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GST in India

RP - Sanjiv Goenka Group
Growing Legacies

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Manuscript Submission Guidelines

The article should be non-technical and should be within 1600 words. It should be typed in MS Word in Times New Roman 12 with paragraph spacing 1.5. Figures and simple, small tables can be incorporated. There should not be any notation or equation. Full forms of each abbreviation should be mentioned at first instance. Upto eight references can be included in the article. Limited number of short footnotes may also be included if necessary. Send your manuscript along with your name, designation, institutional affiliation, email ID and contact number to the editorial office at imikonnect@imi-k.edu.in mentioning the area viz. Marketing, Finance, OB & HR, Economics, Strategy, IT & Operations, Management Education and Others.

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Goods & Services Tax: How Does it Work?*

1. *What is GST?*

Goods and Services Tax is a "value added" tax levied by both the Centre and States on the final consumption expenditure of goods and services. The final consumer of the goods or services bears the tax, in contrast to the excise tax or sales tax where the producer/seller pays. There will be a State GST, Centre's GST and Integrated GST for inter-state sales. This subsumes Centre's existing tax levies such as Excise, Countervailing Duty (CVD), Special Additional Duty (SAD), Service Tax etc., and States' Sales (VAT) and other existing taxes.

Let us take an example to understand the GST design (refer Table 1). Suppose three goods are produced: A (flour), B (cake) and C (icing and decoration); C is the final consumption good, B uses A as input and C uses B as input. Suppose again, a 10 percent tax is imposed either on the Value Added (VA) or on sales price. These are two different cases, discussed below. We can find that GST by design, eliminates "cascading" of taxes and hence imposes lesser tax on the consumer as a percentage of the VA consumed. To elaborate more, let us look at Panel-1 of Table 1. Producers at every stage of production pay a tax of 10 percent for their respective value additions (₹ 100), and so is the consumer for the value consumed, and the tax paid that is passed on to the producer at the next stage, is paid back to the next producer by the government as "input tax credit" (ITC). In contrast, in Panel-2, the tax is imposed on sales price and not on the value added. Therefore, the tax that is passed on to the producer at the next stage (e.g., 10 to Producer of B, 21 to producer of C) are not paid back to the producer as ITC. This blows up the total tax borne by the ultimate consumer (who consumes C) from 10 percent to 21.4 percent, even though he is consuming the same 300 units of "value addition". This is because, the tax burden not only includes the taxes passed over to him by the producers at every stage of production, but also it includes "taxes over taxes" (e.g., 10+21 as contrast to 10+10 in Panel-1 for product B).

Table 1: Tax under VAT and Non-VAT Structure

	Panel-1: GST (with Full Input Tax Credit)				**Panel-2: No VAT (Cascading)**			
	A	*B*	*C*	*Cons*	A	B	C	*Cons*
VA	100	100	100		100	100	100	
Tax liability: 10%	10	20	30		10	21	33.1	
Sale price	110	220	330	330	110	231	364.	364.1
Input tax credit	0	10	20		0	0	0	
Net tax paid	10	10	10	30	10	21	33.1	64.1
Net tax on consumer (as % VA)	**10**				**21.4**			

2. Why was it necessary to make a constitutional amendment for GST switchover in India?

Constitution demarcated exclusive power to levy taxes on manufacturing of goods (except for a few goods), on services and on inter-state sales; and empowers the States to levy taxes on sales. Under GST, constitutional amendment empowers both Centre and States to levy taxes on goods and services, concurrently. A GST Council has been created with the Union Finance Minister as the chairperson and representatives from different states of India, who will take decisive role to design the GST roadmap: the rates, exemptions etc.

3. How do the rates differ from the existing rates?

The existing tax rates especially on goods, are multiple and complex in nature. For example, under central excise (manufacturing) the number of taxes are 8 with exemptions of as many as 300; under states VAT (upto retail) more than 3 with almost 90 exemptions; services tax of Centre has number of rates as many as 11.

The GST tax rate slabs are: nil, 3 percent (only for gold), 5 percent, 12 percent, 18 percent and 28 percent. Such tax brackets are designed as the average of the previous taxes in corresponding categories. Goods and services are brought under different tax brackets, for example, most of the basic food items are brought under nil tax rate. Alcohol, petroleum, electricity, healthcare, real estate and education (largely) are at present, outside the purview of GST. Cesses, over and above the 28 percent rate, will be imposed on certain "sin goods" (e.g., tobacco and it products) as per the recommendation of GST council. This will be collected to compensate the states and to ensure a 14 percent revenue growth for the first five years of GST imposition.

4. Will it be inflationary?

Not necessarily, in fact, prices in general are expected to come down gradually. This of course, depends upon the GST rate structure – goods that were exempted, how they are placed in GST tax brackets, new tax base etc. The logic is, broadly speaking, there were certain goods which were tax exempted (e.g., food) but many of the inputs underlying were not (e.g., energy). Thus, due to the cascading of taxes, 'effective tax' on these tax-exempted goods are not 'nil'. GST has kept most of these tax exempted goods under 'nil' tax bracket and simultaneously, keeping energy (electricity, petroleum etc.) outside the purview of GST. Moreover, GST tax brackets for the goods are chosen based on their existing tax brackets, and also looking at their relative contribution in the consumption basket. For example, food having the highest contribution (and hence the highest weight in Consumer Price Index) are kept under low GST tax bracket (nil or 5percent, in general). As and when more goods or services are brought under the GST network and tax base rises due to the incentive based 'value added' designing of GST (input tax credit return for purchases from within the GST network), the effective tax rate on the goods/services will reduce eventually, thereby reducing the prices.

5. How equitable is it by design?

From the consumers' perspective– goods that have a larger share of expenditure by the poor (e.g., food) are either kept under the nil category or lower tax bracket, and simultaneously, goods largely consumed by the rich are kept under higher tax bracket (packaged food, luxury goods). From the producers' perspective, threshold turnover exemption for GST registration is ₹ 20 lakh per year. Small and medium enterprises (with turnover threshold of ₹ 75 lakh) have been given a choice to avail the composition levy, which imposes lesser tax but without any input tax credit benefit.

6. Where does India's GST tax design lie in terms of international comparison?

In comparison with the countries that have adopted GST, even in comparison with the emerging peers, India's GST rates are much higher at this stage. Also, the rates are multiple as compared to others. Ideally, the tax rates should be as minimum as possible in number, and should be aligned (reduced) with the expansion of tax base. However, GST implementation needs to be done in steps; with that in mind, the GST Council has accommodated the goods and services under the proposed GST tax brackets, which is much narrower and simpler as compared to the rates that prevailed in the earlier regime. Had they started with a single rate instead of slabs, the inflationary impact would have been higher. The rates are expected to come down both in value and number, with the contraction of the informal market, implying an expansion of the GST network, and hence enhancement of the tax base.

**Prepared by Editorial Team, IMI Konnect*

International Experiences Concerning GST*

Introduction

With an objective to reduce tax evasion to the maximum possible extent, more than 150 countries across the globe have adopted the Goods and Services Tax (GST) model[1]. India has embraced the Canadian model of dual GST where the federal structure is such that both the Centre and the States have been assigned powers to levy and collect taxes through appropriate legislation. So far only Canada, Brazil and India have been following the dual GST structure. What sets India apart from this single unified system of taxation is the rate of GST. This is solely because of the presence of different strata of the society which makes the implementation of a single GST rate infeasible at least at present.

GST in other countries

Europe

As per RBI Report (2017)[2], one can take a look at the implementation of GST in various countries and its impact on their performance. France is the first country to have implemented GST in the year 1954. Currently the rate of GST applicable there is 19.6 percent. Most of the European countries followed suit and gradually adopted GST in the 1970-80s.

America

Canada set forth GST in the form of a multi-level VAT in 1991 on the supplies of good and services purchased within the country which included almost all products except essentials like groceries, house rent and health services. One reason why this mechanism led to price distortions in the nation is that Canada also imposes its own sales tax besides GST. However, this is not the case in India although we may find some similarities with the dual GST structure implemented in Canada. The rate of GST varies from 13 to 15 percent in Canada.[3]

Asia

In 1994, Singapore introduced GST at a very low rate at 3 percent with an intention to minimise inflation and make it more acceptable to the public. Inflation rose by 0.8 percent from 2.3 percent in 1993 to 3.1 percent in 1994 as a result of GST but it gradually attained a moderate rate of 2 percent during 1995-96[4].

[1] "GST: How India's dual GST model stacks up against other countries", June 30, 2017, Retrieved from http://www.indiatvnews.com/business/india-how-india-s-dual-gst-model-stacks-up-against-other-countries-388680

[2] "Goods and Service Tax: A Game Changer", RBI, Retrieved from https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/ 03GS_120517578066848D9F4143AFF5FD9992150C0C.PDF

[3] "India's GST highest in the world: Here's what some other countries charge", July 1, 2017, Retrieved from http://www.businesstoday.in/current/economy-politics/indias-gst-highest-in-the-world-heres-what-some-other-countries-charge/story/255583.html

[4] "GST in India versus GST in the other countries: What differentiates India", May 29, 2017, Retrieved from http://www.zeebiz.com/india/news-gst-in-india-versus-gst-in-the-other-countries-what-differentiates-india-16838

The government also introduced a compensation scheme for the needy and privileged under the GST mechanism. Currently the rate of GST applicable in Singapore is 7 percent. The tax is broad based and includes essentials like water, electricity and rice within its purview which means that a low income worker who would not be paying taxes earlier would now have to pay GST even on his daily expenses. Malaysia could see the cost of doing business coming down after the tax burden was transferred from the manufacturers to the consumers as a result of implementation of GST. The standard rate of GST is currently 6 percent in Malaysia. However, in terms of tax collection the country is still low on tax revenue productivity.

Australia

Australia replaced its existing taxes by GST in the year 2000 after 25 years of contemplation since 1975. The tax rate applicable was 10 percent leading to low tax revenue productivity from the perspective of tax collection. At present, New Zealand is the highest tax productive country among the Organisation for Economic Cooperation and Development (OECD) nations. It introduced the GST mechanism in 1986 at the rate of 10 percent. The rate was last modified in 2010 and increased to 15 percent in order to mobilise higher tax revenues. Food was also included in the GST base at the full rate after the adoption of GST at a single rate. Such a mechanism ensured reduction in compliance and administrative costs.

No or Partial GST

United States is perhaps, the only large economy which has not implemented GST and enjoys higher autonomy in taxation. China has partial GST on some goods. It introduced its Value Added Tax reforms in 2016 owing to its previously conflicting Business Tax System.

Experiences on Implementation and Effect of GST

The Positive Side

The popularity of GST has been found in the fact that it has established itself as a revenue spinner. Also, since the tax is supposed to be self-assessed, it minimises compliance costs as well. The IMF has played the role of a change agent in spreading the popularity of GST across developing nations owing to its early success in the European Union.

Concerns and Issues

In many countries, the levy of sub-national GST was considered infeasible on technical grounds on account of cross-border trade. As per the Report[5] prepared by the Chief Economic Advisor (CEA) Arvind Subramanian (2015), a comparative study was made reflecting GST implementations in the federal systems around the world. The focus was mostly on the experiences of the European Union, Canada, Brazil, Indonesia, China (a unitary nation) and Australia.

One could find serious challenges imposed by the GST mechanism. "They are either overly centralised, depriving the sub-federal levels of fiscal autonomy (Australia, Germany, and Austria); or where there is a

[5]Report on the Revenue Neutral Rate and Structure of Rates for the Goods and Services Tax (GST), December 4, 2015, Retrieved from http://www.gstcouncil.gov.in/sites/default/files/CEA-rpt-rnr.pdf

dual structure, they are either administered independently creating too many differences in tax rates that weaken compliance and make inter-state transactions difficult to tax (Brazil, Russia and Argentina); or administered with a modicum of coordination, which minimises these disadvantages (Canada and India today) but does not do away with them."[6]

Conclusion

In the Indian context, the RBI has pointed out that so far as the cross-country experience and empirical evidence on efficiency gains from the VAT are concerned, the implementation of GST in the form of a comprehensive indirect tax is expected to result in higher tax buoyancy and an improvement in the government revenue collection over the medium term.[7]

**Prepared by Editorial Team, IMI Konnect*

[6]"Goods and Services Tax: How world went about GST and what lies ahead for India", July 1, 2017, Retrieved from http://indiatoday.intoday.in/story/goods-and-services-tax-gst-challenges-in-india/1/991760.html

[7]"France 1st country to implement GST in 1954, China adopted in 1994", May 20, 2017, Retrieved from http://www.oneindia.com/international/france-1st-country-implement-gst-1954-china-adopted-1994-2440401.html

Assessing the Impact of GST on International Trade in India

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GST and Trade

The roll out of Goods and Services Tax (GST) with effect from July 1, 2017 is a landmark reform in the area of indirect taxation in the country. Covering most of the indirect taxes levied on the domestic supply of goods and services by the Central and State Governments, it seeks to establish "One Tax One Nation One Market". The impact of the introduction of GST in India, however, extends to export and import trade as well. Therefore, the impact of introduction of GST was felt at Jawahar Lal Nehru Custom House (JNCH) right at the dawn of July 1, 2017 with the first Bill of Entry filed under the new regime. It has been a month since then and the initial apprehensions of the trade and teething trouble of the Customs IT systems are behind us. Therefore, it is the appropriate time to look at the prospects of GST and assess its impact and implications on trans-border movement of goods, viewed from the JNCH perspective, which is the largest container port and biggest customs revenue earner in the country.

It has always been recognised that an efficient tax collection system should minimise the compliance cost and maximise the prospect of voluntary compliance. Looked at from this point of view, two recent developments are noteworthy. The Trade Facilitation Agreement (TFA) of the World Trade Organization (WTO), to which India is also a signatory, came into force on February 22, 2017, the other being rollout of GST. The broad objective of TFA and GST is to facilitate trade and minimise the compliance burden, without adversely impacting revenue collection.

The Background of Taxation

There are two basic principles of taxation relating to export-import trade: first, there should be Countervailing Duty (CVD) on all imports, besides basic customs duty, to ensure level playing field to the domestic manufacturers/traders; and second, the exports should be free of domestic levies, i.e. they should be zero rated. Both the principles are based on sound economic logic and universally accepted. The Indian indirect taxation regime prior to the GST regime recognised both the principles, but fell significantly short in actual design. The new GST regime reflects a quantum jump in both these directions.

Under the earlier regime, Additional duties of Customs, normally called as CVD (equal to the excise duty for the time being leviable on a like article if produced or manufactured in India) and Special Additional Duty (SAD) (additional duty as would counter-balance the sales tax, value added tax, local tax or any other charges for the time being leviable on a like article on its sale, purchase or transportation in India) were levied as duties of Customs on imported goods in terms of the provisions of section 3 of the Customs Tariff Act, 1975.

In view of the fact that central excise duty was levied only on manufactured goods and the rate of SAD was capped at 4 percent, the benefit of Countervailing Duty available to the domestic trade was not complete. This had the effect of putting some of the sectors of the domestic industry at a relative disadvantage vis-à-vis foreign suppliers.

Changes in the New Regime

The said section 3 of the Customs Tariff Act has been amended vide the Taxation Laws (Amendment) Act, 2017 to provide for the levy of integrated tax at such rate, not exceeding 40 percent, as leviable under section 5 of the Integrated Goods and Service Tax Act, 2017 on a like article on its supply in India. Section 7(2) of the IGST Act, 2017 provides that supply of goods imported into the territory of India, till they cross customs frontiers of India, shall be treated as supply of goods in the course of inter-state trade or commerce. Similar provision for service is contained in section 7(4). The Central Government has notified different rates of IGST on supply of different goods and services, with the standard rate being 18 percent. This arrangement ensures complete countervailing of the domestic indirect taxes on all commodities under the GST regime, which is expected to provide a boost to domestic industry and trade. It would also give a boost to "Make in India" campaign as the relative disadvantage to the domestic industry stands removed under GST and the export procedure becomes significantly simpler.

It is also expected that collection of IGST at the point of import and integration of the Customs IT system with the Goods & Service Tax Network will facilitate trade in terms of smooth passage of Input Tax Credit (ITC) and will also result in improved compliance and tax collections.

Implications for Imports

The imposition of IGST on imports is expected to result in significant increase in collection of duties in comparison to the revenues collected under CVD plus SAD regime on account of three factors: firstly, the standard IGST rate of 18 percent is slightly higher than the standard central excise rate plus 4 percent SAD; secondly, IGST at different rates are leviable on non-manufactured goods, which did not attract CVD earlier; and thirdly, the base assessable value for the purpose of calculation of amount of IGST is wider than that under CVD. Therefore, it is expected that the revenue collection under IGST head on imports would exceed the "CVD plus SAD" under the earlier regime.

This expectation is borne out by the revenue trend witnessed at JNCH during the month of July, 2017. The total Customs revenue during July, 2017 was higher by 48.2 percent over the corresponding period of previous year (COPPY). However, this substantial increase in customs revenue after roll out of GST should be seen in the light of slowdown in imports and customs revenue during the month of June, 2017. It is seen that the customs revenue at JNCH during June, 2017 was 0.2 percent lower than COPPY. Therefore, part of the increase in revenue during July, 2017 could be on account of bounce back of trade after smooth rollout of GST.

In view of the reliance on robust IT based system under GST and consequent improvement in voluntary compliance, there is a strong expectation regarding diminution in cases of undervaluation. While there are anecdotal evidence to support this expectation at JNCH, as seen in the case of certain select items of readymade garments, electronic goods and food items, it requires a more detailed analysis of the trade data for a longer period of time to reach definitive conclusions regarding the impact of GST on Customs revenues and improvement in voluntary compliance.

The IGST revenues from imports collected at JNCH would be available as ITC during subsequent supply of goods, be it inter-state or intra-state. Therefore, the net impact of increase in revenue collections on imports on the fiscal position of the Central and State governments cannot be quantified at this juncture, even though it is safe to conclude that imposition of IGST on imports has imparted buoyancy to overall indirect taxes collection in the country. Further, it is also certain that restricting drawback claims to "Basic Customs duty" only will also improve the indirect tax collection.

Implications for Exports

The introduction of GST is expected to provide significant benefits to the exporter community as well. One of the important benefits is that under the GST regime, exports are truly and effectively zero rated. This wasn't the case earlier for various reasons, for instance, merchant exports were not in the ITC chain, certain taxes post removal services used to get embedded for technical reasons, and taxes like Central Sales Tax (CST), luxury taxes, octroi etc., constituted a significant cost in the supply chain.

The GST facility of "one state one registration" as against earlier factory wise registration brings in enormous simplicity for exporters, as it smoothens the ITC chain a great deal. Further, in large number of cases, exporters may not even be required to formally claim refunds of accumulated ITC as they would have avenues to utilise it even without having to claim refund.

In addition, there is a major simplification of export process in so far as clearances from domestic tariff area is concerned. Earlier, different and complex procedures were to be followed by exporters. In Central Excise, exporters were to file ARE1 (Application for Removal of Excisable Goods), furnish bond etc. and in states there were Form H or Form I etc. Obtaining these forms and subsequent reconciliation process imposed significant compliance burden. Now there is uniform simplified procedure all across the country and this is further facilitated as any procedure that is prescribed by Central Board of Excise and Customs is sufficient.

Refund of Duties

The process of obtaining refund of duties paid on exported goods or claiming any other export incentives has also become a lot easier. Implementation of a near real time electronic interface between GST portal and ICES (Indian Customs EDS System) ensures that exporters do not have to file any further documents to claim these benefits. This is in contrast to the earlier procedure for rebate claims, documentation required for refunds and separate filing of refund claims with state VAT authorities. These facilities, coupled with single interface for exporters, ensure that all incentives and refunds of central and state taxes flow to the exporter from a centralised agency.

On the process part, getting the "job work" done has become much simpler in GST as there is minimal procedure, except for the requirement of filing a quarterly statement. Further, the earlier disputes relating to manpower supply services vs manufacture are no longer germane.

In a similar way, service exports have been simplified a great deal in so far as claiming refunds are concerned. Earlier, service exporters had to face cumbersome processes while claiming such refunds, which entailed furnishing various documents.

Concluding Remarks

Therefore, the experience of one month at JNCH shows that the roll out of GST has been rather smooth and the trade has welcomed it overwhelmingly. The Customs department has acted proactively and handheld the trade to tide over the initial circumspection. The growth in revenues has been expectedly buoyant and there are early signs of improved voluntary tax compliance.

The digital platform of the GST regime coupled with the Customs EDI System would generate immense amount of granular data relating to an array of economic activities and transactions that would provide a huge opportunity to statisticians, economists and policy makers to work towards an evidence based economic policy.

Impact of GST on Economy and Business

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The Government has fulfilled its commitment to an early introduction of the 'Goods & Service Tax' (GST), one of the biggest reforms in the country. As decided earlier, GST has been rolled out from 1st July, 2017. GST Council has devised a 4-tier structure of taxation with goods and services getting taxed at 5 percent, 12 percent, 18 percent and 28 percent, keeping in mind the progressive aspect of taxation. The necessities have either been exempted or taxed at the lowest bracket and luxury goods and bads have been assigned higher rates.

Even though there have been a lot of arguments for and against the 4 tier structure, it has found support even from the Reserve Bank of India. We believe in a country like India where there exists a high level of inequality and imperfect markets, this seems to be the best solution that the Government could come up with. Revenue generation may take a hit if only the assumption of increased tax base is not fulfilled. However, given the experience of expansion in direct taxes base after demonetisation (an additional 91 lakhs filing returns) and the first quarter tax collections in FY18, we are confident that the multi-tier GST tax rate could be the pareto optimal solution going forward.

Impact on Economy

By amalgamating a large number of Central and State taxes into a single tax, GST would mitigate cascading or double taxation in a major way and pave the way for a common national market. The GST will thus help in the realization of the objective of "One Nation, One Tax" and improve the Ease of Doing Business climate in the country. It will also indirectly benefit the common man by reducing the tax burden especially on the daily consumer items.

Introduction of GST would also make Indian products competitive in the domestic and international markets due to reduction in taxes paid on goods and services (around 15-20 percent reduction in logistics costs of non-bulk goods). GST is expected to increase the investment rate in the economy, thus contributing about 0.5 percent to the GDP.

Tax revenues are projected to increase by 1-1.5 percent due to improved compliance and broader tax base by removing cascading effect, layers of taxes and simplifying structures. The GST regime will bring in more transparency and efficiency with the minimization of human interface in the tax administration. The GST regime is also likely to lead to a reduction in tax evasion as a result of the computerisation of the taxation process.

Overall, GST has the potential to add at least up to 1 percent to India's GDP. This in turn will lead to the creation of more employment and increased productivity.

Impact on Banking Sector

Banking services have witnessed a hike in tax to 18 percent after GST as compared to the collective tax of 15 percent earlier. GST implementation demands a massive operational change requiring significant investments by the banking sector. Moreover, banks would now have to file for state-wise registration instead of a single centralised registration under the former tax regime. Not only this, number of returns to be filed on monthly basis will increase substantially. GST provides an important functional control as banks get to decide whether a transaction would fall under Central GST (CGST), State GST (SGST) or Integrated GST (IGST) bracket. GST thus throws a major challenge on the financial sector.

Impact on Corporate Sector

Impact of GST on Different Sectors

Sector	Impact
Automobiles	• Largely positive for demand, as it will lead to a 10-17 percent fall in prices. Margin benefits to accrue for tractors, as these can claim set-off against taxes paid on input. Organised battery and other spares would become more cost competitive and gain market share. • Demand for commercial vehicles may be hit in the medium term. GST will subsume local taxes, reduce time at check-posts and ease logistics hurdles. With fleet productivity increasing, operators may not feel the need to expand mid-term.
FMCG	• GST will have positive implications for household and personal care space, as the effective tax rate reduces by 200-500 basis points, apart from reducing warehousing and logistical requirements. However, working capital for retailers, and additional tax rates for jewellery and cigarette manufacturers, GST has negative implications.
Logistics	• GST will lead to elimination of central sales tax and inter-state value-added tax arbitrage possibilities. This will lead to consolidation of warehouses and increased efficiencies in the logistics chain.
Infrastructure	• Clarity on works contract taxation is the key benefit for the sector. This could reduce litigation, as it eliminates the difference between sales and services.
Consumer Durables	• Packaged consumer goods makers' sales growth will be hit in the near term as trade channels have cut purchases in the run-up to GST. Overall impact is seen as neutral as rates have been cut on mass consumption items and hiked on higher-end products. Input tax credit on goods and services such as advertising and logistics is expected to offset higher rates.

Sector	Impact
Oil & Gas	• Key petroleum products like crude, natural gas, high speed diesel and Aviation Turbine Fuel (ATF) have been kept out of GST. Clarity is awaited for others. Compliance costs are likely to rise because of dual indirect tax mechanism.
Cement	• Contrary to expectations of cement firms, which were hoping for an 18 percent GST rate, the sector has been categorised in the 28 percent slab. Despite that, cement makers will see some relief in tax payout as the effective tax rate for packaged cement is anyway 29-31 percent. On the raw materials front, taxes on coal, limestone and lignite have been cut to 5 percent. However, the fuel mix of many cement firms currently has a higher proportion of imported petroleum coke. Meanwhile, a clean energy cess on coal and royalty to states for quarrying limestone remain.
Utilities	• Exclusion of "sale of electricity" from GST could potentially raise the cost of coal-fired and renewable energy for Discoms. Profitability of independent power producers selling via medium/long-term Power Purchase Agreements (PPAs) is unlikely to be dented.
Media	• DTH, film producers and multiplex players are levied service tax as well as entertainment tax, GST will bring major change and uniformity in businesses. • Multiplex chains will save on revenues as there will be a more uniform tax, unlike current high rate of entertainment tax levied by different states. It may lower the average ticket price, and increase the footfalls in multiplexes. • GST will be a big boon to film producers and studios that currently pay service tax on most of their cost, but cannot charge input credit on creative services (payments to artists etc.) as they fall under the negative list. Under GST, they will be able to claim credit of these services also, which will help in lowering the overall cost.
Telecom	• Handset prices are likely to come down/even out across states. Manufacturers are also likely to pass on to consumers the cost benefits they will get from consolidating their warehouses and efficiently managing inventory. For handset makers, GST will bring in ease of doing business as they may no longer need to set up state specific entities and transfer stocks to them and invest heavily into logistics of creating warehouses in each state across the country. • Call charges, data rates will go up as tax rate in the GST regime has exceeded existing 15 percent. Tower firms won't be able to set off their input duty liabilities if petro-products continue to stay outside the framework of GST.

Sector	Impact
E-commerce	• GST will help create a single unified market across India and allow free movement and supply of goods in every part of the country. It will also eliminate the cascading effect of taxes on customers which will bring efficiency in product costs. The tax collection at source (TCS) guidelines in the GST regime will increase administration, documentation workload for e-commerce firms and push up costs.

Conclusion

The market view of distinction between the long-term and short term impact of GST is misleading. This is because the services component of Consumer Price Index (Combined) is inadequately represented to match the services component of the economy. Services sector component in CPI is around 20 percent, whereas they account for almost 50 percent of the total consumption basket in the economy. There are services like health, education, miscellaneous segment that are outside the ambit of GST.

Hence, impact of GST implementation on CPI would be more than 10 basis points in downward direction. Internationally, contrary to popular perception, inflation has declined in countries post GST.

Implications of GST on the Federal Structure*

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The Goods and Services Tax, brought into effect across India on the 1st of July, 2017, is a landmark moment for indirect taxation in India. The Constitution (101st Amendment) Act, 2016 ("The GST Amendment") creates the constitutional framework in which the GST operates and represents a fundamental re-alignment of the taxation powers of the State and the Union Governments. The framers of the Constitution intended for the taxation powers of the States and the Union to be plenary and exclusive. This was keeping in mind the quasi-federal character of the Constitution of India, inherited from the Government of India Act, 1935 and maintained to ensure that political sovereignty would be shared by the Union and the States.

It is this federal character that the GST Amendment changes fundamentally. The exclusive spheres of legislation have now been replaced with concurrent powers of taxation for the Union and the States. This is keeping in view the model of the GST chosen to be implemented in India where there is one tax, imposed concurrently by the Union and the States. On the same transaction, one tax is imposed by the Union and the States under their respective laws. The idea was to replace the multiple taxes levied by the Union and the States respectively on a given transaction with one tax each – the Goods and Services tax.

Background

One of the purposes of the GST is to have uniformity in taxation across the country. This, it is claimed, will reduce costs of compliance and bring in a greater share of revenue for both the States and the Centre by increasing the tax net. Uniformity in the rates of the GST are ensured by the Goods and Services Tax Council, set up by the GST Amendment and given constitutional status. This council whose "recommendations" are binding on the States and the Union, has representation from the Union, the States and all Union Territories with a legislature. Disputes between States or with the Union arising out of the recommendations are to be resolved through a dispute resolution mechanism to be set up by the GST Council.

In this article, I lay out the provisions of the GST Amendment Act and the implications of GST on the federal structure in India.

Federalism in India

Federalism is a basic feature of the Constitution of India and was firmly recognized as such by the Supreme Court in *SR Bommai v Union of India*[1] holding that the States were not "mere appendages" of the Union and as far as the Constitution of India is concerned, political sovereignty was shared between the Union and the

* The views and opinion expressed in this article are personal.

[1](1994) 3 SCC 1.

States. A survey of the Supreme Court's judgments over a period of time would show that the Court's approach towards federalism and understanding and appreciating the nuances of federalism have changed over the decades. Two examples illustrate this well: the overturning of *State of Rajasthan v Union of India*[2] in the context of President's Rule (in *SR Bommai*) and the overturning of *Atiabari Tea Co Ltd v State of Assam*[3] and *Automobile Transport (Rajasthan) Ltd v State of Rajasthan*[4] in the context of entry tax (in *Jindal Stainless*), in both these instances, the Supreme Court adopted a new approach towards understanding of federalism under the Constitution of India.

Be that as it may, the position is now beyond dispute, i.e. federalism is a core and basic feature of the Constitution of India. While no exhaustive list of all its features is possible to discern, nonetheless in its essence it means that the States enjoy plenary legislative and executive power which cannot be totally taken away by the Union. This also means that the Union cannot take away the State's power to levy and collect taxes in accordance with the law. In the absence of the power to levy and collect taxes, a State may not be perceived as politically sovereign. In the context of the GST, the decisions on the levy and collection of the tax are taken by the GST Council and have to be complied with by the State.

Does the GST Amendment therefore affect the federal character in the country? The next section will deal with this question.

Concerns and Issues

Article 279A introduced by the GST Amendment Act creates the GST Council. The Union and all the States are represented in the Council through their respective ministers responsible for finance. The purpose of this Council is described in clause (4) of Article 279A and includes the power to make recommendations on what taxes will be subsumed by the GST, what goods and services will be exempt, a model GST law, rates, threshold exemptions among other things. Although there is no clause to this effect, it is quite clear that the "recommendations" are actually binding.[5]

The decisions of the GST Council, i.e., its recommendations are taken by a majority vote. Three-fourths of the members have to agree for a proposal to be adopted. However, not all members have equal voting rights. The Union alone has one-third of the total number of votes with the remaining two-thirds of the vote being split equally between the remaining States.[6] Mathematically, this gives the Union an effective veto over all the decisions of the Council.

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[2](1977) 3 SCC 592.

[3]AIR 1961 SC 232.

[4]AIR 1962 SC 1406.

[5]See Alok Prasanna Kumar, "For a Mess of Potage: The GST's Promise of Increased Revenue to States Comes at the Cost of the Federal Structure of the Constitution" 28 NLSIR 97 (2016).

[6]See Article 279A(9).

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The 'Goods and Services Tax' (GST) system was introduced with the intention to streamline the taxation system of the country. GST undoubtedly is a modern concept that is being implemented in India. Theoretically, it is a tax imposed on the final consumer and they should be benefited. But in an emerging country like India, consumers are price sensitive, especially for products like refrigerators, FMCG products etc. and they are at the receiving end of the tax burden. However, given that the structure is simplified under GST, theoretically price should come down compared to the previous regime.

With the application of GST, the taxes have to be paid on the final product. Like the earlier regime, if there exists a series of intermediaries in between the producer and the consumer, for instance, in case of durables like refrigerators, washing machines and the like, the taxes add on to the cost of the ultimate product at each stage. The system of GST ensures that these intermediaries do not get away with tax evasion. Going by theory, it is expected that GST will bring down the final cost of the product, and the inflationary impact of GST is expected to be minimal. As the price declines, the competitiveness of the Indian products in the international market is likely to increase.

In case of a nation state like Singapore, Japan, South Korea, etc., the implementation of GST is not much of a problem. It has been observed that if a tourist had to claim his GST returns from a country like Singapore, he will have to make a minimum purchase worth 100 SGD. But this is not the case in South Korea as there exists no such bar. In Japan, the market is segregated in such a way that the direct and indirect beneficiaries of the GST system are thoroughly defined. For instance, they charge differential rates if the product is consumed by senior citizens. In the Indian context also, we may look at such differential treatments depending on the ability to pay of the end-consumer, e.g. if a farmer is to purchase a tractor, the real impact of GST at 18 percent is significant from his point of view and some kind of government intervention is desirable.

So far as exports are concerned, the job of the customs official will be more hassle-free. Much of the administrative cost of the government is also expected to come down under the GST system. It is easier for the exporters and importers as well.

However, there are some areas that need special attention. For example, in the education sector, there is an ongoing discussion on the huge cost that may be imposed on the students, especially in the private education system due to the lifting of exemptions for various vendor services like mess/cafeteria services in such institutions under the new GST regime.

Overall, it was a hasty but a wise call by the government. However, for highly diversified nations like us, the implementation of GST will be a time consuming process. For the same reason, in USA it was not implemented. It is necessary for a country like India to identify the states gaining or losing and intervene accordingly for better benefits for all.

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Clearly, the Goods & Services Tax (GST) has been the biggest tax reform that India has seen since Independence, that is expected to transform the growth landscape of the country. GST in India is expected to simplify and rationalize the current indirect tax regime, eliminate tax cascading and inject a new dynamism into the economy. The proposed GST levy may potentially impact both manufacturing and services sector for the entire value chain of operations, namely procurement, manufacturing, distribution, warehousing, sales, and pricing. It is without any doubt that elimination of multiplicity of taxes and their cascading effects, rationalization of tax structure, simplification of compliance procedures and harmonisation of Center and State tax administrations for reducing duplication and compliance costs – are extremely positive steps that should foster growth and make India competitive. This is one reform which surely can contribute to enhanced tax revenue for the country , and boost growth to make India globally competitive. I think though there could be initial difficulties after GST is rolled out, and a rise in inflation, ; over the medium term, economy will stabilise and consumption demand will rise leading to higher growth and employment opportunities.

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The Micro, Small and Medium Enterprises (MSME) sector comprises manufacturing entities chiefly in the unorganised sector and a few clusters which combine to be a part of the organised business. Prior to the introduction of the Goods & Services Tax (GST), many such enterprises, particularly in the unorganised sector operated mainly in the parallel economy, where there was little formal reporting of incomes or revenues susceptible to both indirect and direct taxes. Labour employed in such establishments was bereft of any social security benefits available to industry. Mainly, this segment operated almost on an unreported, cash-only basis.

With the introduction of GST, barring the very small exempted threshold of ₹ 20 lakhs, all will have to register and comply with the GST rules and its attendant online operations. To many, it is a bitter pill to swallow and a quantum leap, but something which has to be accepted and adapted to. The lack of transparency in business meant that governments had no foolproof method of tracking transactions and taxing them as there was little correlation amongst the factors involved in manufacture and sale. Huge turnovers were being masked in shady deals and cash was the prime mover.

Therefore, the shift to a technology-based GST platform has been a body blow to erstwhile established practices. For entities already familiar with the Central Excise and VAT system, the implementation of GST will be nothing more than a change in the method of reporting data. Those who are new to the system will have to undergo some attitudinal and physical changes to familiarise themselves. But the curtailment or removal of entities indulging in unfair trade practices such as tax evasion to further their competitive edge is coming to an end. The removal of border gates between states along with the introduction of E-way bills for transactions above ₹ 50,000 will make transportation bottleneck free and more transparent because the penalties for adopting illegal means are severe under the GST rules.

In conclusion, the GST Act has removed several distortions in indirect taxation but still has 5 slabs ranging from 0-28 percent and one is hopeful that these will be streamlined over time. Similarly, the potential for abuse of exemptions available should be phased out at the earliest to prevent abuse. But the impetus given to fairer and cleaner trade was much needed for the manufacturing sector, particularly the MSME.

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