PUNJAB STATE CIVIL SERVICES MAIN EXAM

Goods and Services Tax

The **Goods and Services Tax (GST)** is a value added tax to be implemented in India, the decision on which is pending. It will replace all indirect taxes levied on goods and services by the Indian Central and State governments. It is aimed at being comprehensive for most goods and services.

India is a federal republic, and the GST will thus be implemented concurrently by the central and state governments as the Central GST and the State GST respectively. Exports will be zero-rated and imports will be levied the same taxes as domestic goods and services adhering to the destination principle.

History in Parliament and Empowered Committee

It is considered to be a major improvement over the pre-existing central excise duty at the national level and the sales tax system at the state level, the new tax will be a further significant breakthrough and the next logical step towards a comprehensive indirect tax reform in the country.

Keeping this overall objective in view, an announcement was made by Shri Palaniappan Chidambaram, the Union Finance Minister, during the central budget of 2007–2008 that it would be introduced from April 1, 2010 and that the Empowered Committee of State Finance Ministers, on his request, would work with the Central Government to prepare a road map for introduction of GST in India.

After this announcement, the Empowered Committee of State Finance Ministers decided to set up a Joint Working Group on May 10, 2007, with the Adviser to the Union Finance Minister and the Member-Secretary of Empowered Committee as co-convenors and the concerned Joint Secretaries of the Department of Revenue of Union Finance Ministry and all Finance Secretaries of the states as its members. The Joint Working Group, after intensive internal discussions as well as interaction with experts and representatives of Chambers of Commerce and Industry, submitted its report to the Empowered Committee on November 19, 2007.

This report was then discussed in detail in the meeting of Empowered Committee on November 28, 2007. On the basis of this discussion and the written observations of the states, certain modifications were made, and a final version of the views of Empowered Committee at that stage was prepared and was sent to the Government of India (April 30, 2008). The comments of the Government of India were received on December 12, 2008 and were duly considered by the Empowered Committee (December 16, 2008).

Outcomes of the Empowered Committee Report

It was decided that a committee of Principal Secretaries of the states would be set up to consider these comments and submit their views. These views were submitted and were accepted in principle by the Empowered Committee on January 21, 2009. A working group, consisting of the concerned officials of the State Governments was then formed and submitted their recommendations in detail on the structure of the GST in close association with senior representatives of the Government of India.

An important interaction took place between Shri Pranab Mukherjee, the then Union Finance Minister, and the Empowered Committee (October 19, 2009) on the related issue of compensation for loss of the states. The Empowered Committee took a detailed view on the recommendations of the Working Group of officials and other related matters. This detailed view of the Empowered Committee on the structure of GST is now presented in terms of the First Discussion Paper, along with an Annexure on Frequently Asked Questions and Answers on GST, for discussions with industry, trade, agriculture and people at large.

The discussion paper is divided into four sections. Since GST would be further improvement over the VAT, Section 1 begins with a brief reference to the process of introduction of VAT at the Centre and the States and also indicates the precise points where there is a need for further improvement. This section also shows how the GST can bring about this improvement. Section 2 then describes the process of preparation for GST. Finally, Section 3 details the comprehensive structure of the GST model.

No taxing system can completely eradicate the effect of cascading, but implementation of GST, to a large extent, will minimize the effect. GST will provide a simple structure to levy, collect and administer the taxes in the Country.

Tax-Rate under the proposed GST

"World over, GST rates are typically between 16 per cent and 20 per cent. In India, it is likely to be the same," CBEC Chairman Sumit D Majumdar said. The tax-rate under the proposed GST would come down, but the number of assesses would increase by 5-6 times. Although rates would come down, tax collection would go up due to increased buoyancy. The government is working on a special IT platform for smooth implementation of the proposed Goods and Services Tax (GST). The IT special purpose vehicle (SPV) christened as GST N (Network) will be owned by three stakeholders—the centre, the states and the technology partner NSDL, Central Board of Excise and Customs (CBEC) Chairman S Dutt Majumder said while addressing a "National Conference on GST". On the possibility of rolling out GST, he said, "There was no need for alarm if GST was not rolled out in April 1, 2012."

GST elsewhere

More than 140 countries have introduced GST in some form. It has been a part of the tax landscape in Europe for the past 50 years and is fast becoming the preferred form of indirect tax in the Asia Pacific region. It is interesting to note that there are over 40 models of GST currently in force, each with its own peculiarities. While countries such as Singapore and New Zealand tax virtually everything at a single rate, Indonesia has five positive rates, a zero rate and over 30 categories of exemptions. In China, GST applies only to goods and the provision of repairs, replacement and processing services. It is only recoverable on goods used in the production process, and GST on fixed assets is not recoverable.

There is a separate business tax in the form of VAT. For example, when the GST was introduced in New Zealand in 1987, it yielded revenues that were 45 per cent higher than anticipated, in large part due to improved compliance. It is more neutral and efficient structure could yield significant dividends to the economy in increased output and productivity. The GST in Canada replaced the federal manufacturers' sales tax which was then levied at the rate of 13 per cent and was similar in design and structure as the CENVAT in India. It is estimated that this replacement resulted in an increase in potential GDP by 1.4 per cent, consisting of 0.9 per cent increase in national income from higher factor productivity and 0.5 per cent increase from a larger capital stock (due to elimination of tax cascading). The Canadian experience is suggestive of the potential benefits to the Indian economy. This means gains of about US$ 15 billion annually. Discounting these flows at a modest 3 per cent per annum, the present value of the GST works out to about half a trillion dollars. This is indeed a staggering sum and suggests the need for energetic action to usher the GST regime at an early date. GST rates of some countries are given below.

Country	Rate of GST
Australia	10%
France	19.6%
Canada	5%
Germany	19%
Japan	5%
Singapore	7%
Sweden	25%
India	20%
New Zealand	15%

Renewed GST concerns

With heterogeneous State laws on VAT, the debate on the necessity for a GST has been reignited. The best GST systems across the world use a single GST while India has opted for a dual-GST model. Critics claim that CGST, SGST and IGST are nothing but new names for Central Excise/Service Tax, VAT and CST and hence GST brings nothing new to the table. The concept of value-add has never been utilised in the levy of service as the Delhi High Court is attempting to prove in the case of Home Solution Retail while under Central Excise the focus is on defining and refining the definition of manufacture instead of focusing on value additions. The Revenue can be very stubborn when it comes to refunds as the Maharashtra Government proves and software entities that applied for refunds on excess service tax paid on inputs discovered.

The all-new Cenvat Credit Rules, 2011 do little to clarify eligibility for input credits by using general terms such as “ any goods which have no relationship whatsoever with the manufacture of a final product” and “ services used primarily for personal use or consumption of any employee”. Before penning the GST Act and Rules, the Empowered Committee would do well to take a hard look at all the present laws that GST subsumes and their complexities. It could tempt them to rethink on the necessity to draft even the preamble

This change in the tax structure is going to have a huge impact in the currently supply chain of India. It is currently in sub-optimal and has been structured in such a fashion to avoid taxes. The supply chain tax structure of India can be broadly classified in the following categories.

Local sales tax period (Maximize CST movement)

- The system based on the efficiency of tax and not on logistics efficiency
- Ware houses places at borders to serve markets in other states
- Good sent in a roundabout matter increasing logistics cost but saving local taxes
- The figure shows the process pictorial. It makes the process complex to overcome the local taxes which used to be very high and CST was less.

Value added tax period (VAT)

- The main aim was to save the interstate sales tax, CST which was not recoverable.
- VAT can be set-off, CST cannot be.
- This led to the increase in the number of warehouses.
- Almost every state where you are selling must have a warehouse.
- Due to this their size reduced
- This led to higher movement of goods leading to an offsetting of the gains.
- Reduced the usage of large hubs and higher haulage trucks
- Demand variability increased due to the large number of hubs
- This led to locking-up of high capital in inventory
- The holding cost increased due increase in number of stores.

The general mechanism in which the material was being transferred in different states is shown pictorially below. This gives a clear indication that inter-state sales were avoided to save the CST. Finished goods are sent to godown/warehouse/depots in the state in which the finished good has to be sold. This has led to creation of a lot of small depots which are not operationally efficient.

The advent of GST

GST will bring about a change on the tax firmament by redistributing the burden of taxation equitably between manufacturing and services. It will lower the tax rate by broadening the tax base and minimising exemptions. It will reduce distortions by completely switching to the destination principle. It will foster a common market across the country and reduce compliance costs. It will facilitate investment decisions being made on purely economic concerns, independent of tax considerations. It will promote exports. GST will also promote employment. Most importantly, it will spur growth. The chart below pictorially represents the movement of goods after GST.

- Taxes which cannot be set off will reduce
- All India tax will be based on value added
- No value added implies no tax to be paid to the government
- Creation of a tax neutral supply chain.
- You follow any route; the tax given to the government will remain the same.
- Entry tax, Octroi etc. Will be there, but as is evident, these are also being slowly removed. This will make the supply chain perfectly neutral to taxes
- Efficiency of SCM will depend on the cost minimization of the following costs.

Logistics cost

- Carrying and forwarding agency costs
- Ware house fixed and variable costs
- Depot fixed and variable costs

The selection should be based on the following trades off which must be taken into consideration while designing the supply chain.

- Meshed design Vs Hub and spoke Vs combination
- Ware house capacity and depot capacity
- No of ware houses and no of depots
- Mode of transport on road(9 ton Vs 15 ton Vs 20 ton) and rail (Half rake, full rake, 2point rake)
- Safety stock
- Milk runs