Abstract

A paradigm shift in the world of tax administration has brought Goods and services tax in replacement of VAT. The broad objectives behind introducing a comprehensive GST in India is to harmonise and consolidate multiple indirect taxes in India and make India a common national market by widening the tax base and cutting down exemptions; mitigate cascading and double taxation and promote voluntary compliances through the lowering of overall tax burden on business and end consumers. The current system will bring the uniformity and transparency to all the players than the previous indirect tax regime. An attempt is made to understand the concept and the mechanism of GST. Input Tax Credit (ITC) which is the backbone of the GST regime has been conversed with the help of an example for the better understanding. The paper also discusses the rationale of GST including the benefits accruing to the various sectors of the economy and the challenges which need to be addressed by the economy in short term and long term.

I. INTRODUCTION

Taxes are the only means for funding the public goods because they cannot be priced appropriately in the market. The Public goods being non-rival and non-excludable can only be provided by the government which are funded by taxes. The tax regime is designed in such a way that it does not become a source of spin in the market or result in market failures. The tax laws should be such that they raise a given amount of revenue in
an efficient, effective and equitable manner, hence achieving the economic development of the country. The GST (Goods and services tax) which has been imposed on July 1, 2017 has changed the whole scenario of current indirect tax system. The immense phase in India’s effort to improve its ranking in the World Bank’s ease of doing business index was passed by the Lok Sabha on 8th August 2016. The GST has restructured the indirect tax structure by incorporating majority of indirect taxes like excise, sales and services levies. A well-designed GST in India is expected to simplify and rationalize the current indirect tax regime, eliminate tax cascading and put the Indian economy on high-growth path. The GST levy expects to potentially impact both manufacturing and services sector for the entire value chain of operations, namely procurement, manufacturing, distribution, warehousing, sales, and pricing.

“According to Fiscal Responsibility and Budget Management Report (FRBM), in the coming years, the GDP ratio is likely to increase by 2%.”

GST will assist the economy to develop in more efficient manner by refining the tax collection as it will dislocate all the tax barriers between states and integrate country via single tax rate. GST was first introduced by France in 1954 and now it is followed by more than 140 countries. Most of the countries followed unified GST while country like Canada follow a dual GST system where tax is imposed by central and state both. In India also dual system of GST is implemented where taxes are shared by the centre and the state according to pre-agreed principles.

II. LITERATURE REVIEW

- Vasanthagopal (2011) in the article GST in India: A Big Leap in the Indirect Taxation System deliberated the impact of GST on various sectors of the economy. The whole paper focused on these elements and how they would be affected with the implementation of GST.

- Kumar (May 2014) in the article “Goods and Service Tax in India-A way forward” and found that GST will be levied on all the goods and services except those exempted. The dual model of GST will be adopted which will include Central GST (CGST) collected by Center and State GST (SGST) collected by State. Central tax such as Central excise tax, additional excise duty, service tax, surcharges, countervailing duty, special additional duty of customs and state tax such as VAT/Sales tax, entertainment tax, luxury tax, taxes on lottery, betting and gambling, state cesses and entry tax not in lieu of Octroi to be subsumed. GST will not be charged on exports, it will only be charged on imports and Input Tax Credit will be available on the GST paid on import on goods and services. The advantages discussed in the paper were higher revenue efficiency, easy compliance, and reduction of prices, improved competitiveness and better control on leakage.

- Taqvi, (May 2013), Challenges and Opportunities of Goods and Service Tax (GST) in India. The author introduced the concept of GST and also explains the objectives, features, opportunities, challenges and benefits of the GST.
Shah (2014) analysed that GST is set to assimilate state economies and boost overall growth by removing tax barriers between states and low tax rate by increasing tax base and curtailing tax exemptions through proposed GST Model.

III. RESEARCH PROBLEM
The enactment of the Goods and Service Tax (GST) in July 2017 has transformed the India’s tax regime and made the system more transparent and more paperless. The research aims to focus on understanding the concept of goods and service tax, rationale of GST and its impact on the Indian economy.

IV. OBJECTIVES OF THE STUDY
- To understand the concept and mechanism of GST.
- To compare of tax under earlier indirect tax system and GST.
- To study the Rationale of GST.
- To understand the concept of input tax credit.
- To examine benefits of GST on various sectors of the economy.

V. RESEARCH METHODOLOGY
The research is to undertake a theoretical analysis and practical applications of GST as a tax reform. The study focuses on broad study of Secondary data collected from various books, newspapers, National & international Journals, government reports, publications from various websites which focused on various facets of Goods and Service tax.

VI. MECHANISM OF GST
The introduction of GST in India is not an entirely new initiative, but to rectify various anomalies of VAT (Value added tax). It is an attempt to improve the existing VAT system further and to develop the comprehensive indirect tax reform in the country. VAT was introduced in the Indian taxation system from April 1, 2005 in an effort to address the issues with the earlier Sales Tax. The States substituted a multiple point Sales tax to a Value Added Tax (VAT) covering all transactions of sale of goods within the State. The present system of GST is to correct certain shortcomings of VAT like, the way it taxes inputs and outputs, bringing services under tax net, which was not implied under the VAT system. Hence, GST has been modelled as an extension of the current VAT that would make the tax system more complete and smoother in its working.

The GST merged all existing taxes of the state and Centre under one value added tax, which would be levied on all goods and services. All the goods and services including inputs and the finished products come under the GST. The tax paid on input tax would be deducted from the tax paid on the output produced and it continues from manufacturing stage to the distribution stage. Tax would be collected only at the place of consumption. This system of tax discourses the problem of cascading of taxes.
Below given table explains the basic operation of GST and for better understanding compares the taxation under the earlier system and the GST.

### Table 1: Example for Comparison of tax under the earlier indirect tax system and the GST regime

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Current System</th>
<th>GST</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of raw material</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Tax on raw material @10%</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Value added by manufacturer</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Tax payable by manufacturer</td>
<td>2 (CENVAT – 10% of 20)</td>
<td>2 (GST – 10% of 20)</td>
</tr>
<tr>
<td>Retailer’s cost</td>
<td>132</td>
<td>132</td>
</tr>
<tr>
<td>Value added by the retailer</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Tax payable</td>
<td>15.2 (Sales tax - 10 % of 152)</td>
<td>2 (GST - 10% of 20)</td>
</tr>
<tr>
<td>Final price paid including Taxes</td>
<td>167.2</td>
<td>154</td>
</tr>
<tr>
<td>Total taxes</td>
<td>27.2</td>
<td>14</td>
</tr>
</tbody>
</table>


In this example, the cost of the raw material is 100. The manufacturer and retailer add Rs 10 value each. The tax rate is assumed to be 10% for all taxes.

- **Current tax regime**: Both Excise and Sales Tax are a VAT system, but the set off for taxes paid is not relevant across these taxes. Therefore, sales tax is applicable to the excise duty (CENVAT) paid. Thus, tax paid is 12 (excise) plus 15.2 (sales tax). Here there is ‘tax on tax’ effect where the final selling price not only has two taxes, but also a tax-on-tax.

- **GST regime**: There is a single tax with input credit. This means that each person pays tax only on the value added by him. Consequently, the total tax is less (tax is 14), resulting in a lower price of the good. This comparison makes it clear that with the implementation of GST, the ultimate consumer will get the goods and services at a lower price.

![Figure 1: Model of GST](image-url)
Goods and Service Tax model creates an audit-trail of value chain across the income and production chain. With this reform the Indian products will become more competitive in domestic and international market. GST regime which merged indirect taxes under a single taxation regime is expected to help broaden the tax base, increase tax compliance and reduce economic distortions caused by inter-state variations in taxes. The simple model of GST can be summed in the following diagram

6.1 Concept of IGST, CGST, UTGST and SGST.

Since GST subsumed both indirect taxes of central government (excise duty, service tax, custom duty, etc.) and state governments (VAT, Luxury tax, etc.), both the government now depend on GST for their indirect tax revenue. Therefore the GST rate is composed of two rates, one of CGST and other of SGST. Therefore, while making an intra-state sale (i.e., sale within the same state), CGST collected will go to the central government and SGST collected will go the respective state government in which sale is made. UTGST is more or less similar to SGST. In a state, SGST will be applicable while in an union territory UTGST will be applicable. GST is a consumption based tax i.e.; the tax should be received by the state in which the goods or service are consumed not by the state in which such goods are manufactured.

The GST to be levied by the Centre on intra-State supply of goods and/or services is Central GST (CGST) and that by the States is State GST (SGST). On inter-state supply of goods and services, Integrated GST (IGST) will be collected by Centre. IGST will also apply on imports.

GST is a consumption based tax i.e. the tax should be received by the state in which the goods or services are consumed and not by the state in which such goods are manufactured. IGST is designed to ensure seamless flow of input tax credit from one state to another. One state has to deal only with the Centre government to settle the tax amounts and not with every other state, thus making the process easier.

For e.g.: – “Mr A”, a dealer in Punjab sold goods to “Mr B” in Punjab worth Rs. 20,000. The GST rate is 18% comprising of CGST rate of 9% and SGST rate of 9%, in such case the dealer collects Rs. 3600 and Rs. 1800 will go to the central government and Rs. 1800 will go to the Maharashtra government.

Now, if “Mr. A” in Punjab had sold goods to “Mr. “ in Gujarat worth Rs. 1,00,000. The GST rate is 18% comprising of CGST rate of 9% and SGST rate of 9%. In such case the dealer has to charge Rs. 18,000 as IGST. This IGST will go to the Centre.

As clear with example given above, if inter-state sales (i.e., sale from one state to another state) are made then the seller will charge IGST in place of CGST + SGST. The exporting State will transfer to the Centre the credit of SGST used in payment of IGST. This way the exporting state will not get any revenue from tax. The Centre will transfer to the importing State the credit of IGST used in payment of SGST. This way the importer’s state will get the full amount of SGST. This way any tax earned by exporting state in such goods is transferred to the importing state. And the net result is that the Central government and importing state both get their respective shares.
6.2 India has adopted dual GST

The centre and state taxes which have been merged in the new tax regime is given in the following table.

<table>
<thead>
<tr>
<th>Centre Taxes</th>
<th>State Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Tax</td>
<td>VAT</td>
</tr>
<tr>
<td>Central Excise Duty</td>
<td>CST</td>
</tr>
<tr>
<td>Additional Custom Duty</td>
<td>State cess and surcharges</td>
</tr>
<tr>
<td>Special Additional Duty of Customs</td>
<td>Octroi and entry tax</td>
</tr>
<tr>
<td>Central Cess and surcharges</td>
<td>Purchase tax</td>
</tr>
<tr>
<td></td>
<td>Luxury tax</td>
</tr>
<tr>
<td></td>
<td>Lottery and gambling tax</td>
</tr>
<tr>
<td></td>
<td>Entertainment Tax</td>
</tr>
</tbody>
</table>

*Source: The constitution (122nd Amendment) Bill, 2015*

**VII. EMPIRICAL ANALYSIS**

7.1 Main features of GST

- GST is applicable on supply of goods or services as against present concept of tax on the manufacture or on sale of goods or provision of services.
- It is a dual GST: Centre and State simultaneously levying it on common base.
- Integrated GST on inter-state supply of goods/services collected by Centre.
- Import of goods and services are treated as inter-state supply of goods and series and subject to IGST.
- Goods and Services Tax Network (GSTN), jointly set up by the Central and State Governments provided shared IT infrastructure and services to the Central and State Governments, tax payers and other stakeholders.
- A taxpayer or exporter would have to maintain separate details in books of account for availing, utilization or refund of Input Tax Credit of CGST, SGST and IGST.
- GST has exempted electricity, real estate, alcohol and petroleum products.
- There are different slabs of the tax rate for different goods and services.

7.2 India & others on GST

India has chosen the Canadian model of dual GST as it has a federal structure where the Centre and states have the powers to levy and collect taxes. European countries have one rate of GST as they are the developed economies and have lesser poverty, unlike in India, where families cannot be burdened with the same tax as the rich persons.

<table>
<thead>
<tr>
<th>Countries</th>
<th>GST</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>13 to 15%</td>
</tr>
<tr>
<td>France</td>
<td>20 %</td>
</tr>
<tr>
<td>UK</td>
<td>20 %</td>
</tr>
<tr>
<td>New Zealand</td>
<td>15 %</td>
</tr>
<tr>
<td>Malaysia</td>
<td>6 %</td>
</tr>
<tr>
<td>Singapore</td>
<td>7 %</td>
</tr>
</tbody>
</table>
In India, the GST council has come out with a rather unwieldy five-rate structure: 0%, 5%, 12%, 18% and 28%. To protect existing government (both central and state) revenue nearly 60% of all goods under GST will be taxed at either 18% or 28%. This is also why key petroleum products and alcohol have been kept out of the domain of the GST. Both bring in huge amounts of revenue at the Centre and state level and keeping them out allows governments to continue with constant tinkering to fill gaps in future budgets. As India’s poor needed to be protected, there is 0% and 5% tax bracket and 30% of the CPI basket and essential services are exempt. In comparison with emerging market economics (EMEs), India has highest rate of GST at 18% - with major commodities falling under this rate. EMEs like China and Brazil have their most of commodities falling under the tax rate of 17%, 10% respectively. However, some of the developed countries like s like France, Germany and United Kingdom have higher GST rates set between 19 – 20%.

VIII. KEY FINDINGS

8.1 Rationale for GST
The GST implementation will be disruptive in the short run as there will be a major change in the supply chain, but it will be beneficial to the economy in the medium to long term. While GST is unlikely to be a “constructive” for economic growth in the short term, the reform will improve the ease of doing business, encourage investor sentiment and pull more foreign investment in coming years. Exports will become competitive as the GST rule will eliminate the cascading impact of taxes. GST will lead to the formation of a unified market, which would allow seamless movement of goods across states and shrink the transaction cost of businesses. For example, Truck drivers in India spend 60 per cent of their time off roads negotiating check posts and toll plazas. 11 categories of taxes are levied on the road transport sector. The GST will help reduce the logistical costs.

Under the GST, manufacturers will get credits for all taxes paid earlier in the goods/services chain, thus incentivising firms to source inputs from other registered dealers. This could bring in additional revenues to the government as the unorganised sector, which is not part of the value chain, would be drawn into the tax bracket. To claim input tax credit, each dealer has an incentive to demand documentation from the dealer behind him in the value-added/tax chain. The supplier, because of the paper stream left by the GST, knows that his evasion will be more likely to be detected once his client is audited. Experts say that GST will expand tax compliance. Also, the service tax rates have shot up from the current 15 per cent to 18 per cent. This has led to fears that inflation could rise in the short term. GST threshold limit, (which exempts businesses from GST) is equal to an annual turnover of less than Rs 20 lakh. GST inherently increases formalisation in India’s economy, whether small businesses are ready for it or not. Industries, like textiles and clothing, that have historically paid little tax (whether in
the form of duty or VAT) now have a formal GST rate and will have little choice but to start registering and digitising their business.

India Inc will have to restructure their businesses as the country switches to the GST regime, which will bring in more small companies into the tax net. Companies will now insist vendors and suppliers to give invoices as GST will make it impossible for firms to evade taxes. GST should expedite a shift from unorganized to organized trade.

Analysts have no doubt that inflation will remain low as GST rates on essential goods such as food grain, household consumer items and essential services have been either exempt or kept lower. Most of the services are not accounted in the consumer price CPI inflation basket and hence the higher GST rates may not get reflected on the retail price movement as measured by the government data. Most economic analyses have indicated that the new GST rates should not materially impact inflation. Day-to-day essentials are largely exempt from GST (up to 30% of the CPI basket of goods and services are exempt). “Services sector component in CPI is around 20%, whereas they account for almost 50% of the total consumption basket in the economy.” There are services like health, education, miscellaneous segment, transportation are outside the ambit of GST. Hence, GST implementation on CPI impact will be minimal. GST legal framework creates an “anti-profiteering authority” that will check whether businesses are passing on the benefits of the new tax regime to consumers.

Under what economic rationale does GST’s fitment committee justify keeping cashews and raisins at 5% but almonds and other nuts at 12%? Why soaps and hair oils at 18% but detergents taxed at 28%? Moviegoers will pay 18% GST if they buy movie tickets priced under Rs 100 but 28% if they choose to opt for better seats (priced above Rs 100).

GST is an important move, it will improve ease of doing business. The government has said it is revenue-neutral GST. The government is not earning additional revenue. The two big areas where we need more improvement over time are further simplification of the structure and lowering the number of taxes and cesses over time and also widen the base. Alcohol, petroleum, land and real estate, health, education, and power sectors need to be included over time.

Relatively, compared to the older system, there has been a huge improvement in complexity, much greater uniformity. On the inflation challenge, it is expected that even in the short run, anxiety is overdone for two reasons, one that, the actual incidence of taxes after you take into count input tax credit and so on is going to be actually substantially lower in the GST than what we have today. So, incidence we expect that there should be a downward bias to prices.

The second less recognised aspect of it which is kind of a bit quirky, is that in the run-up because people are disposing of stocks, that is also having a kind of nice dampening effect on prices. So, in the short run for both of these reasons as well the bias should be towards downward prices rather than upward biases. The next very important thing to keep in mind from a perception point of view which is something that all of us have to work towards is the following: 1) Before the GST, the tax payer only saw the VAT (value
added tax) but embedded in his prices is the excise tax. Going forward, he will see both and he will think you have gone from 12.5% VAT to 18% combined but in fact the actual embedded and incidence today was also 18%.

What is going to happen on growth in the short run is going to be determined by two things. One, how quickly we can see through the GST challenges, is it two months, three months, four months, we still don’t know. We know there will be challenges, we know there will be glitches and we will have to work through them. So, in the short run that is certainly going to increase uncertainty and may have some impact on investment and consumption and growth. However we think that the growth outlook in the short and medium term will be determined by a lot more than just the GST. There are lots of things happening in the economy. But the GST impact on growth will probably be relatively smaller element. What is going to determine growth is what is happening on the broader macroeconomic front.

It is a big improvement from what we have today because today for any one product in India you did not have the same rate across all of India. Going forward with GST you are going to have one product, one rate by the centre, the same rate by all the states. So, much more uniformity may be seen in the near future. Also fewer rates than what we have today but relative to what we would have liked it is not there yet but the way to think about this is that in the GST council do we have a deliberative, democratic mechanism than can get us to those simpler rates and also get us to reducing the omissions from the tax base, the gaps in the tax base, whether it is land in real estate, alcohol, petroleum, health, education, power, those are also things that I think the GST council has to work towards to improve going forward.

Till now, there were multiple and complex set of taxes that differed across states. This was a deterrent in establishing and expanding business. By replacing a really messy system of indirect taxation, it will be easier for firms to do business across the country. This will increase investment and, through that, growth in the country. With added growth, welfare of citizens will rise. This is the strongest argument favouring the implementation of GST.

However, GST has two different components: state GST (SGST) and central GST (CGST), and a firm has to pay one to the state tax authority (authorities, if it does business in multiple states), and one to the central tax authority. An important aspect of this transformation of tax system is that individual states will no longer be able to change their tax rates. The tax rates will be decided by the GST Council, which has representation from all states and the Centre. Goods and Service Tax (GST) is a comprehensive tax levy on manufacture, sale and consumption of goods and service at a national level under which no distinction is made between goods and services for levying of tax. GST is a tax on goods and services under which every person is liable to pay tax on his output and is entitled to get input tax credit (ITC) on the tax paid on its inputs (therefore a tax on value addition only) and ultimately the final consumer shall bear the tax.
8.2 The benefits of GST can be summarized as under:

A) For business and industry:-

- **Ease of compliance**: A strong and complete IT system would be the foundation of the GST regime in India. Almost all tax payer services such as registrations, returns, payments, etc. would be available to the taxpayers online. This would make compliance easy and clear.

- **Uniform tax rates and structures**: GST will ensure a common indirect tax rate and structure across the country. In other words, GST would provide an environment of doing business in the country i.e. tax neutral, irrespective of the place of business.

- **Elimination of cascading effect**: A system of seamless tax credits throughout the value chain would ensure that there is minimal cascading of taxes. This is one advantage over the earlier system of VAT.

- **Enhanced competitiveness**: Reduction in transaction costs of doing business would ultimately lead to an enhanced competitiveness for the trade and industry.

- **Gains to manufacturers and exporters**: The subsuming of major Central and State taxes in GST, complete and comprehensive setoff of input goods and services would reduce the cost of locally manufactured goods and services. This will upsurge the competitiveness of Indian goods and services in the international market and give a lift to Indian exports.

B) For Central and State Governments:-

- **Ease of administration**: Multiple indirect taxes at the Central and State levels are being swapped by GST. Backed with a vigorous end to end IT system, GST would be simpler and easier to administer than all other plethora of indirect taxes of the Centre and State imposed so far.

- **Better check on leakage**: Due to the seamless transfer of input tax credit from one stage to another in the chain of value addition, there is a self-policing mechanism in the design of GST that would incentivize tax compliance by traders.

- **Higher revenues**: GST is projected to decrease the cost of collection of tax revenues of the Government, and will therefore, lead to higher revenue efficiency.

C) For the consumer:-

- **Single and transparent tax** equivalent to the value of goods and services: Due to multiple indirect taxes being levied by the Centre and State, with incomplete or no input tax credits available at progressive stages of value addition, the cost of most goods and services in the country today are laden with many hidden taxes. Under GST, there would be only one tax from the manufacturer to the consumer, leading to transparency of taxes paid to the final consumer.

- **Relief in overall tax burden**: Because of efficiency gains and prevention of leakages, the overall tax burden on most commodities will come down, which will benefit consumers.
**Decrease in price of products**: GST will be charged at the manufacturing cost and collected at the point of sale, which means that the price will come down that will benefit the consumers. Once the prices come down, the consumption of consumers will increase which will benefit the companies.

**Long term Benefits to consumers**: It is translucent as the entire tax paid is visible on the invoice, provides better accessibility of products as supply chain bottlenecks are reduced and makes choices simple as there is uniform taxation in all states. Given that GST would incentivise manufacturing by reducing cascading of tax and cost of doing business, market forces will ultimately drive down the prices of most consumer products. Also, as unorganised sector shrinks, it should lead to tax buoyancy for the government, not only for GST but for income tax as well. It should then bring down the GST rates further over the next two-three years.

### 8.3 Inputs Tax Credit

Input Tax Credit (ITC) is the mainstay of the GST regime. Inputs refer to raw materials or services that a manufacturer procures or avails in order to manufacture a product or services which is the output. The taxes that a manufacturer pays while buying the raw material or services, are known as input tax and similarly the tax collected on the sale of the product or service is called the output tax. Given that GST is charged on both goods and services, input credit can be also be availed on both goods and services. Credits of input taxes paid at each stage will be accessible in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at every stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with tax credit benefits at all the previous stages.

**Let take the example to understand the concept of input tax credit system:**

A manufacturer has manufactured a pressure cooker for which he bought raw steel worth Rs 1000. The additional raw materials which he purchased amounted to Rs 100. Assume GST for steel is 18% and on the other raw materials is 28%.

The GST amount which the manufacturer will pay on steel will be Rs 180 and Rs 28 on the other raw materials. So the total amount of input tax paid by the manufacturer is Rs 218.

After taking into account the cost of making a pressure cooker out of the raw materials and including a reasonable profit, the manufacturer decides to sell it to a distributor at Rs1500 plus GST (which is assumed to be 18%)

Now the tax comes out to be Rs 270 (18% of 1500) which invoice the product for Rs 1770.

The manufacturer will collect Rs 270 towards GST from the distributor on sale.

Now the manufacturer had already paid Rs218 as GST at the time of purchasing the raw materials. So, out of the total Rs270 of GST collected by him, the manufacturer can claim credit of Rs218 that he has already paid for inputs. And deposit the difference (Output tax less input tax) i.e. Rs 52 with the government.
Input Credit Mechanism is available under the GST Act. To claim input credit under GST one must have a tax invoice (of purchase) or debit note issued by the registered dealer. So every input credit one is claiming should be matched and validated with the data of GSTN. So, summarising with the following:

If tax on inputs > tax on output —> carry forward input tax or claim refund
If tax on output > tax on inputs —> pay balance

The above functioning is explained through the following diagram:

**Dual GST Within State: Working Example**

![Diagram showing dual GST example](source)

### 8.4 Challenges for GST

1. Different Slabs
2. Short Term Problems
3. Anti-Profiteering Requirement
4. Pool Of Litigation
5. Exemptions

It doesn’t include alcohol and petroleum products which would lead to suffering of huge losses on account of tax revenues. It requires strong base of IT infrastructure which is not highly developed in India. Single GST rate would be high compared to individual indirect tax rate. In reality, it might result in a dual tax system in which both state and the Centre would collect tax separately. Dealers paying VAT in the state will be required to pay GST at the Centre + Sudden implementation of GST might create confusion to the common man. Different slabs in GST may be reason for discrepancy against various product definitions. The government insists GST will decrease tax-related litigation. But for lawyers who recall McDonald’s Corp.’s 12-year legal saga to have soft-serve ice...
cream classified a tax-exempt dairy product, and not ice cream which attracted a 16% duty, the potential for years of billable hours is plain to see. Implementation of GST resulted in de-stocking and supply chain disruption in various sector. An adverse impact on production cycle was largely expected but as the companies get familiar with the new tax regime, the process will restore once the restocking begins. The Government agencies should take all efforts to increase internet facility in the remote areas and capability of the portal to take load across the country. Training to staff, assesses about the provisions of GST in every corner of the country is essential. More confidence should be entrusted on the tax payers. The old attitude of looking at the tax payers as “Evaders” should be given up and a healthy atmosphere should be created and developed.

IX. CONCLUSION

GST will integrate the Indian markets and motivate economic activities, potentially leading to an increase in GDP growth. This uniform tax rate for both goods and services will lead to a synchronized system in terms of process and procedures between CGST/IGST/SGST laws. It will lead to drop in multiplicity of taxes along with mitigation of cascading/double taxation leading to development of common national market. The Co-ordination between the Centre and the state only can help in its proper execution and implementation. All sectors of the economy will be affected with GST whether individual, industry, trade, government departments, service sector, professionals, importers etc. It is a simple mechanism yet can upturn economy compared to the previous systems. It is ready to integrate state economies and lift the overall GDP as it reduces the tax burden making single unified Indian market with growth dynamics and strong economy. More important, from the businessman and consumer perspective, this change is going to have substantial impact on the business as well as cost to consumers depending upon the structure of the business and location of business and consumer. In the long run it is expected that the rate for goods would be lower than it is now in average by 3-4 %. GST will significantly improve the competitiveness of indigenous goods and services leading to accelerated GDP growth. To conclude, for a country of our size, migrating to a unique and customized GST regime is nothing less than historic. Though beneficial in the long-term, a run up to GST implementation has led to short-term supply-chain disruption. Complex rules and rate structures are sure to increase the compliance burden, especially for small and medium companies and the verdict is still awaited whether GST will really improve the ease of doing business in India.

X. REFERENCES


TO CITE THIS PAPER