of compliance and radically improve the ease of doing business.
GST and role of IT	• GST envisages credit of Input tax credit (ITC) of 80 lakh taxpayers to be processed within ten days after filing of monthly returns which is expected to contain 2.6 to 3.0 billion business to business invoice data. • A feat impossible without IT backbone
GST System	• consists of GST Portal and IT platform - the highly advanced technological infrastructure • The GSTN has successfully developed a common GST Portal that acts as a one stop shop for all businesses, taxpayers and other stakeholders involved in the indirect taxation system.

GSTN: The IT enabler of GST	• The Goods & Services Tax Network or GSTN was conceived as the IT backbone of GST
	• an organization that would put in place the IT infrastructure for the new regime and enable the transition of taxpayers from the multiple existing systems to a single one.
	• The Government of India and State Governments came together to create the Goods and Services Tax Network (GSTN), a Special Purpose Vehicle as non-government, not- for profit Company
	    • Centre holds 24.5 per cent shares and all States collectively hold 24.5 per cent.
	    • The remaining shares are held by five private financial institutions.
	• This structure brings flexibility of private sector while ensuring that strategic control remains with the government.
	• The GST System Project for the first time to establish a uniform interface for the tax payer and a common and shared IT infrastructure between the Centre and States.
	• GST being a destination based tax, Inter- state trade of Goods and Services (IGST) needs a robust settlement mechanism amongst the States and the Centre. This can be possible only when there is a strong IT Infrastructure and Service back bone which enables capture, processing and exchange of information amongst the stakeholders including tax payers, States and Central Governments, Accounting Offices, Banks and RBI.
	• GSTN has worked tirelessly over the past few years to plan, strategize, implement and develop a common GST Portal that functions as the front-end of the overall GST IT eco-system. To develop the Application Softwares, GSTN has partnered Infosys as its Managed Service Provider (MSP) for the next five years.

	• **The Common GST Portal** is the single interface for all taxpayers from any part of the country. Only in case where a taxpayer is picked up for scrutiny or audit, he will interface with the respective tax authority. • For all other cases, which is expected to be around 95 per cent, the Common GST Portal will be the only interface for taxpayers.
Making Compliance Easy	• The idea behind the tax reform is to make compliance easy and convenient for taxpayers. • GSTN has crafted a series of services and technological tools to ensure that paying taxes and filing returns becomes convenient for the last common denominator.
Improving Ease of Doing Business	• The 'ease of doing business' criteria is a key measure of an economy's openness and amenability to businesses. • World Bank's 'Ease of Doing Business' report takes into account a series of indicators that determine the ease or difficulty an entrepreneur faces in his/her journey towards setting up and running a business. • One of the important indicators assessed here is the ease of paying taxes. • The objective of GSTN is not just to simplify the compliance work but also make the process of paying taxes simple and convenient. • By reforming this indicator alone, we can significantly improve upon India's rankings on the global scale on the Ease of Doing Business criteria. • Designed as a self-service mode, which is simple and adaptable for mobile systems as well, the interface will play a major role in empowering business and entrepreneurs and easing their tax paying procedures.

Removing Cascading Effect of Taxes

What is GST	• Indirect taxes are levied on the transactions of goods or services and can be borne either by the seller or by the buyer. • However, the sellers can and in most cases do, pass it on to the buyers. • Some examples of indirect taxes are - custom duty on foreign import of goods, service tax on the service provided by a commercial entity, excise duty on the manufacturing of goods, sales tax on the goods being sold and so on. • Goods and Services Tax (GST) is an indirect tax which will replace almost all other indirect taxes levied by central and state governments. • two main features of GST are that each good/service will attract only one tax, which will be the same across all states of the country. • few sectors, such as petroleum, alcohol and real estate, which have been kept outside GST and will continue under the previous taxation framework. • Custom duties have been continued but integrated in GST, while taxes imposed by local bodies like municipalities, gram panchayats have also been excluded.
major indirect taxes subsumed	• Excise duty, Service tax, Special additional duty of customs, State VAT, State sales tax, Entertainment tax, Entry tax, Luxury tax.
How is GST Different from the Previous Tax Regime?	• Before a particular good/service is finally bought by a customer for his/ her personal use, it passes through a number of stages in the production and supply-chain, such that it used to attract one or more indirect taxes at different stages,

	some levied by the Central government and others by respective State governments. • For example - A TV set manufactured in India had to pay excise duty when leaving the factory. • If it had used some imported components then custom duties on those items had to be paid, in the next leg of its journey from the manufacturer to the wholesaler there were sales tax, and finally from the wholesaler to the retailer there could have been VAT. • The situation was more complex when goods moved between the states as not only did they attract a Central sales tax, also the rate for it varied across the states, for example - before GST, value added tax (VAT) was 12.5 per cent in Maharashtra while the same tax in Gujarat was 15 per cent. • any a times, taxes were also levied to promote or dis-incentivize certain products/services, like Luxury taxes or Sin tax. • This **multiplicity of taxes and complex incidence on multiple stages created two problems** 1. First, it made tax compliance harder for tax payers and also provided opportunities for tax evasion. 2. Secondly, since each new tax was applied on the selling price that also includes tax paid in the previous stage, it basically meant a tax on the amount of tax paid at the previous stage, a phenomenon known as the cascading effect of taxes. • GST regime- a particular good/service will attract only one tax rate, and it will be same in all the states. Also, each manufacturer/ seller/business entity will be able to avail the benefits of a scheme known as 'Input Tax Credit' (ITC).
	Potential Benefits/side-effects for the Consumer
2 different ways in which GST can have impact on the consumers. .	• Firstly, the direct and immediate impact of GST will be a new 'effective' tax rate on each of the goods and services. Depending on how different the new 'effective' tax rates are as compared to the pre-GST period, prices will increase or decrease accordingly. • Secondly, an indirect impact of GST, which is likely to be visible only in the medium to long term, can come through changes in production and supply chain processes. Both of these potential impacts are discussed in greater details in the following sections
	• Under GST, agriculture and food products, like food grains, pulses, fruits, vegetable and milk have been exempted along with education health care. • All of these combined and together contribute close to 40-45 per cent of expenses of an average household, as measured in the consumer price index. • While other items like coal, sugar, edible oil, necessary coffee are placed at 5 per cent. • However, the standard rate for services has been kept at 18 per cent which is higher than the pre-GST rate of 14-15 per cent .
Tax - Incidence	• Due to the multiplicity of taxes and incidences of taxes in multiple stages in the pre GST period, calculating the exact change in effective tax rate for individual goods/service is rather difficult. • However, there are estimates by some economists that broadly, tax incidence on 50 per cent of items will remain same, 30 per cent can come down while another 20 per cent may actually see an increase.

Passing Cost reduction	• The reduction in cost is expected to ultimately bring down the final price paid by consumers. • To deal with firms not passing on the benefits of reduced cost to the consumers, Government has introduced a clause in the bill known as 'Anti-Profiteering Rules GST which mandates the firms/businesses that any reduction in cost due to Input Tax Credit has to be passed on to the consumer by way of commensurate reduction in prices.
SME	• The other potential increase prices is possible due to increase in compliance cost, especially for small and medium enterprise • Impact of GST on consumers through its impact on production, businesses and supply chain processes. • On account of the input tax credit system there is a strong likelihood that a buyer will buy only from a GST compliant seller, and this can lead to a large part of business entities previously operating outside regulations to register, and hence bear the appropriate regulatory and taxation cost. • Even for those enterprises already complying with the existing regulations, shifting to GST network may increase cost, at-least in the initial phase. • This has a significant potential to enhance the tax base and overall tax revenue for the government, depending on how it affects the overall cost structure associated, it can also increase prices accordingly.
Transportation	• Lastly, another major impact of GST is likely to be on the transportation of goods, especially inter-state transportation. • With GST making the tax rates uniform across states, the queues ques of trucks at inter state borders are expected to disappear. • Uninterrupted movement of goods across the country is likely to have a significant reduction in terms of transportation cost as well in terms of time requirement, thereby bringing the overall cost down.

Balancing Federal Fiscal Relations

	• By giving away their constitutional ability to tax , states have bet big time on the success of the new all – India tax G.S.T. • As a safeguard against failure the Centre to brought in a cess which is expected to raise about Rs 50,000 crore to be divided among states to compensate for any loss in revenues. • GST is that, the tax, like all taxes, is dependant on the economy doing well. Conceptually, the GST should broaden the tax base. • The tax GDP ratio could increase to 16 per cent from the current 10 per cent. However, whether this would be achieved, would depend on the next year or so. Specially on how the government and industry manage to work in tandem to smoothen the overall transaction and rate of compliance.
Increasing debts and possible state tax revenue loss in future	• RBI in a report on state finances, has warned that "Due to prevailing uncertainty about the revenue outcome from the GST implementation, the outlook for revenue receipts of states could tum uncertain." • States, on the other hand, face an ever increasing cost curve. With the 7th Pay Commission being implemented, their wage bills are expected to go up

	considerably. A rush to write off farm loans started by Uttar Pradesh, has till now seen three state governments agreeing to write off loans. • **India's public debt, which is the sum total of central and state debt, as a percentage of GDP already stands at 67 per cent, the highest among major Asian economies, except for Japan**. • This time round if all states were to write off farm loans, and pay for this act by taking fresh loans, their new debt would amount to Rs 3 lakh crore, finance ministry officials have calculated. • This kind of debt taking is unsustainable at any given time, but at this juncture when we are experimenting with a new tax structure and do not know how state finances will behave- whether they will go up or down, this is obviously even more risky and the states know so. • Reserve Bank of India (RBI) has reported that the debt-to-state GDP ratio of as many as 17 Indian states increased in the past year. • The Gross Fiscal Deficit-GDP ratio in 2015-16 has already breached the 3 per cent ceiling considered fiscally prudent for the first time since 2004-05. • However, officials also point out that 45 per cent of the indirect taxes are not covered by GST such as items like real estate, petroleum products, alcoholic beverages etc., and the state will have the ultimate right to tax them and even increase taxes on them.
More role for Centre	• he GST Bill promises that in time the GST Council will move these items into the GST fold. However, it is more than likely that states will in time realise that they do need to have some measure of financial independence. • This, coupled with the need to build a financial cushion, would possibly see them working actively to retain these items of taxation in their portfolio. • One may recall, that when the issue of division of financial powers between the Union and provinces came up in the Constituent Assembly, many MPs including from the Congress had argued in favour of giving more powers to states. • However, the fear of excessive federalism was cogently argued as being against the spirit of One India and the framework which thus came out tended to focus legislative and taxation powers with the centre rather than with the states. • Some constitutional experts rightly point out that this bias will be even more pronouncedly be in the Centre's favour with the implementation of the GST. • If states were to give away their freedom to increase taxes in respect of at least some goods, their ability to raise resources to address problems unique to them would be compromised.
GST Council	• Legally speaking the GST Amendment Act effectively transfers the power of taxation over large swathes of possible taxation to an unelected body. • Effectively, the GST Council, set up by the Act, takes on the power of deciding tax rates from both the Parliament and State Legislatures and these have to be implemented across the country. • This Council will now be the Supreme legislative body in determining tax rates on all goods and services through the length and breadth of the country and not the directly or indirectly elected Members of Parliament and State legislature. • An educated super-body elected by Electors, without any direct responsibility to citizen-voters. • States would also like to retain some powers of taxation as the passage of GST places them, in some ways, at a disadvantage with respect to subordinate bodies

	like Municipal bodies etc., who have now more power to increase their quantum of taxes • Entry taxes by municipal bodies, entertainment tax levied by local bodies, stamp duties, products such as alcohol and fuels, and electricity cesses are still not covered by GST. • This gives them the right to increase or decrease these taxes and thus build greater financial independence from state governments. • While the reverse would be the case for states, who would be bound by the decisions of the GST Council as far as the bulk of their revenues is concerned.
Comparison with other Models	• It would do well to remember that in most countries where deferral authorities have the right to determine indirect taxes and enjoy the right to raise them, provinces have the right to direct taxes. • In Canada where the GST was introduced in the last century, the provinces have the power over direct taxes , while the federal government has the power to tax indirect taxes , which is why the change over to GST did not entail any impact on state powers . • In India , however , the centre not only enjoys sole rights over direct taxes , a portion of which it may give to states, but it also now enjoys the exclusive right to nearly half of the GST proceeds.

GST means Ease of Doing Business

	• With the implementation of GST, India joins the league of over 160 odd countries, including Germany, Italy, UK, South Korea, Japan, Canada, Australia, Russia, China, Singapore and Malaysia, which have introduced a GST / VAT regime. France was the first country to implement a GST regime way back in 1954 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 lowly 130th position out of 190 countries in the World Bank's Doing Business report 2017.
to ensure that revenue collection by the Centre and the states is not hit adversely.	• Nearly 60 per cent of all goods under GST are taxed at either 18 per cent or 28 per cent and nearly 20 per cent are taxed at 28 per cent, which, besides luxury and negative items, also includes products such as chocolates, chewing gum, shampoo, deodorant, paint etc. • Electricity duty, stamp duty, excise duty and VAT on alcoholic beverages, petroleum products (like crude, natural gas, petrol and diesel) are outside the ambit of GST for the time being. • Businesses dealing only in exempted goods or with a turnover of below Rupees 20 lakh annually but not engaged in interstate supplies are also exempted from filing the returns for GST. • GST, by and large, would have only marginal impact on the prices / cost of major sectors (such as consumer durables, construction material and FMCG) in the short run as tax rates on them are mostly in line with the earlier effective tax incidence.

	• Impact on FMCG would vary from state to state, owing to variation in VAT rates across states earlier. • Businesses with higher incidence of CST earlier (owing to inter-state movement of goods) would benefit to the extent of around 2 per cent. • Tax saving is relatively higher for the automobiles sector as the tax incidence has reduced from over 50 per cent earlier to 43 per cent (28 per cent GST + 15 per cent Cess) now.
	Major benefits of GST
Easier Compliance	• In the previous tax regime, businesses 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 for businesses. • Using the IT platform of GST Network (GSTN), which is a shared IT infrastructure between the Centre and States, providing reliable and efficient IT backbone for the smooth functioning of the GST, 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 businesses going forward
Easier Inter-State Movement of Goods	• Transport vehicles would earlier get inordinately delayed during inter-state movement of goods for paying taxes at check posts in different states. GST has done away with this requirement by amalgamating several indirect taxes including Entry tax and Octroi duty. • This would bring down the logistics costs (in money as well as time terms) for businesses and prices for consumers. Check posts have been abolished across all state borders, and there is evidence that travel time of trucks has significantly reduced.
Single Interface for All	• The GSTN provides a single interface of tax-payers with tax authorities and a single platform for resolving differences. • With suppliers, buyers and tax authorities having access to all the relevant information, it will be easier to collate and match invoices. • Besides, the input tax credit requires all invoices to be matched in order to avail credit, which automatically places the onus on buyers to ensure that suppliers file returns and pay taxes on time.
Reduction in Tax Burden	• Unlike the previous regime, GST allows availing credit on taxes on raw materials and inputs levied in the previous stages of the value chain, which mitigates the cascading effect (tax on tax). • Since a manufacturer now pays tax only on the value added in a given stage of the process, rather on the total cost of products, the tax burden will be reduced.
Creates Common Market	• Manufacturers will be able to take more rational decisions regarding sourcing of raw materials, location of manufacturing and warehousing facilities and sale of output, as India becomes one big common market post implementation of GST. • Uniformity in the process and centralized registration will make expansion of businesses across states much simpler.

Enhancing Export Competitiveness	• In the previous tax regime, we exported a portion of taxes owing to double taxation, which, combined with higher transaction cost related to tax compliance, lowered India's competitiveness in the global market. • GST, by avoiding cascading taxes and reducing the burden of tax compliance, should help in boosting exports, as happened in several economies including New Zealand and Australia. New Zealand, for instance, saw its export jumping up by over 22 per cent in the very next year after it implemented GST in 1986.
Reducing Bias	• Businesses have tendency to allocate resources in a state and sector offering favorable tax compliances and rates, disregarding other indirect factors /advantages. This leads to distortions in allocation of resources as well as supply chain, eroding the overall competitiveness of a firm. • GST, by helping doing business in the country tax neutral, irrespective of the location of the business, addresses this issue by minimizing the sector and state variation in compliances as well as rates.
Improves Ease of Doing Business for MSMEs	• In the previous tax regime, MSMEs with an annual turnover of Rupees 5 lakh, were required to register for VAT. In case of multi state operations, businesses had to comply with varied tax rates, rules and procedures, across states. • This not only had high compliance burden on MSMEs but also forced many of them to hire professionals to assist in tax compliance. • GST brings a uniform, online, fast and transparent tax administration across states, making compliance much easier and saving money cost as well. MSMEs also stand to benefit from the provision of input credit on taxes under GST, which would help them become more competitive.

Profiteering, a GST Implementation Challenge

	• GST regime replacing 17 central and state taxes and dismantling state barriers to create a single market of $2.3 trillion • But policy makers' biggest concern is to make sure that consumers get the benefit of reduced tax burden on goods and services that the new indirect tax code offers.
Why anti-profiteering clause	• The idea of rolling out GST along with an anti-profiteering clause is to prevent the possibility of businesses and traders retaining the benefits of tax reduction to themselves rather than passing them on to consumers, which is against the intent of the government of the day. • Central GST Act specifies that "Any reduction in rate of tax on any supply of goods or services or the benefit of input tax credit shall be passed on to the recipient by way of commensurate reduction in prices." • The proposed anti-profiteering authority chaired by a secretary-level official to enforce this provision will refer suspected cases of profiteering to the director- general of safeguards, a body under the Central Board of Excise and Customs (CBEC) for detailed investigation.
Stringent provision	• The authority can order a supplier of goods or services to reduce prices or return to a buyer an amount equal to the tax not passed on as warranted by the reduced tax burden under the GST regime.

	• If found guilty of profiteering, a business or trader will also have to pay 18 per cent interest on the quantum of tax reduction that was not passed on to consumers. • If the customer does not claim the benefit of reduced tax burden, the authority can recover it from the supplier. Profiteering can attract penalty and could cost a business its registration or license. • While this sounds a stringent provision, the idea of the government is to have an effective deterrent and use it only in large scale profiteering across an industry or product rather than getting into micromanagement of prices in a free market economy. The anti-profiteering provision will remain in force only during the period of transition to the new indirect tax regime.
Measures by GST Council	• The Council's focus on anti-profiteering measures stems from the desire that lower prices thanks to reduced tax burden will cool retail inflation which will help in boosting demand in the economy and improve tax buoyancy. • Higher tax revenue will, in turn, help central and state governments to spend more on welfare measures and infrastructure. • To a great extent, competition in the market is likely to make sure that businesses pass on any benefit to consumers, as no firm would like to lose market share. • To make sure that GST does not pinch the poor, GST Council, the federal indirect tax body chaired by Finance Minister deviated from the ideal concept of a GST with a single rate across products and services to have four different slabs-5 per cent, 12 per cent, 18 per cent and 28 per cent. • This enabled placing mass use items in a lower slab and luxury items in a higher slab.

NATIONAL ANTI-PROFITEERING AUTHORITY

NAA	• Anti- profiteering measure is one of the key features of recently implemented Goods and Services Tax- GST law. • These measures prevent entities from making excessive profits due to the GST. • Since the GST, along with the input tax credit, is eventually expected to bring down prices, a National Anti-profiteering Authority (NAA) is to be set up to ensure that the benefits that accrue to entities due to reduction in costs is passed on to the consumers. • Also, entities that hike rates inordinately, citing GST as the reason, will be checked by this body. • The Anti-Profiteering Rules, 2017 lay down details about the selection of the members of the NAA and the other committees that will assist the NAA in investigating the complaints, the procedure to be followed in investigations and the powers given to the authority.
3 Tier Structure	• According to the rules, the Authority will have a 3 tier structure, including a Standing Committee on Anti-profiteering, State-level Screening Committees, and a National Anti-profiteering Authority. • Once the registered entity, which has profiteered illegally, is identified, it can be asked to - • one, reduce prices if it has hiked prices too much and ,

	• two, if price reduction due to GST has not been passed on to consumers, to return to the consumers the sum equivalent to the price reduction along with 18 per cent interest from the date the higher sum was collected. • The authority can impose penalty on the profiteer or cancel its registration. • If we learn by the experiences of some countries that have adopted GST such as Singapore and Australia, we found that they had witnessed a spurt in inflation after GST implementation. Malaysia also saw surge in inflation and avoided it by effectively implementing anti-profiteering rules. • A formula was laid down wherein the net profit margin in the period preceding GST was compared to the post-GST margins to see if inordinate gains had gone to the bottom-line. • Gains were determined after taking in to account the supplier's cost, costs incurred for furthering business, market conditions and other relevant issues.
File Complaint	• If a super-market is selling grocery at a higher price saying that it is due to GST, one can file a complaint to the National Anti-profiteering Authority (NAA). • Similarly if the cost of soap has moved lower, but shopkeeper sells at the old price, a complaint in this regard can be filed at NAA. It will ensure that the benefit of reduced taxes under GST is passed to consumers. • The Authority is also empowered to make a company lower its prices and refund money to consumers or deposit it in the Consumer Welfare Fund. It can also impose a penalty and cancel the registration of the company. • The new authority can summon representatives of any company against which a complaint has been filed, and also initiate investigations through other government wings such as the Directorate of Data Analytics or the Directorate General of GST. Its orders can be appealed against in the High Court only.

Transitional Challenges Ahead

Challenges Under GST

IT Preparedness and Infrastructure:	• GST is an IT driven law and it cannot be assured whether all the States and Union Territories in India are currently equipped with infrastructure and requisite manpower to embrace this law. • Except few States like Karnataka, Maharashtra and Gujarat, who have pioneered the E-Governance model, we have not heard about this trend in other States and Union Territories. In some States, even today only manual VAT returns are in vogue.
Officers Training:	• In any new law, the old law as well as the new thought process of trust needs to be imbibed. The unlearning of the old law and learning GST provisions is imperative. • All central and state government officers whether in VAT, service tax, excise or customs would have to learn the GST provisions and possible implications viz. a viz present gamut of taxes.

	• Further, GST law heavily banks on Information Technology and hence proper training has to be given to the departmental officers for effective usage and implementation.
New Registrants:	• GST is expected to bring within its fold many new registrants, who have been hitherto kept outside the purview of tax mainly due to exemptions and also since the taxable event is wider in scope in GST. • Transition of existing registered assesses and registration of new assesses and resolving of migration issues is a big challenge.
Transitional Issues:	• There are many areas, which have to be addressed as a part of transition to GST. • There are concerns about registration, carry forward of credits and taking new credits, pending refund/rebate claims, review of contracts, change in 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. Despite having transition rules in place they might be some demanding situations on this front. • Practitioners and advisors would have their hands full in resolving the myriad issues which are sure to arise.
Pending Cases/ Past Disputes:	• There are many disputes pending in the context of present indirect tax laws (both Centre and State), which are at various stages viz., adjudication or appellate level. • The adjudicating/appellate authorities, Courts and Tribunal are burdened with the pending cases. • With GST now implemented, the Government should find ways and means to resolve these disputes. • A possibility of introducing a dispute settlement scheme needs to be explored, which would enable the litigants to resolve pending matters under earlier laws. • If the past disputes are allowed to continue then the adjudicating/appellate authorities and Courts/Tribunals would be pre-occupied with old cases and would not have time to resolve any issues/disputes cropping up under GST law.
Tax Administration (Alignment / Merger): Impact on Small Enterprises	• With GST structure in place both the Centre and State level officers are expected to work under one roof and in tandem by giving up their differences and non-alignment in the old regime. • Cadre differences may arise, as presently in Central Excise and Service Tax, the departments are headed by Officers of the Indian Revenue Service, whereas in the State Commercial Departments, the Commissioner is from Indian Administration Service (IAS) and his subordinates would be from State Administration Service. • In Central Excise and Service Tax there are posts like Principal Chief Commissioner or Commissioner and Chief Commissioner or Commissioner etc. How these differences would be addressed in the GST regime remains to be seen