

Economic reforms and tax challenge in India: GST perspective

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Abstract

The GST tax reform was introduced in India after the GST council met 35 times since its inception. It has undergone many changes in two years. The biggest dampener was the compliance process as information technology glitches took more than the anticipated time to be resolved. The filing system that was put in place in the beginning was quickly abandoned as businesses struggled with compliance. The present research paper presents the theoretical study of the GST as an economic reform and the tax implications therewith.

Keywords: Tax administration, FDI, Statute

Introduction

GST is an Indirect Tax which has replaced many Indirect Taxes in India. The Goods and Service Tax Act was passed in the Parliament on 29th March 2017. The Act came into effect on 1st July 2017; Goods & Services Tax Law in India is a comprehensive, multi-stage, destination-based tax that is levied on every value addition. Under the GST regime, the tax is levied at every point of sale. In the case of intra-state sales, Central GST and State GST are charged. Inter-state sales are chargeable to Integrated GST.

The tax system and structure in India ^[1]

The central board of revenue or department of revenue under Ministry of Finance, Government of India is the apex body charged with the administration of taxes. It came in to existence as a result of Central Board of Revenue Act 1924. Due to the difficulty in administration of both direct and Indirect tax, it has been split in to CBDT (Central Board of Direct Taxes) and CBEC (Central Board of Excise and Customs) in the year 1964 by Section 3 of Central Board of Revenue Act 1963.

Central board of direct taxes

CBDT provides inputs for policy and planning of direct taxes in India. It is also responsible for administration of the direct tax laws through Income Tax Department. CBDT, a statutory authority functioning under Central Board of Revenue, is headed by Chairman and have 6 members from IRS.

Income tax department

It acts under revenue department under ministry of finance. Income tax department is responsible for administering direct taxation acts passed by parliament.

Central board of excise and customs (CBEC)

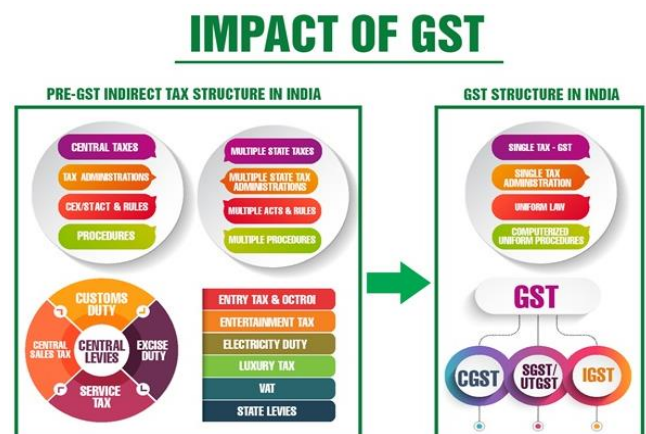
CBEC deals with the task of formulation of Policy relating

to levy and collection of Customs and central excise duties and service tax. Prevention of smuggling and administration of matters relating to customs, central excise, service tax and narcotics etc. comes under the purview of CBEC. CBEC is headed by chairman and five members.

GST: A tax reform tool

India witnessed the launch of its biggest tax reform since Independence, the Goods and Services Tax (GST) characterized as 'The Good and Simple Tax' by the Prime Minister Mr. Narendra Modi, on July 1, 2017. While the Goods and Services Tax (GST) is focused on ironing out the creases left by the predecessor tax regime and enhancing ease of doing business, it will involve a wave of short term adjustments like obtaining multi-state registrations, interpretation of provisions, determining the place of supply, transitional issues, etc.

GST, which is a destination-based tax, has been introduced to subsume several state taxes like Value Added Tax, Entry Tax, Octroi, Luxury Tax, Purchase Tax, Entertainment Tax, etc. and federal taxes like Service tax, Central Excise Duties, Counter-vailing Duty, Additional Duties of Customs, etc. GST will thus replace all these taxes with one tax –



Source: www.ibef.org

Fig 1

¹ V.M., Jasmine. (2017). GST & Evolution of Tax System in India. IRA-International Journal of Management & Social Sciences (ISSN 2455-2267), 7(1), 65-72.

Impact

- The framework of GST provides for a seamless flow of credit which would greatly alleviate the cascading effect of taxes, thereby contributing to the growth prospects of the economy.
- Goods and service tax is actually an indirect tax reform which ultimately aims to remove the taxation barriers between states. This helps create a unified market which is unprejudiced towards state boundaries and provides unrestricted access to the entire nation to buy, sell, import, and export within the country.
- This will create a uniform market across the nation, wherein consumers will be benefited due to reduction in prices of goods and services, and there will also be ease of trade for businesses to operate locally or across the nation or to operate competitively over the globe.
- GST works on the principle of ONLY taxing the vendor’s contribution to the overall product’s value. Also, the tax paid is not included in the price of the product sold to the vendor next in the chain. This uniformly distributes the burden of taxation to all vendors (in the chain) in proportion to their contribution (value added) to the end product – levelling the playing

- field especially for vendors at the end of the product chain. Also, the tax rate for a product category is the same across the country – preventing arbitrage.
- The logistics industry in India had to maintain multiple warehouses across states to avoid CST and state entry taxes on inter-state movement. Most of the times, these warehouses were forced to operate below their capacity, thus increasing their operating costs. With GST, restrictions on inter-state movement are lessened and the logistics sector can start consolidating warehouses across the country. Reduction in unnecessary logistics costs will increase profits for businesses involved in supply of goods through transportation.
- Factors like reduced logistics costs, simplified procedures, lower tax burden, removal of cascading effect, etc. make the GST regime especially beneficial to startups in the country. Threshold of Rs 20 lakh is beneficial for small businesses.
- GST has helped widen the tax base, with the number of registrations crossing 10 million.
- IMF has projected that the GST reform in India is expected to drive the medium term economic growth rate to beyond 8%.

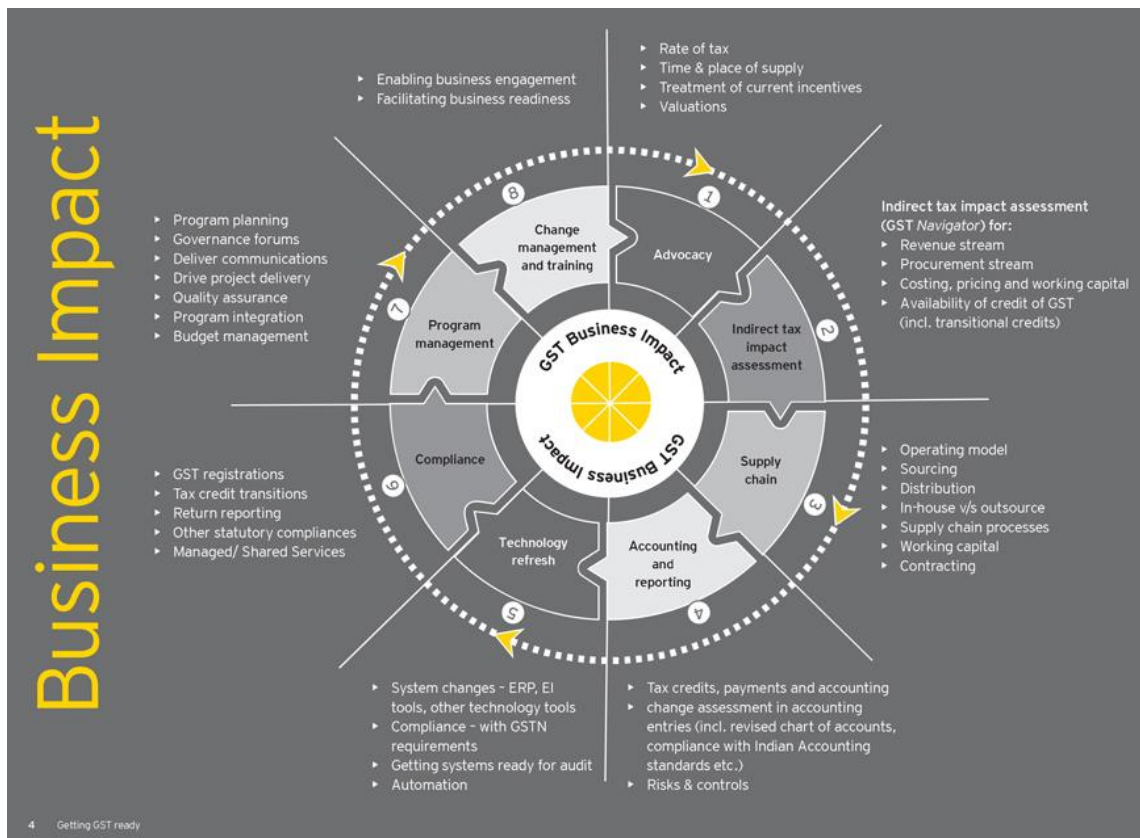


Fig 2

Review of literature

Rao (2000) [2]

There have been major changes in tax systems in several countries over the last two decades for a variety of reasons. The objective of this paper is to analyse the evolution of the tax system in India since the early 1990s. The paper describes and assesses the introduction of new forms of direct and indirect taxes, their revenue and equity

implications and the successes achieved in their implementation. The paper concludes that after eight years of reform improving the tax system remains a major challenge in India. There have been major changes in tax systems of countries with a wide variety of economic systems and levels of development during the last two decades. The motivation for these reforms has varied from one country to another and the thrust of reforms has differed from time to time depending on the development strategy and philosophy of the times. In many developing countries,

² Rao, Govinda. "Tax Reform in India: Achievements and Challenges." *Asia-Pacific Development Journal* 7 (January 1, 2000).

the immediate reason for tax reforms has been the need to enhance revenues to meet impending fiscal crises.

Jaiswal, Anand, and R B Krishna (2017) ^[3]

Goods and Services Tax (GST) is the single biggest tax reform in India's history. No power on earth can stop an idea whose time has come, and it is now time of GST. GST will be levied on the supply of goods or services or both in India. With the introduction of GST, India had switchover to new indirect Tax regime which is administered with the help of new age Information technology. In GST, all the business transaction is captured on a common portal hence transparency in business dealings are established.

The harmonization of laws, procedures and rates of tax across India would make compliance easier and simple. The effect of GST is going to be far deeper than the tax itself, because it will lead to digitization of businesses of India. This will also greatly reduce the human interface between the taxpayer and the tax administration, leading to speedy decisions. Successfully handling the technological failure and resolving of teething problems of implementation of GST in the initial years would determine the success of such mammoth tax reform. The use of new age information technology will change the way taxes are paid and accounted. In the true sense, it is mother of all future tax reforms not only in India but also for all countries across the world.

Bhuyan (2017) ^[4]

A developing economy like India necessities sufficient resources to finance the developmental activities that are comprehensively and achieves all levels of the society and most of the finances from taxation. Presently, the tax structure of our country is very complex. To overcome these complexities of our taxation system, the government constantly changing the taxation system to rationalize tax administration and generate more revenues for social protection, infrastructure, and several other developmental activities. After passing the 101st Constitutional Amendment (GST) Act, the highly anticipated tax products GST appears to be an actuality on 1st July 2017. To ensure a smooth transition, government and all related nodal agencies like Goods and Services Tax Council, GSTN etc., have been regularly making decision to resolve the problems encountered being at different levels. To simplify the difficulties faced by indirect taxation system and create a common taxation system throughout the nation and decreasing the barriers between states, the dual structure Goods and Service Tax (GST) was passed by parliament.

Pramod Kumar Pandey (2017) ^[5]

Indian taxing system is undergoing revolutionary change today. Tax is one of the most important sources of revenue to the Government and at the same time one of the deciding parameter for economic growth. Whereas direct tax impacts directly the disposable income, the indirect tax impacts the

prices of goods and services in the market. The basic objective of this article is to evaluate the impact of both direct and indirect taxes on economic growth of India.

V.M., Jasmine. (2017) ^[6]

Goods and Service Tax (GST) is a new tax-reform that India going to experience from July 1st 2017. GST is a comprehensive tax collection system which will subsume many direct as well as indirect taxes. Currently we have Value Added Tax system for collecting indirect tax by the states. It has been introduced as indirect value added tax into Indian Taxation system from 01st April 2005. Approximately 193 countries in the world employed VAT. In order to give uniformity in tax collection and to avoid cascading effect of tax GST has been studied and going implement throughout the country. In this context this paper is an attempt to understand historical development, structure of Indian Taxation system, working, features, Impacts of GST in a simple manner. This paper concludes with some suggestions which will be helpful for smooth implementation of GST.

India economic survey 2018 ^[7]

The Economic Survey 2017-18, which was released in Parliament on Monday ahead of the Union Budget 2018, is the first survey released after the implementation of the new indirect tax regime Goods and Services Tax, implemented in July-17.

India Economic Survey 2018: The Economic Survey 2017-18, which was released in Parliament on Monday ahead of the Union Budget 2018, which is to be presented by Finance Minister Arun Jaitley is the first survey released after the implementation of the new indirect tax regime Goods and Services Tax, implemented by the Narendra Modi-led government in July-17. Since its implementation, the GST had always had its set of issues, the most worrying among then was the dwindling revenues from tax collection.

Taking note of the impact of GST on India's economy, Chief Economic Advisor, Arvind Subramanian said, "(GST) has given a new perceptiveness of the Indian economy and new data has emerged. There has been a fifty percent increase in the number of indirect taxpayers. There has also been a large increase in voluntary registrations, especially by small enterprises that buy from large enterprises wanting to avail themselves of input tax credits."

The highlights of the economic survey relating to GST were there has been a 50% increase in number of indirect taxpayers; Large increase in voluntary registrations; distribution of GST base closely linked to size of economies; strong correlation between export performance and state's standard of living and India's formal sector was found to be substantially greater than currently believed.

Two years of GST: evolution of India's biggest tax reform ^[8]

As the goods and services tax (GST) completes two years

³ Jaiswal, Anand, and R B Krishna. "Mother of All Tax Reforms: India's Goods And Services Tax 2017." *International Journal of Management* 8 (July 31, 2017): 8-15.

⁴ Bhuyan, Anil. "GST A New Tax Reforms in India- Implementing Towards Sustainable Development of The Economy." 5 (December 6, 2017).

⁵ Pramod Kumar Pandey 2017 Scientific Society of Advanced Research and Social Change International Journal of Management Volume 3 Issue 1, January-June 2017, ISSN 2349-6975

⁶ V.M., Jasmine. (2017). GST & Evolution of Tax System in India. *IRA-International Journal of Management & Social Sciences* (ISSN 2455-2267), 7(1), 65-72.

⁷ India Economic Survey 2018: Post GST, 50% increase in number of indirect taxpayers; key highlights by Sushruth Sunder Updated: January 29, 2018 3:04:34 PM

⁸ Dipak Mondal New Delhi Last Updated: July 1, 2019 | 15:25 IST; <https://www.businesstoday.in>

today, we look at how the new indirect tax system has evolved. The GST has been one of the biggest tax reforms that the country has ever seen and despite early hiccups and teething problems, it has started to settle down well. Tax collections have been increasing and systems are getting streamlined.

Here are five indicators that tell the evolution story of the GST over the past two years.

Number of registered taxpayers

The number of registered taxpayers at the time when the GST was rolled out was Rs 65 lakh, which today stands at Rs 1.2 crore, a jump of 84 per cent over the last two years. This shows a significant widening of the tax base and formalisation of the economy under the GST.

Monthly collection

Monthly GST collections for July 2017, the first month for GST, was Rs 92,200 crore. Subsequently, it dropped to Rs 83,700 crore in November that year, the lowest monthly collection recorded. Collections started picking up from the second year onwards with July 2018 collections at Rs 96,500 crore. That was almost Rs 7,000 crore more than the average monthly collections in the first year. In 2018-19, the average monthly collection was Rs 97,100 crore with collections breaching Rs 1 lakh crore on a regular basis. The collection in May 2019 stood at Rs 1.03 lakh crore.

Compliances

After a slow start, the number of registered taxpayers who started complying with GST timelines, grew. For the first month (July 2017), only 38 lakh out of 68 lakh registered taxpayers had filed GSTR 3B returns by August 25. This figure has now almost doubled to 72.5 lakh by April 2019. E-way bill, an anti-evasion mechanism, came into existence from April 1, 2018. The number of e-way bills doubled from 2.8 crore in April 2018 to 5.49 crore in March 2019.

Rate rationalization

When the GST rates were first formulated, over 200 goods were kept in the 28 per cent rate bracket. The number of goods under 28 per cent slab has been cut down to eight. There are other goods and services whose tax rates have been reduced. For example, GST on restaurant services has been brought down from 18 per cent to 5 per cent. GST rates on affordable housing projects have been reduced from 8 per cent to 1 per cent and on non-affordable housing projects from 12 per cent to 5 per cent.

Number of returns

When the GST was rolled out, there was a provision for three monthly returns - for sales, for purchases and a composite return - and one annual return. When businesses complained about huge compliance burden due to the requirement of 37 returns being filed in a year, the GST Council did away with the purchase return. Now businesses have to file two returns - GSTR1 for sales and GSTR 3B, a composite return.

The GST Council has now given a nod to a new system under which only one return needs to be filed from January 2020. Being the Biggest tax reform in India, GST will allow the real GDP growth of the Indian economy to hit 6.75 per cent in this fiscal year with expectations of 7 to 7.5 per cent real GDP growth in 2018-19. SMEs and small taxpayers

have benefitted from the GST system with a number of relaxations.

Some of the hits of GST

1. GST Council plays principled diplomacy & and the statesmanship shown by the members is surely a hit!
2. Technological Support to the Structure of GST law: The new GST system runs under a canopy of strong technological support and we can expect more GST services to be digitalised in the months to come.
3. GST -A boon to Micro, Small & Medium Enterprises: MSMEs are now less dependant on tax experts when compared to the earlier regime, due to a simplified return filing system in place. Rationalisation of the composition scheme and introduction of quarterly filing option for taxpayers having turnover below Rs 1.5 crores was a wise decision.

Few misses of GST: need of recovery

1. **Delayed IGST refund has hit Exporters and caused a slowdown:** Although efforts are being made by the department towards timely sanctioning of refund, yet over a few months, we can expect a slowdown in the Export sector in India.
2. **Sentiments around claiming of Input Tax Credit:** admission of ITC is currently being allowed on a provisional basis to the recipient of the credit. Authorities are in process of reconciliation between Different GST returns and hence, many taxpayers are receiving mismatch notices for ITC claimed as per GSTR-3B and allowed as per GSTR-2A supplier data. Development of recon. tools on the GST portal will help a buyer be cautioned before claiming any wrong ITC, thus avoiding the interest or penalties that follow.

GST As an economic reform and tax challenges in India Evaders' Bonanza

GST has now become a sorry tale of massive tax evasion. Thanks to creaky GSTN and political rollbacks, GST became a sanctuary for tax evaders right before the Gujarat election. In last September, a politically nervous government had effectively let 95 per cent traders stay out of GST's regular monitoring net by offering them windows of return filing once in three months (against three in one month) and a benevolent composition scheme. The initial figures of registration under GST were encouraging for government as number of taxpayers had grown by 50 per cent. However, this has failed to reflect in revenue generation.

The number of returns filed each month is still limited to 70 lakh, though the number of taxpayers registered with the GSTN has crossed one crore. Out of over one crore registered taxpayers, around 18 lakh are under composition scheme, who have to file quarterly returns.

For GST bosses, non-filers are not the only pain. The latest data of GST returns shows 84 per cent of initial GST returns filed for July-December doesn't match the final returns. Mismatch of Rs 34,000 crore tax liabilities reported in GSTR-1 and GSTR-3B is an indicator of risk of massive "evasion" under GST.

The fact of the matter is that under the existing set-up, GST has no mechanism to check the evasion even at the basic level. The e-way bill was intended to track movements of goods, tackle tax evasion which are un-invoicing in nature

i.e. the goods moving beyond the radar of GST system. GST administration has to implement more rigorous measures to tackle the menace of tax evasion through under-invoicing.

Fiscal fracture

GST has now turned into the scariest fault line for both the Union and state budgets. As per a research paper by the National Institute of Public Finance and Policy, the monthly revenue from GST is expected to cross Rs 109,616 crore during 2017-18, gap in monthly GST collection will vary between Rs 19,616 crore and Rs 29,616 crore if monthly revenue collection varies from Rs 90,000 crore to Rs 80,000 Crore. This shows there is a considerable shortfall in GST revenue collection.

The GST revenue shortfall has decisively toppled the Centre and states' fiscal appecart. The Centre was forced to compensate states to the tune of Rs 60,000 crore for July to March in FY18. The federal budget is expected to gorge out Rs 90,000 crore further in FY19 in order to reimburse loses incurred by states on account of GST.

GST's debacle has made Modi government's last Budget a heavily taxing affair. Owing to the revenue constraints, Budget 2018 unleashed record taxation of over Rs 90,000 crore in the form of capital gains tax, increase in customs duty, cess and surcharge.

The consistent fall in revenue collection has made states reluctant to move to the next phase of reforms such as inclusion of petroleum products and real estate in the GST.

The dilemma

GST's rollback may have saved the day for BJP in Gujarat but it has now turned into the biggest quandary for government. The finance minister, in his post-Budget interviews said strict enforcement would be required to shore up revenues to the tune of Rs 1 lakh crore per month.

Undoubtedly, GST authorities are sitting on a pile of valuable data. However, in order to restore GST, the field formations have to unleash a drive against businesses, especially traders. The BJP, which had burnt its fingers in Gujarat elections, is not in a position to take the risk of annoying traders before the 2019 elections.

Realties are catching up. After going ga-ga over GST, the World Bank, in its latest report, conceded to the fact that "GST is one of the most complex taxes with the second highest tax rate in the world among a sample of 115 countries which have a similar indirect tax system."

Prime Minister's Economic Advisory Council chairperson Bibek Debroy thinks that implementation of GST is a process which would take more than 10 years to settle down. After its second tryst with destiny, India has arrived at a point where government has left no stones unturned in taxing the people. Consumers are also paying tax diligently. However, whether the businesses would pay that tax back to the government would be known only after our political masters become comfortable with their electoral reckoning. Undoubtedly, this is not the GST we wished for.

Dropping of GST Collections as an indicator of Economic Slowdown

GST collection in the month of August dropped below Rs. 1 lakh crore mark to Rs.98,202 crore. The tax collection was at Rs.1.02 lakh crore in July this year. The August, mop-up was, however 4.5 percent higher than the Rs.93,960 crore collected in the same month last year. This is the second

time during this year the revenue collection from the GST has slipped below the Rs. 1 lakh crore mark (Economic Times online dated 02.09.2019).

Conclusion

GST was definitely a tax reform that was directed towards better economic performance. Former Prime Minister Manmohan singh feels that there is slowdown of GDP growth because of "man-made blunders of demonetization and hastily implemented GST. The measures had crippled the economy, especially the crucial manufacturing sector, which "is tottering at 0.6%" growth.

To fill the gaping hole in tax revenues the Government announced a series of measures like the rollback of a tax surcharge on overseas investors, relaxations in foreign direct investment (FDI) norms, incentives for the auto industry and an extensive consolidation of state-owned banks.

The "tax buoyancy remains elusive" as businessmen, small and big, "are hounded and tax terrorism continues unabated and investor sentiments are in doldrums". As Former Prime Minister Manmohan singh puts it these are not the foundations for economic recovery.

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