Commentary

National Goods and Services Tax (GST): The Road Ahead
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ABSTRACT

Goods and Services Tax (GST) is a part of the proposed tax reforms to evolve an efficient and harmonised consumption tax system in the country. GST is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. GST would give India a world class tax system and improve tax collections. It would end the long standing distortions of differential treatment of manufacturing and service sector. The introduction of GST will lead to the abolition of various central and state indirect taxes and eliminate the cascading effects of multiple layers of taxation. It is claimed that GST will facilitate seamless credit across the entire supply chain and across all states under a common tax base. The changeover to GST will be a game-changing tax reform measure which will significantly contribute to the buoyancy of tax revenues, acceleration of growth, and generation of many positive externalities. Once the integrated GST across the country is introduced, it will simplify tax administration and eliminate cascading of taxes. It will lead to reduction in the distortions in the structure of production, consumption and exports and further to a more efficient allocation of resources. The demand for manufactured goods can be expected to grow significantly. This paper explains the modalities of the proposed GST.

Keywords: Goods and Service tax, sales tax, cascading effect.

1.0 Introduction

Goods and Services Tax (GST) is a part of the proposed tax reforms to evolve an efficient and harmonised consumption tax system in the country. Presently, there are parallel systems of indirect taxation at the Central and State levels. Each of the systems needs to be reformed to eventually harmonise them.

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In his 2006-07 budget speech, the Union Finance Minister observed, “It is my sense that there is a large consensus that the country should move towards a national level Goods and Services Tax (GST) that should be shared between the Centre and the States. I propose that we set April 1, 2010 as the date for introducing GST. World over, goods and services attract the same rate of tax. That is the foundation of a GST. People must get used to the idea of a GST.” (Government of India, Ministry of Finance, 2006-07) GST was first recommended by the Kelkar Task Force on Implementation of the Fiscal Responsibility and Budget Management FRBM Act, 2003.

GST is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. GST would give India a world class tax system and improve tax collections. It would end the long standing distortions of differential treatment of manufacturing and service sector. The introduction of GST will lead to the abolition of various Central and State indirect taxes and eliminate the cascading effects of multiple layers of taxation. It is claimed that GST will facilitate seamless credit across the entire supply chain and across all states under a common tax base.

The changeover to GST will be a game-changing tax reform measure which will significantly contribute to the buoyancy of tax revenues, acceleration of growth, and generation of many positive externalities.

While presenting the budget for 2010-11 to the Parliament on February 26, 2010, Minister of Finance Shri Pranab Mukherjee, rescheduled the time limit for the implementation of GST and expressed the hope that GST, along with the Direct Tax Code (DTC), would be introduced from April 1, 2011.

2.0 Roadmap for GST

While declaring its intention to introduce GST from April 1, 2010, the Central Government had indicated that the Empowered Committee of State Finance Ministers would work with the Central Government to prepare a road map for introduction of GST. The Empowered Committee of State Finance Ministers prepared a report on a model and road map for GST.

In November 2007, a Joint Working Group consisting of representatives of the Empowered Committee and the Government of India prepared a report on the
changeover to GST. This report was discussed by the Empowered Committee, which then prepared *A Model and Road Map for Goods and Service Tax in India* (April 2008). The model and roadmap, while recommending that a dual GST be put in place, also provided preliminary views on the Central and State taxes to be subsumed within the GST.

The model detailed the operational issues which needed to be addressed, including the number of rates, exemptions and exclusions from GST, as well as the treatment of inter-state transactions.

The roadmap outlined the legal and administrative steps which needed to be taken in order to comply with the April 1, 2010 deadline.

The comments of Government of India on the proposed design of GST were sent to the Empowered Committee in January 2010. A joint group of officers was constituted to prepare draft Constitutional Bill, Central GST legislation, model State GST legislation and rules required to introduce GST.

To operationalize the GST, the Constitution (115th Amendment) Bill was introduced in the Lok Sabha in March 2011 to enable Parliament and State Legislatures to make laws for levying GST on every transaction of supply of goods or services or both. Some goods, namely crude petroleum, diesel, petrol, aviation turbine fuel, natural gas and alcohol are not to come under the purview of the GST. The Bill is before the Parliamentary Standing Committee.

3.0 GST Council

The Constitutional Amendment Bill also seeks to empower the President to set up within 60 days of the passage of the legislation, a GST Council with the Union Finance Minister as chairperson and Union Minister of State for Revenue and Finance Ministers of all the states as members. The GST Council is to work on the basis of consensus and make recommendations on issues like GST rates, exemption lists, and threshold limits.

Further, the Bill provides for setting up of a GST dispute settlement authority, comprising a chairperson and two members to resolve disputes arising out of deviations from the recommendations of the GST Council either by the Central or State Governments. The draft Bill has since been referred to the Parliamentary Committee on Finance for examination.
4.0 GST Network

Among the other steps that are being taken for the introduction of GST is the establishment of a strong information technology (IT) infrastructure. For this purpose the Government has set up an Empowered Group (Chairman: Nandan Nilekani). Significant progress has been made in the conceptualization and design of the GST Network (GSTN)—a common portal for the Centre and States that will enable electronic processing of the key business processes of registration, returns, and payments. For this purpose, the structure of these processes is in advanced stages of finalization.

The National Securities Depository Limited (NSDL) has been selected as technology partner for incubating the National Information Utility that will establish and operate the IT backbone for the GST. In this regard the NSDL has set up a pilot project in collaboration with 11 States prior to its roll-out across the country. 3 Joint Working Groups of officials have also been constituted comprising officials from the Central Government, State Governments, and an Empowered Committee of State Finance Ministers to work on legislation, business procedures and IT infrastructure respectively.

The structure of GST Network (GSTN) has been approved by the Empowered Committee of State Finance Ministers. GSTN will be set up as a National Information Utility and will become operational by August 2012. The GSTN will implement common PAN-based registration, returns filing and payments processing for all States on a shared platform. The use of PAN as a common identifier in both direct and indirect taxes, will enhance transparency and check tax evasion.

To prepare for the implementation of GST, Central Government has also begun a phased reduction of Central Sales Tax (CST). The Central Government has brought down the level of GST over the last few years from 4 percent to 2 percent as a precursor to rolling out GST. This is because CST, which is an origin-based tax, is inconsistent with value added taxes, which are destination based—the two should not co-exist. As revenue from CST was transferred to the States, they are to be compensated by being given the right to levy service tax on certain commodities. A Group of State Finance Ministers has been constituted to work on the modalities for the introduction of GST on lines similar to the Group
that had been set up for the introduction of State VAT.

Once the integrated GST across the country is introduced, it will simplify tax administration and eliminate cascading of taxes. It will lead to reduction in the distortions in the structure of production, consumption and exports and further to a more efficient allocation of resources. The demand for manufactured goods can be expected to grow significantly. In this connection, the Twelfth Five Year Plan (2012-17) remarked, “The Centre must persevere with reforms of the tax structure, notably the introduction of Good and Services Tax (GST), which will represent a major modernisation of the indirect tax system. GST will greatly simplify the system and improve revenue mobilisation, primarily by plugging loopholes. Since introduction of GST requires a Constitutional amendment, it needs a broad political support which has taken time to build. However, if it can be introduced soon, it will give a boost to efficiency and to revenue mobilisation without raising rates.” (Government of India, Planning Commission, 2012-17)

Hoping for the early implementation of the GST, the Finance Minister in his 2013-14 Budget Speech observed, “Hon’ble Members will recall that I had first mentioned the Goods and Services Tax (GST) in the Budget speech for 2007-08. At that time, it was thought that GST could be brought into effect from 1.4.2010. Alas, that was not to be, although all States swear by the benefit of GST. However, my recent meetings with the Empowered Committee of State Finance Ministers has led me to believe that the State Governments—or, at least, the overwhelming majority—are agreed that there is need for a Constitutional amendment; there is need for State Governments and the Central Government to pass a GST law that will be drafted by the State Finance Ministers and the GST Council; and there is need for the Centre to compensate the States for loss due to the reduction in the CST rate. I hope we can take this consensus forward in the next few months and bring to this House a draft Bill on the Constitutional amendment and a draft Bill on GST. Hope inspires courage. I propose to take the first decisive step by setting apart, in the Budget, a sum of 9,000 crore towards the first instalment of the balance of CST compensation. I appeal to the State Finance Ministers to realise the serious intent of the Government to introduce GST and come forward to work with the Government and bring about a transformational change in the tax structure of the country.” (Government of India, Ministry of Finance, 2012-13)
GST, if approved, would replace a number of Central and State taxes, make India more of a national integrated market, and bring more producers into the tax net. By improving efficiency as well as revenues, it can add substantially to growth as well as helping government finances.

To sum up, indirect tax system is currently mired in multi-layered taxes levied by the Central and State Governments at different stages of the supply chain, viz. excise duty, value added tax (VAT), octroi and others. GST, when implemented, will subsume all these taxes under a single regime.

GST is India’s most ambitious indirect tax reform plan. Its objective is to levy a single national uniform tax across India on all goods and services.

GST can be rolled out only when Parliament passes the Constitution Amendment Bill, which has been pending in Parliament since March 2011. That requires votes of at least two-thirds of the members in its favour. In addition, at least half of the State Assemblies will have to pass the Bill.

Parliament’s Standing Committee on Finance has not yet submitted its report on the Bill.

In addition to the passage of the Bill, it is also necessary to have a robust countrywide IT network and infrastructure to make the implementation seamless. The IT network is still in progress.

References

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