GOODS AND SERVICES TAX (GST): A PANACEA FOR OUR TAX STRUCTURE?

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Abstract

"The nation is waiting for Parliament to discuss public issues, to legislate and approve a historic Constitution amendment enabling the GST. All this is being indefinitely delayed. The question we need to ask ourselves is, are we being fair to ourselves and this country?"

-Arun Jaitely

With multitude of State laws on VAT, the debate for the necessity of GST has been reignited. Although most countries around the world have gone for a single GST model, India has opted for a dual GST model. So far, the Constitution (122nd Amendment) Bill, 2014 or otherwise known as GST Bill has been passed in Lok Sabha however it is facing resistance in Rajya Sabha where our ruling NDA does not have a majority. The twofold reason for the delay in passing of GST Bill is due to:

a) The principal opponent Congress is adamant on sending the bill to the Select committee of the Parliament and is contentious of certain clauses in the proposed Bill.
b) The states are afraid they will lose their revenue if GST is implemented

The paper will go on discussing diverse aspects concerning the GST model proposed, such as what is the need for an all inclusive indirect tax model, how GST works, its essentiality for our economy, the drawbacks of the current tax regime, certain crucial clauses of the Amendment Bill, salient features of the model, current hurdles in its implementation, its impact on the economy if it is passed by Rajya Sabha, how various sectors are benefitted by it, and subsequently how it has fared in different Countries.

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1. INTRODUCTION

1.1 CONTEXT OF OUR CURRENT TAX REGIME

The Constitution provides for the division of taxation powers between the centre and states. Currently, indirect taxes are imposed on goods and services. These include excise duty, sales tax, service tax, octroi, customs duty etc. Some of these taxes are levied by the centre and some by the states. For taxes imposed by states, the tax rates may vary across different states.

The concept of Value Added Tax (VAT) was introduced for central excise duty in 1986. It is considered to be a major improvement over central excise duty at the National level and sales tax at the State level. Prior to this, excise duty was levied on both inputs used and the output produced. This meant that an amount paid as tax on the input was subject to taxation again at the output level (with limited set offs). This was applicable to each intermediate good in the manufacturing process. This ‘tax on tax’ led to cascading of taxes. This problem was sought to be addressed by the VAT regime under which tax paid on the inputs is deducted from the tax payable on the output produced. Similarly, sales tax also had a cascading effect through the distribution chain. All states have now adopted the concept of VAT for state sales tax.[2]

The issue of cascading taxation was partly addressed through the VAT regime. However, certain problems remained. For example, several central and state taxes were excluded from VAT. Sectors such as real estate, oil and gas production etc. were exempt from VAT. Further, goods and services were taxed differently, thereby making the taxation of products complex. Some of these challenges are sought to be overcome with the introduction of the Goods and Services Tax (GST).[3]

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[2] PRS India, ‘*Legislative Brief: The Constitution (122nd Amendment) Bill, 2014 (GST)’*, July 2015, available at http://www.prsindia.org/uploads/media/Constitution%20122nd/Brief--%20GST,%202014.pdf [HEREINAFTER PRS]

[3] Poddar, Satya and Ehtisham Ahmad, ‘*GST Reforms and Intergovernmental Considerations in India’*, Working Paper No.1/2009-DEA, Department of Economic Affairs, Ministry of Finance, March 2009.

1.2 WHAT IS GST?

GST is believed to be India's biggest tax reform since 1947. GST is a value added tax which can be levied when a customer buys goods or services. It is meant to be a single comprehensive tax that will subsume all the other indirect taxes. The proposed dual GST envisages taxation of the same taxable event, i.e., supply of goods and services, simultaneously by both the Centre and the States. Therefore, both Centre and States will be empowered to levy GST across the value chain from the stage of manufacture to consumption. The credit of GST paid on inputs at every stage of value addition would be available for the discharge of GST liability on the output, thereby ensuring GST is charged only on the component of value addition at each stage. This would ensure that there is no 'tax on tax' in the country.

HOW GST WORKS:

Table below explains how GST works. It takes the example of a manufacturer who pays excise, and a retailer who pays sales tax, and explains taxation under the current structure and the GST regime.

Comparison of tax under the current indirect tax system and the GST regime:

Transaction	Current System	GST
Cost of Raw Material	100	100
Tax on raw material	10	10
Value added by manufacturer	20	20
Tax payable by manufacturer	2 (CENVAT: 10%OF 20)	2 (GST: 10%O of 20)
Retailer's Cost	132	132
Retailer's Margin	20	20
Tax Payable	15.2 (10% of 132+20)	2 (10% of 20)
Final price incl. taxes	167.2	154
Of which taxes	27.2	14

In this example, the cost of the raw material is 100. The manufacturer and retailer add Rs 20 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 applicable 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). Note the '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, resulting in a lower price of the good.[4]

1.3 NEED FOR GST:

The Kelkar Task Force on implementation of Fiscal Responsibility and Budget Management (FRBM) Act, 2003 had concluded that even though the indirect tax system is progressing towards more of a VAT structure, it still suffers from various drawbacks.[5]. The Kelkar Committee observed that a tax reform of nationwide dual GST which would comprehensively tax the consumption of almost all goods and services in the economy would be able to achieve a common market, widen the tax base, improve the revenue productivity of domestic indirect taxes and enhance welfare through efficient resource allocation.

The existing Indian Indirect tax structure empowers levy of taxes by Central government on manufacturing of goods and supply of services like Customs duties, Central Excise duty, Service tax etc; and State governments on goods at point of sale such as state VAT, Entry Tax, Octroi etc. Integration of all such taxes would make it possible for full input tax credit. In other words, tax paid on purchase is eligible for deduction from output tax liability under GST.

Multiplicity of taxes and tax base being fragmented between Centre and States have resulted in a complex system of interconnected legislations leading to substantial distortions, cascading of taxes and adversely effecting growth in Gross Domestic Production (GDP), the same is meticulously discussed and analyzed throughout the paper.

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[4] PRS, *supra* note 1

[5] Rajkumar S. Adukia, '*A study on proposed Goods and Services Tax (GST) framework in India'*, http://taxclubindia.com/simple/rajkumar.pdf

2. LEGAL STUDY

2.1 ROAD TO GST BILL

Based on the federal character of Indian government, fiscal powers are equitably distributed between Central government and State governments[6]. Simply, the tax base is divided between the Centre and States. The initiative for GST was started soon after the implementation of VAT in the year 2005.[7]

As per the current scheme of Constitution of India, 1950, only Central government has been empowered to levy duties on manufacturing of goods and taxes on supply of services. Therefore, in order to introduce a national GST in India a Constitutional amendment empowering the states to levy and collect taxes would be a pre-requisite. To address these issues and give concurrent taxing powers to both the Union and States, the Government introduced Constitution (115th Amendment) Bill, 2011 (GST Bill) in the Lower House of Parliament on 22 March 2011 seeking to amend the Constitution of India, 1949 for the introduction of GST in India based on the model proposed by the Empowered Committee.

The Bill was then referred to the Parliamentary Standing Committee on Finance on 29 March 2011 for detailed examination and the Standing Committee tabled its report before Parliament on August 2013. However, the said Bill lapsed with the dissolution of the Lower House in 2014.

On creation of the new government, GST Bill was revised [Constitution (122nd Amendment) Bill, 2014] and got approval from the Union Cabinet to be presented before the Lower House of Parliament on 19 December 2014. The Lower House accorded its approval to the GST Bill on May 6, 2015 which was referred to a Select Committee of the Upper House (Select Committee) for examination. The Select Committee after accepting most of the clauses in the GST Bill submitted its Report to the Upper House on July 22, 2015 with certain recommendations in few clauses. Union Cabinet has approved the amendments to the GST Bill as per recommendations of the Select Committee on 29 July 2015 and the GST Bill was placed for discussion before the

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[6] Article 246 of the Constitution of India, 1950

[7] Seetha, '*So what is GST and what are its benefits'*, Swarajya: Read India Right, December 2014, available at http://swarajyamag.com/economy/so-what-is-gst-and-what-are-its-benefits

Upper House on 10 August 2015. However, the Upper House was adjourned sine die on the last day of the monsoon session (13 August 2015) without any business being conducted.[8]

2.2 THE CONSTTUTION (122 AMENDMENT BILL), 2014.

Certain important clauses of the proposed GST bill have been discussed below:

A. **Insertion of Article 366 (12A) to existing Article 366: Meaning of Goods and Services Tax**

(i) after clause (12), the following clause shall be inserted, namely:—

'(12A) "goods and services tax" means any tax on supply of goods, or services or both except taxes on the supply of the alcoholic liquor for human consumption;';

(ii) after clause (26), the following clauses shall be inserted, namely:—

'(26A) "Services" means anything other than goods; (26B) "State" with reference to articles 246A, 268, 269, 269A and article 279A includes a Union territory with Legislature;'.

B. **Amendment to Seventh Schedule: Union List- Entry 84: Goods outside the ambit of Goods and Services Tax**

In the Seventh Schedule to the Constitution,—

(a) in List I — Union List,—

(i) for entry 84, the following entry shall be substituted, namely:—

"84. Duties of excise on the following goods manufactured or produced in India, namely:— (a) petroleum crude; (b) high speed diesel; (c) motor spirit (commonly known as petrol); (d) natural gas; (e) aviation turbine fuel; and (f) tobacco and tobacco products.";

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[8] Deloitte & Assocham India, *'Goods and Services Tax in India: Taking stock and setting expectations'*, available at http://www2.deloitte.com/content/dam/Deloitte/in/Documents/tax/in-tax-gst-in-india-taking-stock-noexp.pdf [HEREINAFTER Deloitte]

Clause 17 discusses Amendment to the Seventh Schedule. The products listed above will continue to be charged under VAT and Excise.

C. **<u>Insertion of Clause 246A</u> – To facilitate the Parliament & States to make laws in regard to Goods & Service Tax imposed by Union or such State.**

*"246A(1) – Notwithstanding anything contained in articles 246 and 254, **Parliament**, and. subject to clause (2), the **Legislature of every State**, have power to make laws with respect to goods and services tax imposed by the Union or by such state.*

(2) Parliament has exclusive power to make laws with respect to goods and services tax where the supply of goods, or of services, or both takes place in the course of inter-State trade or commerce.

Explanation: – The provisions of this article, shall, in respect of goods and services tax referred to in clause (5), of article 279A, take effect from the date recommended by the Goods & Service Tax Council"

The proposed article seeks to confer power to both Centre and State to make laws with respect to goods and services being transacted within the State. However, inter-state trade will be dealt in accordance with the IGST mechanism.

D. **<u>Insertion of Clause 269A</u>**: **Apportionment of Interstate Taxes on Supply of Goods and Services based on GST Council's recommendations**.

"269A. (1) Goods and service tax on supplies in course of inter-state trade or commerce shall be levied and collected by government of India and such tax shall be apportioned between the Union and states in the manner as may be provided by the parliament by law on recommendations of goods and service tax council.

Explanation: – For the purpose of this clause, supply of goods, or of services, or both in course of import into the territory of India shall be deemed to be supply of goods or of services or both in course of inter-state trade or commerce.

(2) Parliament may by law, formulate the principles for the determining the place of supply, and when a supply of goods, or of services, or of both takes place in course of interstate trade or commerce."

As clause 9 of the Bill suggests, Central Government would levy goods and service tax on inter-state transactions of goods as well as services. The same will be distributed between Centre and States in the manner provided by law or the GST Council.

E. Facilitative amendments in Article 248(1), 249(1), 250(1), 268(1), 286 and omitting Article 268A.

Article 248(1) empowers the parliament to make laws on any matters not covered in state list and concurrent list. Hence in a sense this article is giving powers on residual matters to parliament. Now, this has been made subject to 246A since GST shall be both centre's and state's domain.

Article 249(1) empowers the parliament to make laws even of state list where it is in national interest and the council of states have passed a resolution to this effect of 2/3rd members or more. Now, GST has been also covered in this provision.

Article 250(1) empowers the parliament to make laws even of state list in pursuance to proclamation of emergency being in operation. Now, GST has been also covered in this provision.

Article 268(1) governs levy of duties of excise on medicinal and toilet preparations as mentioned in union list but are collected by state. Now, the duties of excise on medicinal and toilet preparations is being omitted.

Apportioning of taxes between centre and state is facilitated by Article 268A (Services) will be dispensed away.

Article 286 imposes restrictions for imposition of taxes on sale or purchases of goods in case of interstate trade, imports or exports or trade outside the state. It empowers the parliament for the same. Now, this is extended to GST.

Article 268A empowers the central government to levy taxes however the same will be omitted after introduction of Goods and Services Tax to b levied by Centre and State both.

3. KEY CONCEPTS AND ANALYSIS

3.1 SALIENT FEATURES OF PROPOSED GST

DUAL GST MODEL: As pointed out previously, the dual GST model proposed by the Empowered Committee and accepted by the Centre will have dual system for imposing the tax. GST shall have two components i.e.

a) Central GST
b) State GST

Centre would levy and collect Central Goods and Services Tax (CGST), and States would levy and collect the State Goods and Services Tax (SGST) on all transactions within a State. Central Excise duty, additional excise duty, services tax and additional duty of customs (equivalent to excise), state VAT entertainment tax, taxes on lotteries, betting and gambling and entry tax (not levied by local bodies)would be subsumed within GST.

RATE OF GST: The rate is still being discussed by the Government. After deciding the total GST rate the Centre and State will come to conclusion on CGST and SGST rates respectively. Recently, the finance minister commented about the rates stating that the Oppositions demand to fix the cap on GST at 18% in the Constitution Amendment bill itself is difficult as there can be unforeseen emergencies. [9]

TAXES TO BE SUBSUMED:

The sub-summation should result in free flow of tax credit in intra and inter-State levels so that unrelated taxes, levies and fees are not be subsumed under GST.GST would replace most indirect taxes currently in place such as:

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[9] HT Correspondent, '*Jaitley agrees with Congress proposal to cap GST rate at 18%',* Hindustan Times, March 2016, available at http://www.hindustantimes.com/india/jaitley-agrees-with-congress-proposal-to-cap-gst-rate-at-18/story-O6nc3KaPOmmHSlNq5NvxcM.html

Central Indirect Taxes	State Indirect Taxes
Central Excise Duty [including additional excise duties, excise duty under the Medicinal and Toilet Preparations (Excise Duties) Act, 1955] Service tax Additional Customs Duty (CVD) Special Additional Duty of Customs (SAD) Central Sales Tax (levied by the Centre and collected by the States) Central surcharges and cesses (relating to supply of goods and services)	Value Added Tax Octroi and Entry Tax Purchase Tax Luxury Tax Taxes on lottery, betting & gambling State cesses and surcharges Entertainment tax (other than the tax levied by the local bodies) Central Sales Tax (levied by the Centre and collected by the States)

CGST and SGST would be comprehensively applicable to all goods and services upto the final consumer (retail level), reflecting the tax base of a typical consumption VAT. Thus, CGST and SGST would be applicable to all transactions involving supply of goods and services made for a consideration (except alcoholic liquor for human consumption) and the exempted goods and services, goods which are outside the purview of GST and the transactions which are below the prescribed threshold limits. Based on recommendations of both the 13th Finance Commission and Empowered Committee,

INTER-STATE TRANSACTIONS AND THE IGST MECHANISM: At present, inter-state supply of goods attracts Central Sales Tax. The Centre would levy and collect the Integrated Goods and Services Tax (IGST) on all inter-State supply of goods and services (i.e. CGST plus SGST).

GST COUNCIL: A Goods and Services Tax Council is to be formed under the Constitution by the President within 60 days of the Act coming into force. A new clause is proposed to be inserted in the Constitution under Article 279A. The GST council is to make recommendations to the Union and the States on taxes on goods and services, threshold limit for GST and any other matter. [10]

[10] CA Rajat Mohan, '*GST Constitution Amendment Bill- A Comparative Analysis'*, GST India, April 2015, available at http://www.gstindia.com/gst-constitution-amendment-bill-a-comparative-analysis/

GST COMPENSATION: Due to a shift from origin based to destination based indirect tax structure, some States might face drop in revenue in the initial years. To help the States in this transition phase, the Centre has committed to compensate all their losses for a period of 5 years. Accordingly, clause 19 has been inserted in the Constitution (122nd) Amendment Bill, 2014 to provide for compensation to States by law, on the recommendation of the Goods and Services Tax Council, for loss of revenue arising on account of implementation of the goods and services tax for a period of five years.[11]

3.2 CHALLENGES FACED IN IMPLEMENTATION

1) **CONSTITUTIONAL AMENDMENT BILL TO BE PASSED OFF IN BOTH THE HOUSES**: As stated earlier, our current NDA ruling does not have a majority in Rajya Sabha; it will be a complex task to get it passed in the Upper House of the Parliament. To get the bill cleared there needs to be a reduction in number of people opposing in the Upper House. The number stands at and needs to get at 82 for the bill to be passed.[12]
2) **CONSTITUTIONAL AMENDMENT BILL TO BE PASSED BY MOST STATES**: For implementing it is critical for the Bill to be passed by respective State Governments so as to bring majority. Gathering consensus and acceptance to an uniform indirect tax structure is surely going to rouse some conflict.
3) **DETERMINATION OF REVENUE NEUTRAL RATE (RNR):** The success of GST in India depends on two prominent factors- RNR and the threshold limit for GST. In the GST system, the revenue would not remain the same as compared to the current tax system. Therefore, an adjustment in tax rate is required to avoid reduction in revenue of the Government. Hence, the rate of tax will have to be suitable adjusted to ensure that tax revenue does not reduce. The rate is termed as Revenue Neutral Rate. It is the rate at

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[11] GOI Ministry of Finance- Department of Revenue, '*Concept Note on GST'*, October 2015, available at http://dor.gov.in/Gstintro

[12] Palak Shah, '*BJP will have numbers in Parliament to pass GST by July 2016, says Morgan Stanley* ', Economic Times, March 2016, available at http://economictimes.indiatimes.com/news/politics-and-nation/bjp-will-have-numbers-in-parliament-to-pass-gst-by-july-2016-says-morgan-stanley/articleshow/51258162.cms

which tax revenue remains the same despite giving credit of duty paid on inputs and other factors.[13]

4) **THRESHOLD LIMIT IN GST:** Threshold limit indicates basic exemption limits or the limit below which taxpayers are not liable to pay tax. Currently, the threshold limit for GST is proposed to be 10 lakhs and for those with annual sales between 10L-50L will need to pay the tax at a lower rate than the standard GST rate.[14] This means that thousands of small traders would be exempted. At the same time, small traders over 10L would have to pay the GST when they are not equipped to understand the compliance requirements, the IT network or the claiming of credits.

5) **ADDITIONAL LEVY ON GST:** The purpose of additional levy is to compensate the State for its reduced revenue because of GST. An additional tax of up to 1% on the supply of goods will be levied by centre in the course of inter-state trade or commerce.[15] The tax will be collected by the centre and directly assigned to the states from where the supply originates. This tax will be levied for two years, or for a longer period as recommended by the GST Council. The central government may exempt certain goods from such additional tax.[16] The additional levy leads to leads to distortion of national market, as a produced in one state and sold in another would be more expensive than one made and sold within the same state.

6) **EXEMPTION UNDER GST:** The Bill excludes alcoholic liquor for human consumption from the purview of GST. Further, GST will apply to five petroleum products i.e. (a) petroleum crude, (b) high speed diesel, (c) motor spirit (petrol), (d) natural gas, and (e) aviation turbine fuel at a later date, to be decided by the GST Council. Petroleum products are inputs for several other goods and exempting them from the

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[13] ICAI, '*GST- A Boon for Indian Economy (Concepts & Benefits)'*, August 2015, available at http://idtc.icai.org/download/FinalGST-A_Boon4IndianEconomyEng&Hindi.pdf

[14] Gireesh Chandra Prasad, '*GST threshold at '10 lakh, lower rates for turnover up to '50 lakh* ', The Indian Express, May 2015, available at http://indianexpress.com/article/business/gst-threshold-at-10-lakh-lower-rates-for-turnover-up-to-50-lakh/

[15] Amit Bhagat, '*GST: Unified tax, myriad challenge's*, Financial Express, December 2014, available at http://www.financialexpress.com/article/fe-columnist/gst-unified-tax-myriad-challenges/23154/

[16] PRS, *supra* note 1

purview of GST could lead to cascading of taxes.[17] This is because the input tax credit would no longer be available on such products. This disruption in the tax credit chain would distort the GST structure and could also lead to leakages of revenues.6 The 13th Finance Commission and the Department of Revenue had recommended that all petroleum products and alcohol be brought under GST.[18] The Commission had suggested that states could impose an additional levy on petroleum products and alcohol, in addition to GST.[19]

3.3 IMPACT ON OUR ECONOMY

3.3.1 BENEFITS:

1) **MITIGATION OF CASCADING TAXATION**: A tax is levied on a good at each stage before it is sold to the final consumer. In tax cascading, tax is applied several times and is charged even on the tax which forms part of the inputs. GST works on the value addition principle as seen in the case of VAT.

   i. ***In case of NON VAT***: Credit on earlier tax paid is not given and new Vat is applicable on the entire amount. Suppose, A sells an article to B worth 100 Rs after adding 10& VAT, the total amount would be 110 Rs. B sells the same to C, earning profit of 20 Rs, total amount being 130 + 10% VAT: Rs 143

   ii. ***In case of VAT***: The credit of the earlier tax is given and tax is levied only on the value added. Suppose, A sells to B at 110 Rs as mentioned earlier, when B sells the same to C, at 130, earning 20 Rs profits, tax will be only on the value added by B i.e. 20 Rs which at 10% is Rs 2 as opposed to Rs 13 in the earlier example. Total rate of this transaction would be 132 Rs. Therefore, here the cascading effect (tax on tax) is avoided.

[17] Report of the 14th Finance Commission, Chapter 13, Goods and Services Tax, February 24, 2015.

[18] Comments of the Department of Revenue on the First Discussion Paper on GST, January 2010

[19] Report of the 13th Finance Commission, Chapter 5, Goods and Services Tax, Ministry of Finance, December 2009.

Same way, the Goods and Services Tax Act will overcome the problem of tax cascading through input tax credit mechanisms. Under this system, sellers or vendors of goods and services are eligible to avail tax credits on the amount of GST paid to eligible procurements.

2) **REDUCING COMPLEXITY:** Presently in India, for taxing sale of goods, there is Central Sales tax and respective VAT Acts for each state and Union territory. The Goods and Services Tax will remove this complication by having a unified code for implementation of State GST and pave the way for a simple tax structure. It will subsequently reduce paperwork and accounting complexities for businesses.
3) **INCREASED TAX REVENUE:** A simpler tax structure can bring greater compliance resulting in increased tax payers and revenues for the Government. A study had been conducted by NCAER to examine the impact of GST on GDP Growth and Exports which reported that Government's tax revenue will increase by about 0.2 per cent because of GST implementation, while GDP growth could go up by 0.9-1.7 per cent.[20]
4) **REDUCED LITIGATION**: Taxation under GST would reduce litigation as there will be clarity regarding jurisdiction of taxation as against the present tax regime where there still exists uncertainty regarding jurisdiction of taxation by Centre and State in few cases such as in Software, Right to use of goods etc.
5) **MORE MONEY TO BACKWARD STATES**: GST is a consumption-based tax. In other words, goods are taxed where the final sale takes place and not where the goods are produced. Tax collection will go to States where goods are consumed and not where goods are manufactured. More consumption will take place in states which are densely populated. Therefore, consuming States such as UP, Bihar and Jharkhand where the tax revenues are less as they lack infrastructure to produce, will be benefitted. The result of this, per capita tax collection in the economy across States will even out.

3.3.2 IMPACT ON VARIOUS SECTORS

[20]Varun Sinha, '*How GST will change the face of Indian Economy'*, NDTV Profit, November 2014, available at http://profit.ndtv.com/news/economy/article-how-gst-will-change-the-face-of-indian-economy-701413

1) **INFRASTRUCTURE AND REAL ESTATE**: VAT, Entry Tax and Service tax and other multitude of taxes will be reduced effecting a simplified tax structure and seamless flow of credits through the chain, resulting in reduced property prices.
2) **MANUFACTURING:** The Manufacturing sector amounts to 16% of the GDP. With the efforts of Modi government's 'Make in India' campaign to attract domestic and global investors, the proposed GST will further improve the system. Indian Manufacturing scenario is infected with tax cascading and multiple indirect taxes resulting in stagnation. GST will reduce the production costs and give benefit to end customers. Government levies Excise Duty, Additional Excise Duty, Special Excise Duty, Service Tax and VAT on goods manufactured under the Central Excise Tariff Act, elimination of all these taxes will make the working seamless.
3) **IMPORTS AND EXPORTS**: India is proposed to follow the Consumption-type GST where final consumption is treated as final use of goods. Therefore, Exports are not levied taxes however Imports are taxed under the destination principle in an open economy. Imports will be subjected to both CGST and SGST. However, there are certain taxes which will not be subsumed are Basic Customs Duty, Anti-Dumping Duty and Safeguard Duties. Exports will be relieved of the burden of GST by zero rating. Zero rating of exports mean that when goods are exported no VAT is charged on them also VAT paid on inputs is refunded.
4) **AUTOMOBILE:** A positive impact on this sector will be the elimination of 2% interstate CST that auto manufacturers have to pay to sell their cars outside the state of manufacture. This is particularly beneficial as majority of the cars are sold outside of the manufacturing state. Also, the interstate procurement of auto components will be exempt from CST if GST is enacted.

   The negatives for auto companies will be probable renegotiation of the state VAT or CST incentives obtained from manufacturing states such as Gujarat, Tamil Nadu etc. Another aspect is the differential treatment of small cars, depending upon the engine size etc. If a standard GST rate comes into play for small cars as well, this would mean increased costs to the consumers.
5) **ENTERTAINMENT AND HOSPITIALITY**: GST will obliterate multiple taxes levied in this sector. Luxury Tax, Entertainment Tax, VAT and Service Tax will be subsumed

under GST. The GST rate being lower than these taxes will make it cheaper for the consumers to avail the services of this sector.

4. GLOBAL EXPERIENCES OF GST

Currently, there are 160 countries in the world that have implement VAT/GST. Number of countries based on region are as follows:-

NO.	REGION	NO. OF COUNTRY
1	ASEAN	7
2	Asia	19
3	Europe	53
4	Oceania	7
5	Africa	44
6	South America	11
7	Caribbean, Central & North America	19

France was the first country to introduce GST system in 1954[21]. Most of the countries have a unified GST system which is considered ideal. However, as the proposed GST model in India, Brazil and Canada follow a dual system where GST is levied by both the Union and the State 35 governments. The standard GST rate in most countries ranges between 15-20%. Most of the sectors are taxed except for few exemptions. Malaysia is the latest country to join the bandwagon for GST from April 2015.

[21] R. Muralidharan, '*All you ever wanted to know about GST'*, DNA India, June 2009, available at http://www.dnaindia.com/money/report-all-you-ever-wanted-to-know-about-gst-1265576

4.1 EUROPEAN VAT

European VAT came into existence with the signing of Maastricht Treaty in 1993 and the Treaty of Amsterdam in 1999. The bond became stronger with addition of new countries in the Union.[22] European VAT has been enacted for a number of reasons prominent one being smooth cross-border transactions facilitating development of common market. The essential piece of EU VAT legislation since 1 January 2007 has been Directive 2006/112/EC. That 'VAT Directive' is effectively a recast of the Sixth VAT Directive of 1977 as amended over the years. The recast brings together various provisions in a single piece of legislation. It provides a clearer overview of EU VAT legislation currently in force. As it is usual practice, the Directive contains a correlation table providing the bridge between the provisions of the Sixth VAT Directive and those of the new Directive.[23]

The VAT Directive sets the framework for the VAT structure in the EU, but it gives national governments freedom to set the number and level of rates they choose and transport provisions of VAT Directives into national legislation, subject to below certain basic rules.[24]

4.2 CANADIAN GST

Canada has a dual GST system similar to India. Alike India, there is federal government, provisional government along with territorial governments. The taxes are levied by both federal and provisional governments. GST was enacted in the year 1991 replacing the manufactures sales tax. Most goods supplied in or imported to Canada are taxable supplies and are taxed under GST.

The year 1997 saw the introduction of Harmonized Sales Tax (HST). Generally, the harmonized sales tax (HST) applies to the same base of property (for example, goods) and services as the GST. HST is imposed in provinces that have harmonized their provincial sales tax with the GST;

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[22] Bhogavalli Mallikarjuna Gupta**,** *Roll Up Your Sleeves for GS,* Notion Press, (First ed, July 2015)

[23] European Commission, Taxation and Customs Union, '*VAT: How VAT Works*', http://ec.europa.eu/taxation_customs/taxation/vat/how_vat_works/index_en.htm

[24] Deloitte, *supra* note 7

these provinces are referred to as the "participating provinces". The participating provinces are New Brunswick, Nova Scotia, Newfoundland and Labrador, Ontario and Prince Edward Island.[25]

However there are certain exceptions to GST/HST:

- Exports and supplies of goods and services involving basic needs of individuals such as drugs and biologicals, medical and assistive devices, basic groceries, agriculture and fishing, transportation and travel etc. are taxed at the rate of 0% (zero-rated)[26]
- Supplies of goods and services supporting public needs such as certain real property, healthcare, educational, child and personal care, legal aid, public sector bodies, financial services, ferry/road/bridge tolls etc. are kept outside the purview of GST/HST.[27]

5. CONCLUSION

From France to Malaysia, over decades we have seen the adaption of GST by different Countries. Our economy has suffered in the past and the same continues due to the inefficiency and inadequacy of our present tax system. The solution to this was offered by the Kelkar Committee in the form of Goods and Services Tax (GST). A single tax which will encompass all the indirect taxes in the Country. The biggest tax reform since 1947 through the passing of Constitution (122nd Amendment) Bill, 2014. The bill which is currently pending in Rajya Sabha requires 2/3rd majority to be passed.

We have deviated from an ideal GST model. CGST, SGST and IGST are the different GSTs proposed to be levied. Although, GST is subsuming number of taxes which is the very evil we are fighting against in our current tax system, the different GSTs will bring its own complexities. Another point of contention has been the number of goods excluded which will continue to be taxed by the respective States. Other points of disagreement being the 1% Additional levy, the Revenue Neutral Rate, the Threshold limit, the GST rate. Such issues discussed earlier in the paper require brainstorming and scrupulous analysis by the Government to reach a harmonious

[25] Canada Revenue Agency, '*Learning the basics of GST/HST*', http://www.cra-arc.gc.ca/tx/bsnss/tpcs/gst-tps/gnrl/menu-eng.html

[26] Schedule VI [Subsection 123(1)] of Excise Tax Act, R.S.C., 1985, c. E-15

[27] Schedule V [Subsection 123(1)] of Excise Tax Act, R.S.C., 1985, c. E-15

solution. GST already has consensus among the stakeholders additionally, awareness of how GST works and how it will ease their day-to-day transactions should be made known so that the stakeholders can efficiently harness and avail benefits of the transition from Service Tax/VAT to GST.

It is also necessary to acknowledge and appreciate the impending issues which are being addressed through the implementation of GST. The problems of tax cascading, double taxation, complex mechanisms, compliance and procedural cost resulting in sluggish growth will be done away with once the GST comes to play. The consumer benefits with reduced costs. Therefore, the logical step would be its soonest enactment.

The success of GST after its implementation will depend upon multitude of factors but it is of paramount importance that all the States and Union work in tandem. The GST when first introduced in New Zealand yielded revenues which were 45% higher than expected. As for India after GST, the revenue, the benefits, the increase in GDP, flow of credits, reduced costs of products, the adaptability by stakeholders are all the tales to be told by time.