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## A STUDY ON CHALLENGES & OPPORTUNITIES OF GST IN INDIA

**Dinu Fathima<sup>1</sup>**

<sup>1</sup>Assistant Professor,  
Department of Commerce & Centre for  
Research,  
PSMO College (Affiliated to Calicut  
University Kerala)  
Thirurangadi, Kerala, India

### ABSTRACT

*Tax is an amount which levied by the Govt from the persons to meet public expenditure. Tax may direct or indirect. In present India, we follow Value Added Tax system for all indirect taxes which introduced in India from 1 April 2005. VAT is a multiple stage of tax which levied in across the various stages of production and supply of goods only. Now India planned to execute Goods and Service Tax on all sectors of the economy from 2017. Actually the GST is based VAT which applied to both goods and services. When the implementation of GST, it should have lot of opportunities and challenges. This study tries to find out the major challenges & opportunities of Goods & Service Tax in India and also make a conceptual clarity of Goods & Service Tax in India. The finding reveals that single GST rate is best for administrative efficiency. When Govt of India implement GST, they should take proper measures to face challenges. Finally, we can say that government has both the side of the coin like opportunity and challenge. But, it is not easy for the government to enjoy opportunities, without facing challenges.*

**KEYWORDS:** Tax, GST, VAT, Single Taxation System

### I. INTRODUCTION

When we looking to the global developments and tax structure of developed countries the tax structure of India is very complex. So India want to introduce a simple tax system India. The Constitution Amendment Bill for Goods and Services Tax (GST) has been approved by The President of India post its passage in the Parliament (RajyaSabha on 3 August

2016 and Lok Sabha on 8 August 2016) and ratification by more than 50 percent of state legislatures.

The Government of India is planned to replace all the indirect taxes levied on goods and services by the Centre and States and implement GST by April 2017. Therefore, we all need to learn it whether willingly or as compulsion. The main aim of goods and services tax (GST) is to create a single, unified

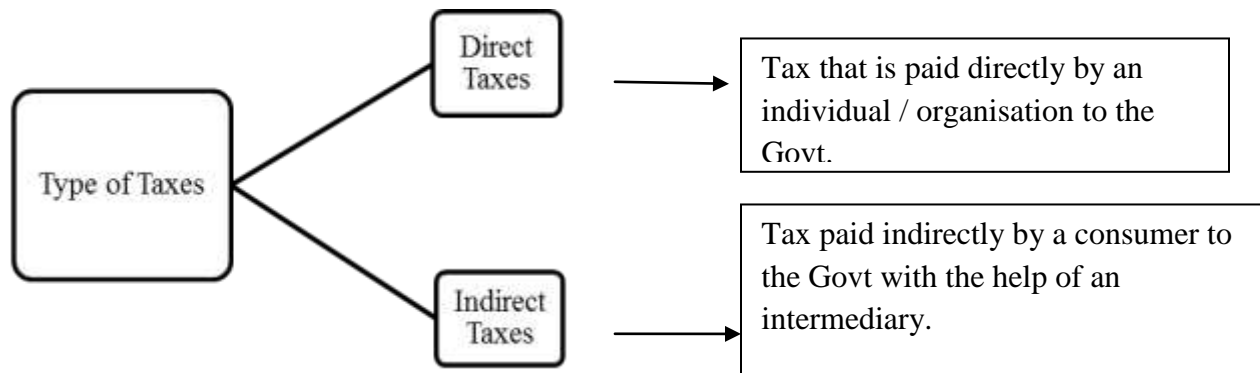
market that will benefit for both corporate and the economy.

GST will be a game changing reform for the Indian economy by creating a common Indian market and reducing the cascading effect of tax on the cost of goods and services. It will impact the tax structure, tax incidence, tax computation, tax payment, compliance, credit utilization and reporting, leading to a complete overhaul of the current indirect tax system. GST will have a far-reaching impact on almost all the aspects of the business operations in the country, for instance, pricing of products and services, supply chain optimization, IT, accounting, and tax compliance systems.

## II. OBJECTIVES OF THE STUDY

- To provide a conceptual clarity of GST
- To find out the challenges and opportunities of GST in India

→ **Types of Taxes –**



### • **Sales Tax :-**

A sales tax is a consumption tax imposed by the government on the sale of goods and services. A conventional sales tax is levied at the point of sale, collected by the retailer and passed on to the government.

### • **Value Added Tax :-**

- Value added tax or VAT is an indirect tax, which is imposed on goods and services at each stage of production, starting from raw materials to final product.
- Features of Value Added Tax in India:
  - Similar goods and services are taxed equally
  - VAT is levied at each stage of production and hence makes the taxation process easier and more transparent
  - VAT reduces chances of tax evasion and fosters compliance

## III. A CONCEPTUAL FRAME WORK OF GST

### • **Tax :-**

- The word ‘Tax’ is derived from a *Latin word- ‘Taxore’* which means ‘to estimate’
- It is an amount paid by a person on the basis of their *income / cost of goods / services* to the *Govt* for meeting public expenditure.

- Encourages transparency in sale of goods and services at the tiniest level

- **Calculation of VAT:**

VAT is actually calculated as the difference between input tax and output tax.

$$\text{VAT} = \text{Output Tax} - \text{Input Tax}$$

### • **Goods & Service Tax :-**

→ GST is the abbreviated form of *Goods and Service Tax*.

→ **Meaning –**

It is a value added tax on goods and services that is paid by the final consumer while the preceding parties in the supply chain will be taking credit of the tax he has paid while buying goods for their processing.

Simply, GST is a comprehensive indirect tax levy on manufacture, sales and

consumption of goods as well as services at the national level.

→ **Main aim**– To introduce a **Single Taxation System** by way of **abolish all indirect taxes** in India such as sales tax, custom duty, entertainment tax... etc.

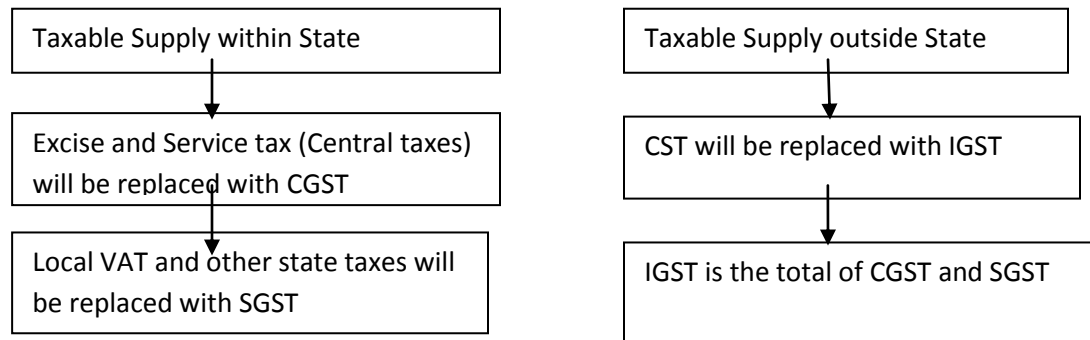
→ It is the Mother of All Tax Reforms.

→ It is based on “**Destination principle**” - It applied on Goods & Services at the place where final/actual consumption happens. So we can say GST is a last end consumer tax.

→ **Objectives:**

- Ensure availability of input credit across the value chain
- Reduce cascading effect of taxation
- Simplification of tax administration and compliance
- Harmonise tax base, laws and administration procedure across the country

→ **GST Taxation Structure**



→ **The List of Indirect Taxes** subsumed to GST regime -:

At Central Level	At State Level
Central Excise Duty	State VAT / Sales Tax
Additional Excise duties	Entertainment Tax (Unless it is levied by the local bodies)
Service Tax	Luxury Tax
The Excise Duty levied on Medicinal and Toiletries preparations	Taxes on lottery, betting & gambling
Surcharges & Cesses	State Cesses & Charges
	Entry tax not in lieu of Octroi

- **Not covered under GST purview:**
  - Petroleum products
  - Entertainment and amusement tax levied and collected by panchayat/ Municipality/District council
  - Taxes on alcohol/ liquor ( for human consumption)
  - Stamp duty, custom duty
  - Tax on consumption and sale of electricity
  
- **GST gets 4 rates structure – such as 5%, 12% , 18% and 28%**

→ **Road Map of GST**

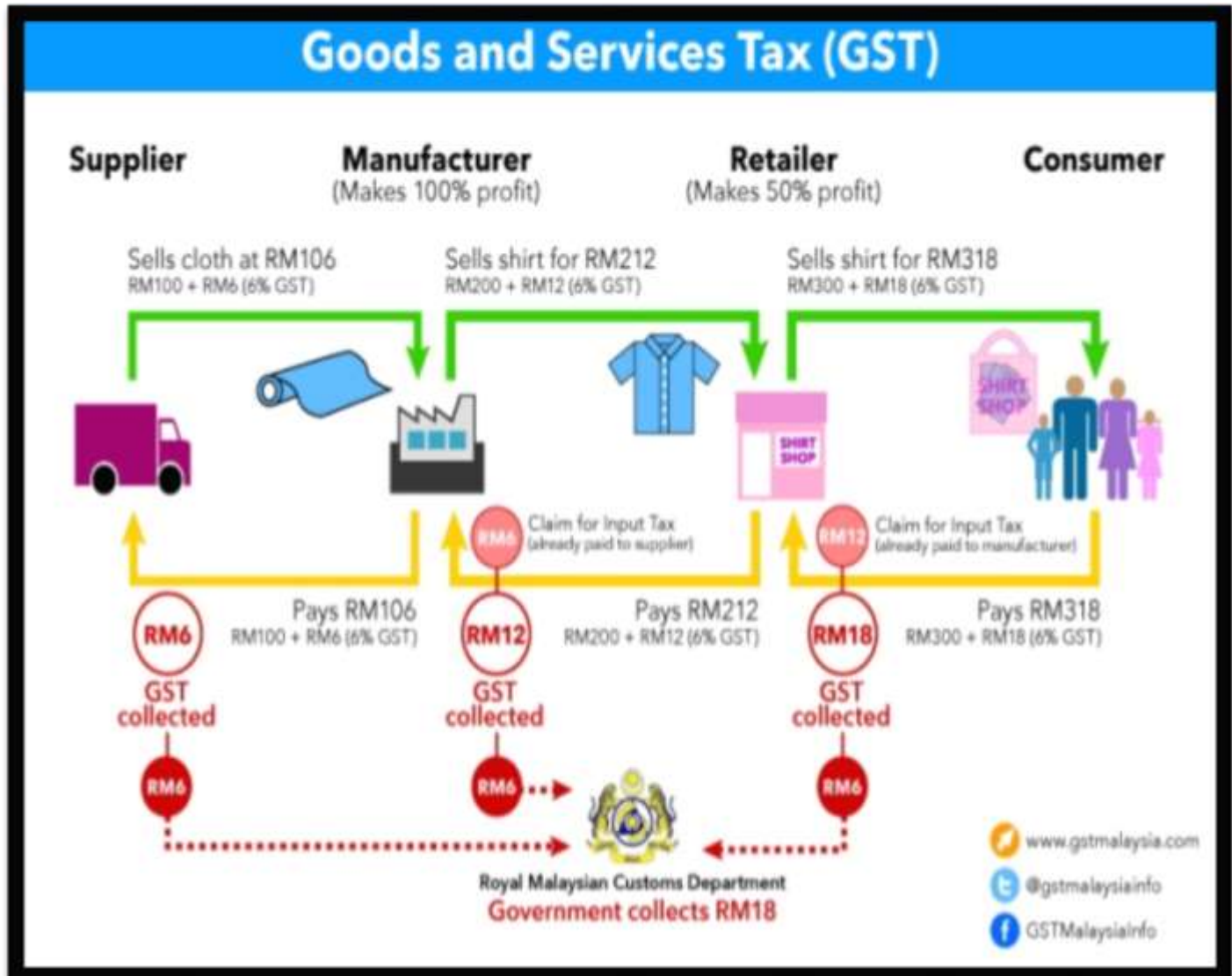
Year	Incident
2000	<ul style="list-style-type: none"> <li>• Vajpayee Government started discussion on GST</li> <li>• Set up an empowered committee - headed by AsimDasgupta, (Finance Minister, Govt of West Bengal).</li> <li>• It was given the task of designing the GST model and overseeing the IT back-end preparedness for its rollout.</li> </ul>
2003	<ul style="list-style-type: none"> <li>• The Kelkar Task Force on implementation of the FRBM Act, 2003</li> <li>• They pointed out that                             <ul style="list-style-type: none"> <li>▪ Indirect tax policy in India follows the direction of VAT principle since 1986</li> <li>▪ The existing system of taxation of goods and services still suffers from many problems</li> <li>▪ They suggested <b>a comprehensive Goods and Services Tax (GST) based on VAT principle.</b></li> </ul> </li> </ul>
2006	<ul style="list-style-type: none"> <li>• Finance Minister P Chidambaram proposes introduction of GST from April 1, 2010, in Budget speech for 2006/07</li> <li>• Phasing out of Central Sales Tax ( CST) begins with reduction in the rate from 4% to 3%</li> </ul>
2007	<ul style="list-style-type: none"> <li>• Empowered Committee of State Finance ministers (EC) entrusted with the responsibility of preparing a design and roadmap for GST</li> </ul>
2008	<ul style="list-style-type: none"> <li>• EC finalise the views on board GST Structure –                             <ul style="list-style-type: none"> <li>▪ Agreement on dual GST</li> <li>▪ Separate legislation, levy and administration</li> </ul> </li> <li>• CST rate reduced further from 3% to 2%</li> </ul>
2009	<ul style="list-style-type: none"> <li>• Joint working group of officers from Central and State Govts constituted</li> <li>• EC realizes first discussion paper</li> <li>• 13<sup>th</sup> Finance Commission releases report on GST</li> </ul>
2011	<ul style="list-style-type: none"> <li>• Constitution (115<sup>th</sup> Amendment) Bill introduced in the LokSabha.</li> <li>• Referred to the Standing Committee on Finance</li> </ul>
2012	<ul style="list-style-type: none"> <li>• Formed Committee on GST design – comprising officials of Central /state and the EC</li> </ul>
2013	<ul style="list-style-type: none"> <li>• Parliamentary Standing Committee submits report to the LokSabha</li> <li>• Most recommendations of the EC and the Standing accepted</li> <li>• EC rejects Central Govt’s proposal to include petroleum products under GST</li> </ul>
2014	<ul style="list-style-type: none"> <li>• Some of EC’s recommendations incorporated in the Draft constitution Amendment Bill</li> <li>• 115<sup>th</sup> Constitutional ( Amendment) Bill, 2011, lapses with dissolution of the 15<sup>th</sup>LokSabha</li> <li>• Draft Constitution Amendment Bill sent to the EC after approval of the new government</li> </ul>

<b>2015</b>	<ul style="list-style-type: none"> <li>• Bill is passed by the Lok Sabha</li> <li>• Bill referred to the Rajya Sabha after opposition from congress ; select committee submits report on July 22</li> </ul>
<b>2016</b>	<ul style="list-style-type: none"> <li>• Model draft law released in public domain</li> <li>• Rajya Sabha passes the GST Constitution Amendment Bill</li> </ul>

• **Difference between Present structure of tax and GST**

Sl.No	Issues	Present structure of tax	GST
1	Broad scheme	There are <b>separate laws</b> for separate levy. For e.g. Central Excise Act, 1944, respective State VAT laws.	There will be only <b>one law</b> which abolish all indirect taxes in India.
2	Tax rates	There are <b>separate rates</b> . For e.g. Excise 12.36 % and Service Tax 14%.	There will be <b>one CGST rate and a uniform rate of SGST</b> across all states.
3	Cascading effect	This problem <b>arises</b> because credit of CST and many other taxes not allowed.	This situation will <b>not arise</b> as CST concept is being eliminated with introduction of IGST.
4	Tax burden	Tax burden on tax payer is high.	Tax burden is expected to reduce since all taxes are integrated
5	Cost Burden on Consumers	Due to presence of cascading effect, certain taxes become part of cost.	As GST mechanism removes such effect by providing credit, cost burden is reduced.
6	Concurrent Power	No such power to both Centre and State on same subject tax matter	Both Centre and State are vested with the power to make law on GST by virtue of proposed Article 246A of the Constitution
7	Tax Compliance	Complex because of multiplicity of laws and their provisions to be followed.	Easier as only one law subsuming other taxes need to be followed
8	Transparent Tax Administration	Presently, tax is levied at two stages in broad manner i.e. 1. When product moves out of factory. 2. At retail outlet.	GST is to be levied only at final destination of consumption and not at various points - This brings more transparency and corruption free tax administration.

- **GST Working System**



#### IV. OPPORTUNITIES OF GST IN INDIA

##### Elimination of Multiple Taxation

The main aim of the GST is to abolish the cascading effect on tax. The current system allows imposing tax on tax. For example, when a manufacturing company produces a product, the manufacturer should pay excise duty to the Central Govt for this product release from that factory. When the same product sold in the same state then VAT has to be paid to the State Govt. This is called cascading effect.

##### Reduce the price of goods and services

GST help to eliminate cascading effect of tax. It lead to reduction in prices of goods and services for the customers.

##### Low procedure cost and compliance cost

Under GST system, both CGST and SGST have single registration and a single compliance. So the maintenance of big records, returns and reporting under various statuses are very easy. That means, here the simplification of tax structure by making the administration uniform across state.. But

they should keep record of SGST, CGST and IGST.

### **Increase in Govt revenue**

GST help to widen the tax base by way of the payment of tax by people without evading the tax, encouraging the distribution of selling goods or service with invoice...etc.

### **Boost up Economic Growth**

Introduction of GST help the Indian economy to boost up their economic growth by way of producing the product at competitive price for domestic and international market and increasing the saving rate.

### **Easy for doing business**

GST abolish all indirect taxes and establish a single tax system. It will remove the worries about taxation. This will facilitate business community to focus on supply chain, pricing modalities, business innovations rather than the taxation.

### **To develop harmonization**

The government recognized the need for harmonization of goods and services tax so that both Central and State Govt taxes can be levied in a comprehensive and rational manner in a new taxation regime – it is called, Goods and Services Tax (GST).

## **V. CHALLENGES OF GST IN INDIA**

- **Lack of Political Consensus**  
One of the main challenge is the lack of political consensus. Because the bill has not been enacted even after 8 years of its announcement due to the lack of political will.
- **Lack of Infrastructure**  
The proper implementation of GST demands standardized procedure and efficient information technology infrastructure. The GST cannot implement without a well-designed and well-functioning Information Technology system. IT facility should be needed in both Central level and State level in a harmonic manner
- **Sector specific Issues**  
GST affect both positively and negatively, the all sectors. Each sector such as construction, information, transport and logistics, small & medium enterprises. etc. have their own issues needed to be resolved.
- **International Experience**  
GST is always implemented in Canada, New- Zealand, Australia and Thailand. International experience on GST

implementation suggests that dual tax model of GST is not effective enough for the growth and prosperity of overall economy. India is going to adopt dual model for its own compulsion for its own compulsion. Here we should remember the negative aspects which affect our development of the country.

- **Nature of taxes**  
Generally, GST includes some taxes such as excise duty, countervailing duty, cess, service tax, and state level VATs among others. But, there are numerous other states and taxes that would be still out of GST.
- **Other Challenges**
  - Calculation of revenue base of Centre and State to decide Revenue Neutral Rates (RNR)
  - Compounding limits
  - Threshold limits
  - List of exemptions and holidays
  - Chance to tax evasion
  - Scarcity of professionals

## **VI. CONCLUSION**

GST is a reform perhaps unprecedented in modern global tax history. With the implementation of GST, the tax payers will have a relief as they are likely to get free from the requirement of multiple compliance under various states, as the proposed GST regime provides for a single registration and a single return. And also after the implementation of GST in India, GST is not only a complex but also inefficient and opaque and characterized by non-credibility of taxes paid either due to restrictions in the law or because there is no clear-cut division between central and state levies.

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