

## Present State of Goods and Services Tax (GST) Reform in India

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Readings: - Mukherjee, Sachidananda, National Institute of Public Finance and Policy, working pa- per no. 2015 154, September 2015.

The idea of a Goods and Services Tax (GST) for India was first mooted sixteen years back, during the Prime Ministership of Shri Atal Bihari Vajpayee. Thereafter, on 28th February, 2006, the then Union Finance Minister in his Budget for 2006-07 proposed that GST would be introduced from 1st April, 2010. With lots of discussions debates finally the bill got passed by the Rajya Sabha on 3rd August 2016 and by the Lok Sabha on 8th August 2016.

GST (Goods & Services Tax) is an indirect tax levied on the supply of goods and services, right from the manufacturer to the consumer across the country. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages. GST has been envisioned as a more efficient tax system, neutral in its application and distribution. It's an umbrella tax, replaced central taxes like central excise, service tax, additional duties of excise & customs, special additional duty of customs, besides cesses and surcharges, on supply of goods and services.

Among other things major motive behind GST is to attain (a) expansion of fiscal space, (b)overcoming the Constitutional barriers relating to taxation by removing definitional differences between goods and services and that of manufacturing and distribution of goods, and c) achieve better fiscal prudence by aligning taxation powers to expenditure commitments/responsibilities under fiscal federalism. It helped in removing the cascading effect<sup>1</sup> of tax.

There were for major taxes on the domestically produced goods in India.

- i. Central Excise (CENVAT)
- ii. State Sales tax/VAT
- iii. Entry Tax
- iv. Central Sales Tax (CST)

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<sup>1</sup> Cascading Effect implies charging tax on tax. For example, if the tax be levied each time the product get sold at different point then the burden of tax keeps on increasing at each point of sales.

Taxation on the service is a central tax levied by the central government on all services except a few (e.g. education, medical and health services).

**Consequent of GST on Inequality:** - Impact of GST on the society will be different depending upon the strata and the consumption basket they belong to. It will affect a behavioral shift among consumers provided the benefits of removal of cascading effect passed on to the consumer. But in its current form GST seems to affect the inequality positively and widening the gap between rich and poor.

**Consequent of GST on Informalization:** - Given the benefit of formal credit and government assistance in financial loan, subsidy, machinery etc. GST will induce formalization.

**Challenges in GST Administration:** - The proposed CGST & SGST will be administered by both Central Board of Excise and Customs (CBEC) and State Commercial Tax Department. The department may increase the compliance cost. Transition cost, workload per employee. This might lead to higher tax evasion and resistance.

The success of the proposed GST system in terms of compliance and revenue mobilization will largely depend on

- a. Provision of incentives for tax invoice-based transactions
- b. Simplification of tax administration

If the government can achieve this then the stated objective of the GST will be realized.

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References:

<https://services.gst.gov.in/services/gstlaw/gstlawlist>