

## GST-“One Nation, One Market and One Tax”- SWOT ANALYSIS

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### **Abstract**

The Indian economy one of the fast growing economy is witnessing a yet another reform in the field of indirect taxation. The present system of indirect tax suffers from defects such as double taxation effects, lack of uniformity in rates and administration. Thus to remove cascading effect of taxes and provide a common nation-wide market for goods and services, India is moving towards introduction of Goods and Services Tax (GST). Under the proposed indirect tax reform both Central and State Governments will have concurrent taxation power to levy tax on supply of goods and services. This paper analyses the forms of taxes in India, the need for GST, historical background of GST, GST model. It compares the effects of non-GST AND GST in terms of cost of goods and consumer price. It also gives SWOT analysis.

*KEY WORDS: DIRECT TAX, INDIRECT TAX, CGST, GST, IGST and SGST.*

### **Introduction**

India is preparing itself for a new indirect tax regime as it awaits the introduction of the GST. GST was first introduced by France in 1954 and now it is followed by 140 countries. Most of the countries followed unified GST while some countries like Brazil, Canada follow a dual GST system where tax is imposed by central and state both. The Empowered Committee of State Finance Ministers had constituted a Joint Working Group in 2007 to lay down the roadmap for the implementation of the GST. Speaking separately at The Economic Times Global Business Summit, Jaitley said he hoped that Congress will see the benefits of Goods and Services Tax and help in passage of the Constitution Amendment that will enable the rollout of the indirect tax reform. “It is the important reform of the UPA government, if I had to credit the authorship of it; I have to give credit to them. Now If the author turn against his own script, how do I make....I have reached out, I have spoken to them, I have visited them, I have explained to them and I hope they will see the reason...the rationale behind passing GST,” he said. Thus this reform will boost our economy and tax burden will be removed.

### **Direct tax and indirect tax in India**

Tax is derived from a latin word “taxare” meaning “to estimate”. Thus a “ tax is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority” and is any contribution imposed by government whether under the name of toll, tribute, impost, duty, custom, excise, subsidy, aid, supply, or other name”.

In India, the tradition of taxation has been in force from ancient times. It finds its references in many ancient books like 'Manu Smriti' and 'Arthasastra'. The Islamic rulers imposed jizya. It was later on abolished by Akbar. However, Aurangzeb, the last prominent Mughal

Emperor, levied *jizya* on his mostly Hindu subjects in 1679. Reasons for this are cited to be financial stringency and personal inclination on the part of the emperor, and a petition by the *ulema*.

In India there are two types of taxes viz. Direct Taxes and Indirect Taxes. Direct taxes are those taxes which are levied on income and wealth of the person. Income tax, wealth tax etc are the examples of Direct tax. An Indirect tax is a tax that is paid to the government by one entity in the supply chain, but it is passed on to the consumer as part of the price of a good or service. The consumer is ultimately paying the tax by paying more for the product. An indirect tax is shifted from one taxpayer to another.

## Goods and Service Tax

The propose GST stands for "Goods and Services Tax", and is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. It will replace all indirect taxes levied on goods and services by the Indian Central and State governments. GST is the only indirect tax that directly affects all sectors and sections of our economy. Ignorance of law is no excuse but is liable to panel provisions, hence why not start learning GST and avoid the cost of ignorance.

GST is a value added tax, levied at all points in the supply chain with credit allowed for any tax paid on inputs acquired for use in making the supply. It would apply to both goods and services in a comprehensive manner with exemptions restricted to a minimum.

|”The central taxes that would now be replaced by GST are; service tax, special additional duties of customs (SAD), Additional Duties of Excise (goods of special importance), Central Excise Duty, Additional Duties of Customs (commonly known as CVD), Duties of Excise (medicinal and toilet preparations), Additional Duties of Excise (textiles and textile products) and Cesses and surcharges in so far as they relate to supply of goods or services. On the state level that taxes that GST will subsume include: State cesses and surcharges, luxury tax, state VAT, purchase tax, central sales tax, taxes on advertisements, entertainment tax (not levied by local bodies), entry tax (all forms) and taxes on lotteries, betting and gambling”.

### Need for GST

1. Tax cascading
2. Levy of excise duty on manufacturing point
3. Complexity in determining nature of transaction
4. Inability of states to levy tax on services
5. Lack of uniformity in provisions and rates
6. Fixation of Situs ie Local sale VS Central sale
7. Complexity in administration

### Taxes which are to be subsumed

#### Exhibit-1

The following taxes are proposed to be subsumed under GST:

Central Taxes subsumed under GST	State Government Taxes subsumed under GST
Central Excise Duty (including additional excise duties)	Value Added Tax
Service tax	Central Sales Tax
Additional customs duty (CVD)	Octroi and Entry Tax
Special Additional Duty of Customs (SAD)	Purchase Tax
Central surcharges and cesses	Luxury Tax
	Taxes on lottery, betting & gambling
	State cesses and surcharges & Entertainment tax

Source: <https://www.quora.com>

## GST Journey

The idea of implementing GST mooted by the former Prime Minister Atal Bihari Vajpayee in the year 2000. During his regime an empowered committee was set up to streamline the GST model in India. The ideas was presented in annual budget speech in 2006.It took almost ten years to get accepted by houses. The journey is given in the following exhibit.

### Exhibit-2

#### Time line of GST in India

Year	events
2000	Vajpayee government set up a committee headed by Asim Dasgupta(the Finance Miniter, West Bengal)
2006	Proposal on GST was mooted in Budget speech
Feb, 2007	Committee empowered to introduce GST BY 2010
May ,2007	Joint Working Group was set by empowered committee of state finance ministers
Nov, 2007	Joint Working group submits Report
Nov ,2009	EMPOWERED Committee presents first Discussions paper on structure on GST
Dec, 2009	Task Force Appointed 13 <sup>th</sup> Finance Commsion submits report
March 2011	Constitution(115 <sup>th</sup> Amendment)Bill 2011 introduced for imposition of GST. Bill lapses with dissolution of 15 <sup>th</sup> Lok Shaba.
August,2013	Standing Committee submits its Report 2011 bill
Dec ,2014	Constitution (122 <sup>nd</sup> amendment) bill 2014 introduced to impose GST.
Feb, 2015	14 <sup>th</sup> Finance Commsiion submits report
June, 2016	Model draft release in public domain
Aug ,2016	Bill passed in Rajya Sabha

Source: <http://learngst.com/wp-content/uploads/Timeline-Of-Developments-on-GST.png>

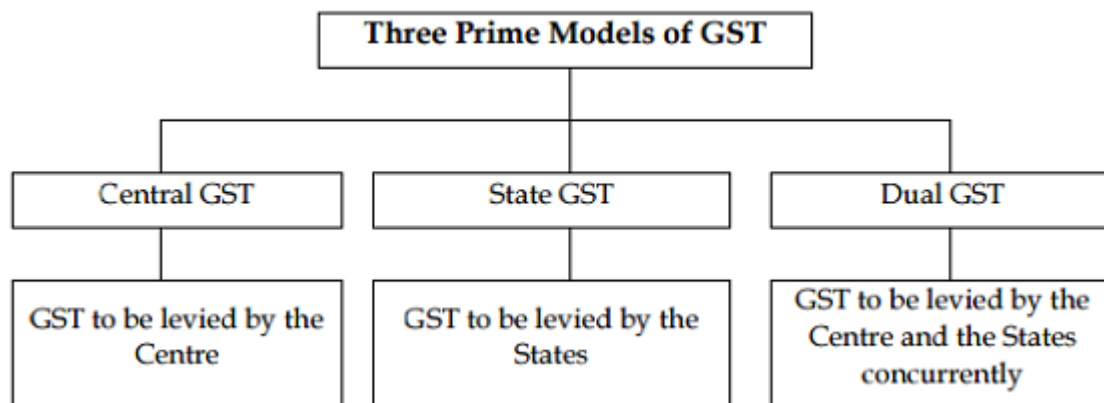
### GST Models

There are three model of GST implemented which are shown below:

1. Central GST (CGST)
2. State GST (SGST)
3. Duel GST

#### INDIAN GST-DUEL MODEL

India is going to implement the duel models followed in Canada and Malaysia. Duel GST will have both central and state GST component levied on the same base. All goods and services for the purpose of the tax with common legislation applicable to both.



**Features of GST**

- The power to make laws in respect of supplies in the course of inter-State trade or commerce will be vested only in the Union government. States will have the right to levy GST on intra-State transactions including on services.
- Centre will levy IGST on inter-State supply of goods and services. Import of goods will be subject to basic customs duty and IGST.
- GST defined as any tax on supply of goods and services other than on alcohol for human consumption.
- Central taxes like, Central Excise duty, Additional Excise duty, Service tax, Additional Custom duty and Special Additional duty and State level taxes like, VAT or sales tax, Central Sales tax, Entertainment tax, Entry tax, Purchase tax, Luxury tax and Octroi will subsume in GST.
- Petroleum and petroleum products i.e. crude, high speed diesel, motor spirit, aviation turbine fuel and natural gas shall be subject to the GST on a date to be notified by the GST Council.
- Provision for removing imposition of entry tax / Octroi across India.
- Entertainment tax, imposed by States on movie, theatre, etc will be subsumed in GST, but taxes on entertainment at panchayat, municipality or district level to continue.
- GST may be levied on the sale of newspapers and advertisements and this would give the government’s access to substantial incremental revenues.
- Stamp duties, typically imposed on legal agreements by the state, will continue to be levied by the States.

**Benefits of GST**

<b>Economy</b>	<b>Manufacturers</b>	<b>Business</b>	<b>Consumers</b>
2% increase in GDP Cheaper capital goods Export potential	High tax revenue Easy administration Decrease in cost of tax collection	Scope of savings upto 40% Optimal investment decision Lower incidence of tax	Low price as tax is low Transparency in tax Increase in tax on service Push up inflation

Source: Economic Times, 4<sup>th</sup> August, 2016

**Pricing Mechanism –A Comparison**

**Exhibit-3**

**Comparison of Multiple tax and Uni-tax (GST)**

	Without GST	With GST
<b>For Manufacturer</b>		
Cost of Production	8,000	8,000
Profit	2,000	2,000
Manufacturer price	10,000	10,000
Add: Excise duty@12%	1,200	nil
<b>Total Value (A)</b>	<b>11,200</b>	<b>10,000</b>
Add VAT 12.5%	1,400	-----
Add:GST212%	-----	1,200
Add:CGST@12%	-----	1,200
Invoice Price	12,600	12,400
<b>Wholesaler to Retailer</b>		
Cost of Goods to wholesaler (A)	11,200	10,000
Profit Margin (10%)	1,120	1,000
<b>Total Value (B)</b>	<b>12,320</b>	<b>11,000</b>
Add VAT 12.5%	1,540	-----
Add:GST212%	-----	1,320
Add:CGST@12%	-----	1,320
Invoice Value	13,860	13,640
<b>Retailer to Consumer</b>		
Cost of goods sold to Retailer(B)	12,320	11,000
Profit margin 10%	1,230	1,100
<b>Total Value (C)</b>	<b>13,550</b>	<b>12,100</b>
Add VAT 12.5%	1694	-----
Add:GST212%	-----	1452
Add:CGST@12%	-----	1452
Price payable by Consumer	<b>15244</b>	<b>15,004</b>
Cost of Savings to consumer	-----	<b>240</b>
Percentage of Saving( $\% = \frac{240}{15244} \times 100$ )		<b>2.40</b>

**Set off GST process**

In case of Intra State transactions, Seller collects both CGST & SGST from the buyer and CGST needs to be deposited with Central Govt. and SGST with State Govt.

For Inter State Transactions, Integrated Goods and Service Tax (IGST) shall be levied on Incase of Inter State transactions of goods and services which are based on destination principle.

Tax gets transferred to Importing state. More over it is proposed to levy an additional tax on supply of goods, not exceeding one percent, in the course of inter-state trade or commerce, to be collected by the Central Govt. for a period of two years, and assign to the States where the supply originates. Valuation of stock transfers to be determined.

Exports and Supplies to SEZ units will be zero rated. Setoff of IGST, CGST & SGST will be as follows in the below mentioned chronological order only.

**Exhibit-4**

**Set off GST process**

<b>SGST</b>	<b>1.SGST</b> <b>2.IGST</b>
<b>CGST</b>	<b>1.CGST</b> <b>2.IGST</b>
<b>IGST</b>	<b>1.IGST</b> <b>2.CGST</b> <b>3.SGST</b>

**Source: Relakhs.com**

**GST-SWOT ANALYSIS**

<b>Strengths</b>	<b>Weaknesses</b>
elimination of multiple excise, CST, VAT, service tax calculations Reduction in cost and timing of transportation More tax revenue Less paper work	The dual model GST results in complicated billing and reconciliation IT machinery High loan rates
<b>Opportunities</b>	<b>Threats</b>
An end to double taxation Growth in Revenue One point single tax Low prices of manufactured products Increase in GDP Increase in export	State may lose the Autonomy Initial Burden on Consumers due to a temporary increase of goods and services.  Since the mechanism is still complicated, it cannot completely eliminate black money and tax evasion.

## **Conclusion**

After years of discussion, the proposed GST bill was passed and ready to be passed as an Act. The present system suffers from lots of defects in its structure. It will eliminate the cascading effects of taxation, facilitate and promote increase in revenue for both the Centre and the States and will result in provision of goods and services to consumers at much lower rates. The GST model which gives scope for centre and state in tax collection. The uniform tax rate eventually results in less tax burden and resulting in lower consumer prices.

Therefore if the proposed GST is properly implemented, it could be one of the greatest reforms in the scope of Indirect tax in India. Thus GST with a slogan of “One nation, one market and one tax” will see leaps in Indian Economy.