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A Critical Appraisal of Goods and Services Tax in India

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ABSTRACT

The present paper attempts to make a critical appraisal of Goods and Services Tax (GST), implemented in India from 1st July, 2017. In addition to explaining the structure of GST in India as well as the tax rates under it, the present paper attempts to analyse the impact of GST on certain major industries or sectors within the Indian economy. Although GST has certain obvious advantages including exemptions and low compliance burden for small businesses, lower tax rates for mass consumption goods, increase in tax base and tax collections, etc., it is noteworthy, however, that GST has certain limitations as well. In spite of this, it must be accepted that GST has helped in ensuring a common Indian market through the elimination of multiplicity of taxes as well as ' tax on tax '. It is expected to accelerate economic growth, help generate more of employment opportunities, and lead to increased tax base as well as increased revenue generation.

Keywords: *GST; Destination based; Tax structure; Levy; Exemptions; Common market.*

1.0 Introduction

The introduction of Goods and Services Tax (GST) in India from 1st July,2017 marked the beginning of a new era of tax reforms in the economic history of India. The advent of GST in India has been the result of arduous negotiations and compromises reached between the Central Government and 29 States and Union Territories. This new system of indirect taxes has been brought into force through the 101st Constitution Amendment Act, 2016 that conferred simultaneous powers on the Parliament and the State legislature to pass necessary legislations for the levy of GST on goods and services.

The GST combined all Central and State taxes (such as VAT, CST, Service Tax, Excise Duty, Additional Customs Duty, etc.) into a single system of taxation of goods and services, thereby eliminating multiplicity of taxes and 'tax on tax', and thus heralding the onset of a common and unified market in India.

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The distinguishing feature of GST is that it is a destination based tax system in that taxes are imposed where goods are consumed and not from the production hub. Under the earlier system of taxation, multiple indirect taxes were charged on goods as such goods moved from the point of manufacture to their final destination for consumption purposes. Again, the rates of tax levied on such goods in the course of their movement varied across different States. It is significant to note that at present, uniform rates of tax are being levied for the same goods or services at the Central as well as State level under GST. Thus, GST will remove market distortions and ensure *that* India becomes a common market, and ensure a transparent and effective system of indirect taxes in India. It is expected to accelerate economic growth, generate more of employment opportunities, and result in higher tax revenues for the government due to increase in tax base as well as increased tax collections. In nutshell, it may be stated that GST may fulfil the economic aspirations of the government as it moves to transform India to a manufacturing, investment and research and development (R&D) hub, accompanied by significant increase in revenue generation.

2.0 Review of Literature

It would be worthwhile to make a review of available literature regarding various aspects of the implementation of GST at the national as well as international level. Raj (2017) suggested that the Government of India should study the GST regime in various countries and their fallouts before implementing it in India. According to him, GST system will be really effective in India only if there is a clear consensus over certain significant issues such as the threshold limit tax rates, inclusion of petroleum, liquor and other products or services within the ambit of GST, etc. More specifically, he suggested that the poor sections of the population in India must be protected against the inflationary effects of implementation of GST in India.

Mansor et al. (2013) attempted to explore GST as new tax reform in Malaysia, the justification for GST, the operational aspects of GST as well as readiness issues of GST in in Malaysia. According to him, GST would strengthen the Malaysian economy and enhance the quality of life of the public in general provided the initial weaknesses arising due to the implementation of GST in Malaysia are corrected so as to create a win-win situation for all the parties involved.

Palil and Ibrahim (2011) tried to study consumer readiness, perceptions and acceptance of GST in Malaysia and also studied the potential consumption behaviour of households in Malaysia if GST is introduced. As found by them, majority of respondents (65%) were not satisfied with the information provided by the government pertaining to the introduction of GST. In addition, 54% of the respondents were ready to confront the implementation of GST in Malaysia. The study further revealed that 67% of the respondents, on an average, perceived that GST would increase the cost of living in Malaysia. The analysis also showed low level of acceptance of GST with 30% of respondents disagreeing with the implementation of GST. Regarding the potential impact of GST on consumer behaviour, 51.3% of the respondents reported that their consumption behaviour remained unaffected despite the adoption of GST.

Desai and Hines (2005) considered the impact of GST on international trade and found that both openness and export performance are negatively related to the presence of GST as well as the consumer reliance upon it. A few other studies) Nellor,1987; Ebril et al., 2001) have also made an assessment of the revenue impact of GST adoptions in some countries.

Keating (2009) studied the GST system in Australia which came into effect on 1st July 2000 under 'A New Tax System Goods and Services Tax Act, 1999. As reported by him, the near absence of GST tax avoidance cases during the period of study (nearly a decade) indicates that the GST system is either working as intended or the ingenuity of taxpayers seeking GST benefits has not been detected by the tax authorities. In fact, the said GST Act contains a range of specific anti avoidance provisions to counter particular cases of tax avoidance.

Zurowski (2006) studied the GST system in Canada that was implemented in 1990 as a replacement for the federal sales tax. While the federal sales tax was a tax on manufacturers and was hidden in the cost of manufactured goods, the GST being a tax on consumption does not form part of cost of goods and services, leaving the ultimate burden of tax to consumers.

Sani and Yaakup (2016) attempted to study the determinants for efficacy of GST online trading among the University graduates of Malaysia, besides the relevance of a Bachelor in Taxation program that should be offered with a view to ensuring that sufficient tax practitioners are produced by Universities. As the results of the study indicated, 70.31 % of the respondents reacted positively towards the introduction of GST online trading while 79.00% of them responded positively towards the Bachelor in Taxation program. The findings of the study also pointed to the potential of GST online trading as a means of revenue generation for higher level institutions or Universities in Malaysia.

Bhatia (2017) has analysed the issues and challenges of GST regime in India, especially in regard to micro, small and medium enterprises (MSMEs). As observed by him, the specific benefits offered to such enterprises include threshold exemption under GS, Composite scheme, etc. while the challenges for such businesses involve the application of reverse charge mechanism, multiple registration requirement in certain cases, online filing of tax returns, onus on the buyer to check whether the seller has paid the GST or not, etc. According to the author, the complicated provisions contained in GST would affect the business of small dealers and businessmen quite significantly.

Shah (2017) viewed that the multiple tax rates for different products or services under GST and the input tax credit mechanism will ensure that the prices of goods and services need not be increased to accommodate the levy of GST. Thus the GST provisions in India have been specifically made to guard against inflationary trends as are being noticed in other countries adopting GST. Another special feature of GST is the Anti-profiteering clause under Section 171 of the Goods and Services Act, 2017, which compels businessmen to pass on the benefits of lower taxes under GST to consumers through the reduction of prices of goods and services.

Clark (1990) has discussed New Zealand's GST system implemented in 1986. Some of the essential features of GST in New Zealand include taxation of imports, zero tax rate on exports, input tax credit, non-existence of provincial sales taxes, etc. Inome tax rates in New Zealand were reduced by about 50% when GST was introduced, thus resulting in more of disposable income in the hands of families with lower levels of incomes.

Sankar (2017) analysed the impact and implications of GST for various industries within the Indian economy such as IT, telecommunications, pharmaceuticals, automobiles, financial services, textiles, real estate, etc. As viewed by the author, the implementation of GST will have positive impact on such industries as automobiles, real estate, cement, consumer durables etc. while it will have adverse impact on telecommunications, pharmaceuticals, financial services, etc. In addition, Shankar suggested certain follow-up measures to ensure the smooth implementation of GST in India: regular maintenance and follow up of GSTN portal, compensation to States for their loss of revenue, effective cooperation between the Central and State governments, etc.

Ahkong (1993) examined different aspects of implementation of GST in Singapore in 1994. More specifically, the author analysed the definition and scope of GST in Singapore, GST rate of 3% in Singapore vis-a-vis certain other countries, taxation of exports, input tax credit, exemptions to small businesses, registration formalities, objections, appeals, offences and penalties etc. As regards the justifications for GST in Singapore, the Singapore government has offered such explanations as the need to make the tax system fairer, broaden the tax base and lower direct taxes with a view to enhancing savings and investment within the economy.

Bowman and Sarangi (1991) discussed the GST treatment of non-monetary or fringe benefits provided by employers to their employee is in Canada. In fact, the total taxable benefit to the employee for income tax purpose will include the GST component if GST is leviable on such employee benefits (e.g. boarding and lodging, subsidised meals, prizes and awards, etc.). On the other hand, if the employee benefits are exempted from GST, such benefits will not include the GST component for income purposes (e.g. rent-free or concessional accommodation, medical insurance premium paid, employees' tuition fees paid, interest free or low interest loans, stock option benefits, etc.). It must be noted, however, that if the employer is not registered for GST, the employee benefits are not to be increased by the GST component for income tax assessment of the employee concerned.

As viewed by Dalvi (2016), GST in India will have positive impact on manufacturing, trading and service sectors, particularly due to the availability of input tax credit. However, sectors such as consumer durables, cement etc. will benefit through lower tax rates under GST as compared to the previous tax regime. In addition, it may be noted that the effective tax rates for pharmaceuticals, textiles, food industry etc. will rise under GST as against the earlier tax rate of 10%. Similarly, petroleum products such as crude oil, natural gas, motor spirit, high speed diesel oil etc. (having been kept outside the ambit of GST) will become costlier due to non-availability of input tax credit and compliances under both the tax regimes. According to Dalvi, GST is not only a tax reform but also a game changer having the potential to transform the manner in which businesses function in India.

Goyal (2017) has suggested that the taxpayers will face great technological challenges during the initial period of GST implementation. This has put a great deal of pressure on the IT industry to develop comprehensive solutions to facilitate the adoption of GST in businesses within the stipulated time frame. According to Goyal, all GSPs (GST Suvidha Providers) have come up up with innovative solutions such as publishing new articles on GST and its intricacies, conducting online courses on GST for small businesses, CAs and accountants, conducting weekly webinars, etc.

Natarajan (2017) discussed the problems and challenges associated with the implementation of GST in India such as increase in compliance requirements, increased tax cost, differential tax rates applicable to different software services, withdrawal of upfront exemptions to STPs and EOUs, registration of SEZ units, taxability of services mediated by IT over internet etc. In spite of these difficulties that may be encountered in the implementation process of GST, it is expected that domestic manufacturer, software and service providers will benefit tremendously from rationalised taxes under GST.

Similarly, the export industry is also expected to overcome initial problems and march on its growth agenda.

Gupta (2014) discussed different aspects of the proposed implementation of GST in India such as the roadmap for GST, GST Council, GST network, etc. As viewed by him, the integrated GST, once implemented across the nation, would help simplify tax administration, eliminate multiplicity of taxes and reduce distortions in indirect tax laws. According to Gupta (2014), the switch-over to GST in India will be a game-changer that would significantly enhance tax revenues, accelerate economic growth and lead to the generation of several positive externalities.

Gupta (2016) emphasised the need to move to GST in view of several loopholes in the existing tax system. As viewed by him, GST will ensure certain benefits for the Indian economy such as common national market, rationalisation of tax structure, increased tax revenues and investment, faster economic growth, etc. More specifically, GST is expected to benefit such sectors as e-commerce, information technology (IT), small and medium enterprises, banking and financial services, fast moving consumer goods (FMCG), etc. It must be noted, however, that Gupta pointed out some major challenges to be faced in the implementation of GST- dual GST model, multiple rate structure, compliance problems for small businesses, threshold for registration, multiplicity of statutes, etc.

Gupta (2017) studied the functioning of GST/VAT in six ASIAN countries (such as Philippines, Indonesia, Singapore, Vietnam, Thailand and Malaysia) and compared it with the GST regime in India. While the implementation of GST/VAT led to increased tax revenue and better tax administration in developed ASIAN countries like Singapore, it was observed that developing ASIAN countries such as Philippines, Indonesia, Vietnam, Thailand and Malaysia witnessed an increase in their indirect tax revenue but faced administrative as well as compliance problems. Gupta suggested that India should learn from the experiences of ASIAN countries with a view to facing the challenges arising from the implementation of GST, especially with regard to the administration of dual GST model, cascading effects of taxes in the case of petroleum and petroleum products (kept outside the ambit of GST provisions), need for adequate training for both tax payers and tax enforcers, etc.

Sury (2015) analysed different aspects of GST in India, including its salient features, benefits to the Indian economy, GST Council, GST Network (GSTN), etc. According to him, a common tax base, common tax rates across goods and services will facilitate tax compliance as well as generation of increased tax revenue in India. In fact, the dual structure of GST in India will minimise the loopholes of the existing system of indirect taxes and result in more efficient tax administration in India.

3.0 International Taxation of Goods and Services

It is significant to note that France was the first country to introduce GST in 1954 and since then, GST has been adopted by more than 160 countries in the world. In fact, Malaysia became the 161st country to implement GST in 2015 (Sani and Yakup, 2016). According to Palil and Ibrahim (2011), there are three basic types of chargeability of GST: GDP type GST, Income type GST and Consumption type GST. Almost all countries that have implemented GST have adopted the consumption type GST while some countries such as Argentina, Peru and Turkey have adopted the income type GST. Countries such as China, Finland, Morocco and Senegal have employed GDP type GST.

In addition, it may be noted that standard GST rates range from 25% in Denmark, Hungary, Sweden and Norway to 5% in Singapore while reduced rates and tax exemptions are applied to certain goods and services (Palil and Ibrahim, 2011). As noted by Palil and Ibrahim, revenues from GST account for a significant portion of government revenue in many countries. Of the total Central Government revenue, general sales tax accounted for 33.25 percent in Greece in 1998, 31 percent in UK in 1999, 28% in France in 1997, 42.58 % in Argentina in 2000, 35.7 % in Hungary in 2000, 30.2% in Russia and 33.7 % in Ukraine in 2000.

It may be stated that although a single or uniform GST rate is fully neutral in regard to all goods and services, certain political, social and economic compulsions have led to the adoption of modified GST systems in different countries with multiple rates and exemptions. Most of the nations using GST have applied reduced or zero rate to basic necessities such as food, healthcare, shelter etc. Another variation from uniform rate of GST may be noted with respect to the zero tax rate on exports. Since exports are liable to be taxed upon entering into another country, GST on exports is not charged or collected. This process leads to a nation's increased sale of exports as compared to its imports, thus resulting in an improved balance of trade.

GST is essentially a tax on consumption of goods and services and therefore the tax burden ultimately falls on the consumers. Most economists believe that the adoption of GST will cause least inflation if it is imposed during a period of slow economic activity. In 1979, Great Britain raised its GST from 11 % to 15 % resulting in massive wage price inflation spiral. In this case, generally prosperous circumstances caused producers to increase prices well beyond what was necessary to cover the addition to GST. However, West Germany first introduced its GST in 1968 during a recessionary period with little inflationary effect. In the US, economists have estimated that charging 10% GST would lead to 5% increase in the price level.

In addition, most of the economists believe that GST will be well accepted by consumers if it is combined with reduction of income taxes with a view to enhancing their purchasing power. New Zealand, for instance, reduced its income tax rates by 50% when it introduced GST in 1986 (Clark, 1990). Many other countries have also decreased their income tax and other direct tax rates in order to compensate the taxpayers for their financial burden arising due to implementation of GST. And, for low income and poor consumers who are already exempted from paying income taxes, zero rating of GST on certain essential products and other assistance programs or schemes may be necessary to help them out.

4.0 Structure of GST in India

The GST structure as such comprises of four different components such as the Central GST (CGST), Integrated GST (IGST), State GST (SGST), and Union Territory GST (UGST), duly approved by the GST Council as well as by the Parliament or the State Legislatures as the case may be. While four legislations such as Central GST, Integrated GST, Union Territory GST and the Compensation bills were passed by Lok Sabha and Rajya Sabha on 29th March, 2017 and 6th April, 2017 respectively, the State Legislatures enacted the State GST laws in the succeeding period. It is noteworthy, however, that Jammu and Kashmir (J&K) would not be part of the GST framework as such but will enact its laws in order to integrate its indirect tax regime with States for consumer benefits. In this connection, the following important features of the above stated bills or enactments may be noted:

(i) Central GST law allows for levy and collection of taxes on Intra-State supplies by the Centre;
(ii) State GST law allows for levy and collection of taxes by the States on intra-State supply of goods or services;
(iii) Integrated GST law to allow for levy on inter-State transactions of goods and services;
(iv) Union Territory GST law to provide for levy on intra-UT supply of goods or services in the UTs without legislature; and
(v) Compensation bill to provide for compensation to States for revenue loss for five years.

According to the Finance Ministry, “The passage of the four GST bills in the parliament paved the way for the biggest reform in the area of indirect taxes in the history of Independent India. The Union Government had taken up the implementation of GST with utmost priority and had passed the legislations on fast track basis as it was pending for over a decade." In addition to eliminating a number of indirect taxes and cesses by combining them into a single levy, GST would mitigate the cascading effects of taxation and also pave the way for a common national market.

It may be noted that GST combined Central and State taxes into a national sales tax, thereby reducing transaction costs and ensuring transparency in transactions as well as payment of taxes. GST subsumed Central and State levies such as excise duty, additional customs duty, service tax, value added tax (VAT), central sales tax (CST), entry tax, luxury tax, and octroi. Similarly, while the Central government abolished its cesses and surcharges on Union Excise and Service tax, the States moved to abolish cesses and surcharges that they levied. In regard to GST rules or procedures to be followed, the GST Council approved nine sets of rules for the indirect tax reform. Necessary changes or amendments were made in such rules in order to make them compatible with GST laws. These nine sets of rules relate to filing tax returns, registration of entities, payment of GST, invoicing, refund, input tax credit, valuation of supply of goods and services, method of intimation regarding Composition levy and transition rules.

As a part of the tax reform, the Finance Ministry decided to rename the Central Board of Excise and Customs (CBEC) as the Central Board of Indirect Taxes and Customs (CBIC). The CBIC is supposed to supervise the work of all its field formations and directorates, help the government in policy making related to GST, and continue with its central excise levy as well as customs functions.

5.0 Tax Rates under GST

In regard to GST rates, it may be mentioned that a panel constituted by the 13th Finance Commission under the former Finance Secretary, Mr. Vijay Kalkar, had recommended a single GST rate of 12%. According to Kalkar's views, an uniform and lower rate of 12% on all goods and services would minimize economic distortion as well as tax evasion and ensure better administration of Goods and Services Tax (GST). Kalkar suggested that it is first better to introduce a comparatively lower and single rate of GST, and then gradually consider more complex possibilities including high rates, multiple rates, etc. In view of the socioeconomic conditions of different strata of our society, however, the GST Council comprising of State Finance Ministers and the Finance Minister at the Centre, finally opted for a four-tier GST rate structure of 5%, 12%, 18% and 28%, with lower rates for essential goods and services and the higher ones for luxury and de-merit goods that would attract an additional cess. In addition, the

GST Council agreed to cap the levy of GST at 40% while sticking to the earlier slabs of 5%, 12%, 18% and 28%.

About the tax rates on specific products or terms, the GST Council finalized tax rates for 1211 items on 18th May, 2017. While 7% of the total number items (e.g. food grains, unbranded flour, milk, gur, curd, lassi, butter, milk, paneer, vegetables, fruits, salts) were exempted from tax, 14%, 17%, 43% and 19% of goods or products attracted tax rates of 5%, 12%, 18% and 28% respectively. A lower tax rate of 5% was levied on items such as sugar, tea, coffee, edible oil, spices, coal etc. while a higher rate of 12% was applicable on items such as butter, ghee, almond, fruit juice etc. A tax rate of 18% was imposed on items or goods that included hair oil, soap, toothpaste, computers, printers, etc. The highest tax rate of 28% was levied on luxury and demerit goods, consumer durables, etc. In regard to the taxability of services , it may be noted that while education , healthcare, local train, two-tier travel tickets continue to be exempted from tax , a tax rate of 5% is levied on goods transport, travel in AC rail coaches , economy class air tickets, cab aggregators etc. 12% tax rate on business class air ticket, works contract etc. ; 18% rate on telecom, financial services etc; and 28% rate on rooms and restaurants in five star hotels, cinema tickets, betting at race clubs etc.

In response to demand made from different sectors in the economy, the government has been reducing GST rates for different products or services e.g. fertilizers (12% to 5%) , tractors parts (28% to 18%) , pickles (18% to 12%) , agarbatti (12% to 5%), school bags (28% to 18%) , exercise books (18% to 12%), cinema tickets up to Rs 100 (28% to 18%), job work for textiles, gems and jewellery, leather etc. (18% to 5%) , khakra and roti (12% to 5%) and so on. This exercise of tax revision is going on continuously as the implementation of GST in India is still in an experimental stage.

The GST Council also agreed to levy cess on certain products or items for a 5 years period in order to compensate the States for the possible loss of revenue, if any. The Council decided to levy cess on five categories of products – pan masala, chewing tobacco and cigarettes, luxury cars, aerated drinks and mineral water, coal and lignite – with the view to creating a fund with a corpus of about Rs 50000 crore for meeting the potential liability as a stated above. While the maximum levy of cess for pan masala is 135%, the maximum levy for soft drinks and mineral water is 15% over and above the relevant rates of GST. The Council decided to fix a maximum levy of 290% cess or Rs 4170 per1000 sticks or a combination of both in the case of tobacco and cigarettes. The maximum levy of cess for coal and lignite is Rs 400 per tonne.

6.0 Implications for Different Industries or Sectors

As it is well known, GST provisions are going to have wide ramifications within the economy in terms of tax incidence on specific products or services. This will have differential impact on different sections of the population on account of their varying income levels and consumption patterns. It would therefore be worthwhile to analyse how the new tax regime is going to impact some of the major sectors or industries within the Indian economy on account of levy of GST rates in place of the earlier taxes.

6.1 Real estate

A tax rate of 12 % is leviable on finished houses or apartments under GST. At the same time, the builders are allowed input tax credit for taxes paid on inputs such as cement, steel, paints and other items. As the input tax rates are more than 12%, the tax incidence as well as the final prices of affordable houses or flats will be reduced considerably. Since 12% tax rate is applicable on finished houses or apartments including the cost of land, the tax amount will be sufficient enough for the deduction of input tax credit. However, if the houses or apartments are in premium category, the input tax credit may not be sufficient as against the 12% tax amount on the final prices of houses or apartments as a result of which the tax incidence on such houses will still be higher.

6.2 Cars and other vehicles

In the new tax regime, hybrid cars will become costlier due to higher cumulative duty of 43 % as against 30% prior to GST. With a tax rate of 12 % under GST, electric cars will become dearer in such States where there was no VAT prior to GST (such as Chhattisgarh, Punjab, Madhya Pradesh and Rajasthan) while the cost of such cars will be lower in States which used to levy VAT earlier (such as UP, Tamil Nadu and Gujarat). Surprisingly, the tax incidence on large cars and SUVs has been kept low while higher taxes have been imposed on green cars under GST. Similarly, the prices of popular motorcycles and scooters will come down due to lower tax rates.

6.3 Insurance sector

A higher premium has to be paid on car, health and term insurance due to higher tax rates on such insurance (from 15% to 18%). At present, there is no input tax credit available on such insurance schemes or policies.

6.4 Hospitals and pharmaceuticals

The prices of medicines are not likely to increase under GST as 5% tax rate is leviable on certain identified life-saving drugs and 12% tax for overall medicines. Although healthcare services have been exempted from GST, certain diagnostic and surgical equipment such as operation tables, beds and dentist chairs will attract a higher tax rate of 18% (medical devices have been put in different tax slabs of zero, 5%, 12% and 18% categories. Thus, on the whole, it appears that GST may not lead to significant savings for consumers on their medical bills.

6.5 Hotel industry including restaurants

It may be stated that staying at 5 star hotels will be costlier under GST with a tax rate of 28%. While the tax incidence is nil in the case of budget hotels with room rate of less than Rs 1000. the tax rate is 12% on those charging up to Rs 2500 and 18% on those charging up to Rs 7500. At present, the tax rate on AC restaurants is 18% while the rate on non-AC restaurants is 12 %. However, the government is of the view that the actual tax incidence for most of restaurants will remain mostly unaffected as they faced service tax as well as VAT earlier.

6.6 Petroleum products

It may be noted that petroleum products such as crude oil, petrol, natural gas, high speed diesel oil, motor spirt etc. have been kept outside the purview of GST. This will make products of oil and gas industry costly due to non-availability of input tax credit as well as dual compliance under both the tax regimes.

6.7 Other sectors

Tax rate on man-made fibre and yarn has been fixed at 12% and the rate applicable to embroidery job work is 5%. These tax rates have resulted in tax savings for the spinning and powerloom sector. Travel on economy class has been subjected to lower tax rate under GST as compared to the earlier tax regime. While books have been exempted from tax, those for colouring, drawing and workbooks will face GST. Although the government had indicated a tax rate between 2% and 6% for gold and jewellery earlier, a final rate of 3% was fixed for these items against the earlier average rate of 2%. As the tax burden will be shifted to the consumers or end users, this higher rate of 3% is not going to affect the demand for gold jewellery. It may be further noted that most mass consumption goods such as hair oil, soap and toothpaste will become cheaper due to lower tax rates. On the other hand, goods such as processed food, ghee, soft drinks, mobile phones etc. are likely to become costlier due to GST rates.

7.0 Positive Aspects of GST

Having discussed the structure of GST as well as GST rates, it would be worthwhile to analyse some of the benefits or advantages of GST to small businesses and traders, consumers as well as the economy as a whole. About the benefit of GST for small business and traders, the GST council has made all efforts to ensure that the compliance burden for them is kept as low as possible. Small businesses with an annual turnover of up to Rs 20 lakh (Rs 10 lakh in North-Eastern States) have been exempted from paying taxes. Composition scheme has been lunched for businesses with an annual turnover up to Rs 1.5 crore. Small traders, manufacturers, and restaurants opting for the composition scheme are required to pay tax at the flat rates of 1%, 1%, and 5% respectively. In addition, it has been provided that businesses with an annual turnover up to Rs 2 crore are required to file return on quarterly basis (i.e. only one return in three months).

It may be mentioned that GST rates have been fixed in such a way that prices of goods that go into consumer price index do not rise. Under GST, a large number of goods and services are either exempted from tax or are in 5 % tax bracket. In fact, the prices of several goods and services are expected to come down with the implementation of GST as the companies will pass on the benefit of downward revision of taxes to consumers. Under GST, agricultural products such as vegetables, fruits, oilseeds etc. are expected to be cheaper for consumers. Until now, various State taxes on these products or commodities ranged between 5% and 20% in various States. The government has agreed to compensate the States for these losses and thereby offered benefits to farmers. Taxes on export items have been neutralised in such a way that these items become competitive internationally.

In addition, it is expected that GST will minimise tax evasion to a great extent. As the parallel economy forming about 20% of our GDP will be brought within the tax bracket, this will result in higher tax revenues for the government. As India becomes a single, unified market, GST will eliminate incidence of multiple taxes, help in removing market distortions and in ensuring a more simple and transparent tax regime. This is expected to enhance the growth of the economy and generate more of employment opportunities in the country.

8.0 Limitations of GST

In spite of the obvious advantages of GST, this system of taxation is subject to certain drawbacks or limitations as discussed below:

(i) According to GST law, there have been four slabs of tax rates for various goods and services i.e, 5%, 12%, 18% & and 28%. While the rates for some products or items have been criticized as being excessive, a common viewpoint is that the maximum rate of 28% should not have been fixed at all. In response to the demands made by different sections of the population, the government has been reducing GST rates for different products or services. This development points to the fact that the GST law in India is still in an experimental stage.

(ii) Another problem relates to compliance with procedures under GST provisions. Businesses have to go through the tedious process of uploading invoices as well as monthly returns on the GST portal. There have been reports of glitches on the GST portal from time to time. In addition, small businesses have to bear the cost of adoption of GST in the form of investment on a computer, a spreadsheet and internet connection for online filing works.

(iii) Registration formalities under GST pose a great challenge for small as well as big businessmen. As per the requirements of GST laws, businesses will be allowed to avail of input tax credit only when their suppliers, vendors or distributors have got themselves registered. However, bringing every single vendor or distributor on board for registration is a herculean task. It is also noteworthy that service providers with multiple points of sale or supply in different States will have to register themselves in all such States under the provisions of GST. In addition, it may be observed that small businessmen or professionals such as architects, fashion designers, trainers, musicians, etc. have to get themselves registered if the term 'casual taxable person' applies to them. Such registration for casual taxable persons is mandatory even if their annual turnover falls below the exemption limit of Rs. 20 lakhs (Rs. 10 lakh in North-Eastern states).

(iv) Another serious limitation of GST is that alcohol, petroleum and petroleum products have not been brought within the ambit of GST provisions. This is happening due to stiff resistance from States which are drawing a substantial portion of their revenue from these products. GST is intended to ensure that the consumers do benefit as the 'tax on tax' as well as multiplicity of indirect taxes are done away with. These benefits are clearly denied to consumers of petroleum products such as petrol, diesel etc. which are still governed by indirect taxes such as VAT, Excise duty, etc.

9.0 Concluding Observations

On the basis of our discussion of various aspects of GST in India, we can conclude that the government has made a bold attempt to completely overhaul the system of indirect taxes in India. There can be no denial of the fact that the system is still not full-proof and has its obvious limitations including glitches on GST portal, compliance burden on businesses, cost implications for small businesses, registration formalities, etc. as discussed above. Nevertheless, it can be stated that the new system of taxation has helped in creating a common Indian market by removing market distortions through the elimination of multiplicity of taxes as well as 'tax on tax'. GST is expected to enhance the economic growth rate, help generate more of employment opportunities, increase the tax base of the economy, and finally lead to increased revenue generation. At this point, it would be worthwhile to single out a few important issues that deserve the attention of policy makers as well as the public at large.

There is no doubt that the government has attempted to ensure 'distributive justice' by fixing the tax rates for various goods and services on the basis of the economic condition of different sections of the Indian society. While essential goods or mass-consumption goods have been exempted from tax or taxed at low rates, luxury goods and demerit goods have been taxed at higher rates. In spite of this, there have been vociferous demands from certain sections of the society for reducing the tax rates for certain goods and services. Accordingly, the government has been reducing the tax rates for certain products and services from time to time. While this process of revision of tax rates may be justified in some cases, such revision will make the tax structure more and more complex if it is stretched indefinitely.

In addition, there is a need for policy makers to ensure that the benefits of lower taxes on goods and services are passed on to consumers through reduction in consumer prices. The Anti-profiteering clause in GST law has put pressure on companies to reduce the prices of goods but the question of quantum of such benefits to be passed on to consumers remains to be decided by the businesses. Also, the extent to which the government would be able to invoke the provisions of Anti-profiteering clause for ensuring this remains a ticklish question.

Another important area which needs the urgent attention of policymakers, relates to the prices of petrol, diesel and other petroleum products. As these products have been kept outside the purview of GST law, the prices of such products continue to remain at an excessive level due to levy of VAT, excise duty, custom duty etc. The States have been resisting the inclusion of such products under GST law on account of their fear of possible losses in revenue. There is, however, ample justification for bringing such products within the ambit of GST law in the common interest of the public at large.

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