T. C. A. Sharad Raghavan



**BEYOND THE JARGON** 

# **GST UNPACKED**

Beyond the jargon

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First published in India by westland publications ltd 2017

First ebook edition 2017

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## Introduction

The Goods and Services Tax (GST) rolled out across India on July 1, 2017, marking one of the most transformative events in indirect taxation the country has so far seen. But what does that mean? What can transformative mean in the context of indirect taxation? Why has the whole country become engrossed with something as mundane as tax? Why has GST become as important to a person buying a burger as it has to a multinational corporation looking to do business in India? This book seeks to answer all of these questions, and then some.

Indirect taxes are simply the taxes you pay when you buy or sell a good or a service. This is in contrast to direct tax, which is a tax on income —whether it is personal income, or the income earned by a company. Earlier, India had a multiplicity of indirect taxes, with goods being taxed at the manufacturing stage by the central government, and then subsequently taxed when a sale occurred, by the respective state governments. Services were in their own category, only being taxed by the central government. Imports and exports were also in their own category.

Now, the Goods and Services Tax is an attempt to create a unified indirect taxation system that seeks to bring all goods and services bought and sold in the country under a single set of rules, regulations, and rates. It's the culmination of a long journey India has undertaken.

The purpose of this short book is to briefly go into the history of indirect taxation in India—but only enough to highlight the significance of GST. And while some concepts may seem alien at the outset, I expect that all will become clear by the end of the book. For example, what exactly is meant by a consumption-based tax? What is the cascading effect in taxation? What are input tax credits? These are a few terms that I will attempt to unpack. To put it simply, these are complex words to explain simple concepts and hopefully, you will see it as such too.

While the lay reader is of course someone I believe will benefit from this book, I also hope that the book will appeal to the more informed reader too. To this end, the later chapters will deal with the current implementation of GST in the country and will lay bare all the problems being faced so far. It will also compare the Indian version of GST to that implemented abroad, so that companies looking to do business in India also have a good idea about what to look out for. Overall, there are about 160 countries in the world that have implemented a nationwide taxation system similar to GST, but our system is uniquely Indian.

This is our first attempt at putting in place such a comprehensively federal structure of taxation in India, where the central government and the states work together to lay out the rules and tax rates under GST. To do this effectively, the government had to create an entirely new body—the GST Council—and in the process, the Central Board of Excise and Customs, an organization that is even older than independent India has effectively found itself out of the picture.

The business and trading community on its part has had to completely overhaul its systems, incorporating new software that can interface with the GST Network<sup>1</sup> portal. This has not been a painless process, mostly because of the rush.

While GST has not been short of criticism (these will be addressed later in the book), almost every agency—whether domestic or international—has come out on record saying that it will prove to be a significant boost to the economy in the medium to long term. The US Federal Reserve, for example, in April 2017 said that GST could enhance India's GDP by up to 4.2 per cent, or Rs. 6.5 lakh crore. The International Monetary Fund (IMF) also said that GST could boost India's GDP to the 8 per cent mark, something the country has not seen in a while. The IMF, however, was less than forthcoming about by when this would happen. Vijay Kelkar, who was the Chairman of the Thirteenth Finance Commission of India, said that a well-designed GST could spur economic growth by about 2-2.5 per cent and exports by up to 14 per cent.

There is still much to be done to bring the current implementation of GST to the 'well-designed' status Mr. Kelkar spoke of. But the story of GST is a long and constantly unfolding one. It's the story of Excise Duty, Service Tax, Customs Duty, and the Value Added Tax (VAT) merging into one single tax. It's the story of good intentions coupled with that persistent

Indian problem—poor implementation! It's the story of an attempt to balance populism and real development. It's a story of constant improvement.

It is, in short, a typically Indian story.

<sup>&</sup>lt;sup>1</sup> The Goods and Service Tax Network (or GSTN) is a non-profit, non-government organization. It will manage the entire IT system of the GST portal, the database for everything GST. This portal will be used by the government to track every financial transaction, and will provide taxpayers with all services—from registration to filing taxes and maintaining all tax details.

# Chapter 1

## **Before the beginning**

The narrative of India's indirect tax regime before GST has been one of complication, double-counting, and a slightly haphazard approach. Every segment of indirect taxes had its own legislation, which laid down particular areas of jurisdiction and exemptions.

Let's take the case of Rajesh, an honest and hardworking toaster manufacturer in Andhra Pradesh. Also, playing crucial roles in this unfolding story are Jayashree, the toaster vendor, and you, the person in need of some good toasted bread.

Now, Rajesh only made toasters and didn't really know how to get it into your hands, so he used to sell it to Jayashree, who was quite canny about marketing and supply chains. When Rajesh sold the toaster to Jayashree, he had to pay an excise duty to the central government for the privilege of manufacturing in India. In order to make up for this higher cost (of the excise duty), Rajesh raised the price of the toaster he sold to Jayashree.

Excise Duty was basically an inland tax on the manufacture and sale of certain goods in India. The principal legislation behind this tax was the Excise Duty Act, enacted even before independence, in 1944 to be precise. While the state governments charged excise duty on the manufacture of certain goods such as narcotics, alcohol, or alcoholic products, the central government collected the duties on the manufacture of all other goods as specified by the Act. The 1944 Act specified the rules and jurisdiction of the Excise Duty while the wide-ranging applicability of the tax and the rates at which it was to be levied was specified in the Central Excise Tariff Act 1985.

To come back to our story, Jayashree put her brand-name on the toaster, added some gimmickry, and went on to sell you the toaster. This is where the Value Added Tax (VAT) came in. Where Excise Duty was a manufacturing tax, VAT was a consumption tax. That is, it was paid by the end customer—in this case, you. So, you paid VAT on the toaster and went home to your tasty breakfast. But notice what just happened—there were two different taxes paid by two different people on the same item.

Now, all of this assumes that everybody involved in this transaction—Rajesh, Jayashree, and you—were all in the same state, in this case, Andhra Pradesh. The VAT so far had been collected by the state government. However, when the transaction crosses state lines, the central government gets into the act and charges Central Sales Tax (CST). Meaning, if Jayashree and you had been in another state, in such a situation, instead of Excise Duty and VAT on the same product, you would have paid Excise Duty and CST.

As stated earlier, the main difference between VAT/CST and Excise Duty was while VAT and CST were charged on the consumption of goods, Excise was charged on the manufacture of those goods. Another key difference was that Excise was charged on a smaller set of goods than VAT and CST. For example, Excise was not levied on fossil fuels, which did, however, attract sales tax and VAT. Excise Duty was also levied in a different manner as compared to VAT or CST.

Excise Duty was levied on the basis of the quantity or weight of the good being taxed. For example, the Excise Duty on green tea sold in bulk was Rs. 1 per kg. On the other hand, VAT and CST were calculated as a percentage of the maximum retail price of the product.

Since VAT was essentially under the jurisdiction of state governments, each state had a different rate that it levied on the goods sold within its boundaries. Not only that, but the procedure of tax implementation, the timelines for VAT payments and return filings, etc., all differed from state to state.

Overall, there were four broad categories for VAT. In most states, items of a basic nature such as salt, khadi, and condoms fell under the Nil VAT rate. For some highly expensive goods, such as gold, silver, and other precious metals and stones, the rate of VAT had been kept at 1 per cent since any rate higher than that would translate into too high an amount to be paid as tax.

Then, daily use items such as tea, coffee, and certain medicines attracted a VAT rate of 4-5 per cent in most states. The final slab was for goods that could not be classified into any of the other slabs, and so were taxed under a general rate of anywhere between 12 per cent and 15 per cent, depending on the state.

So far, so good? Let's take it one step further.

What happened when the toaster inevitably stopped working? Apart from yelling and screaming on customer care helplines, you of course also hired a repairman to come over and check the toaster. In doing so, the repairman—Surender—provided you a service, something that didn't come under the Excise Duty, VAT, or even CST. Instead, services came under the aptly named Service Tax, which Surender charged you over and above his price for coming over and fixing your toaster.

In comparison to the other indirect taxes, Service Tax is a much more recent tax, coming into effect only in 1994 under the Finance Act of that year. The then Finance Minister Dr. Manmohan Singh made quite an important point, that although the service sector accounted for 40 per cent of the country's GDP, it paid no tax. This, of course, could not go on, and so he proposed a tax of 5 per cent on three services—the amount in telephone bills, the premia charged on non-life insurance, and the services offered by stockbrokers.

The number of items under Service Tax then gradually increased over the years. In 1996, advertising agencies, courier agencies, and radio pager services were added to the list. In 1997, this number increased to fifteen with services such as air travel agents, 'mandap keepers', manpower recruitment agencies, etc. being included in the ambit of the tax. In 2011-12, this number was increased to 119. The newest additions to the list, made in 2011-12, were the services of air-conditioned restaurants and hotel accommodation.

Then, in 2012, the government made a paradigm shift in the way service tax was levied. Instead of specifying which services would be taxed, the government instead said that all services would be taxed, except a 'negative list' of a certain few.

Even as the government was increasing the scope of Service Tax, it was also gradually increasing the tax rate itself. The rate remained constant at 5 per cent from 1994-95 to 2002-03. In 2003, the service tax rate was increased to 8 per cent, then to 10 per cent in 2004. The government at the

time, UPA-I, then decided to include a 2 per cent education cess that would be levied on the service tax, taking the effective service tax rate to 10.2 per cent. In 2006, the service tax rate was increased to 12 per cent, and a secondary and higher education cess of 1 per cent was added. The net service tax rate at this point was 12.36 per cent.

In 2010, the government brought the rate back down to 10 per cent in expectation of the implementation of GST, but then increased it again to 12 per cent in 2012. The effective rate then, with all cesses combined, remained at 12.36 per cent till 2015 when the NDA government increased the service rate to 14 per cent including the education cesses. However, it also introduced the Swachh Bharat Cess of 0.5 per cent and subsequently the Krishi Kalyan Cess of 0.5 per cent, taking the effective service tax rate to 15 per cent.

So far, between the manufacture of the toaster and its eventual repair, three different taxes had been levied. Let's add to the fun. Imagine if the toaster you had bought had imported parts, such as, say, a Chinese-made heating coil. While importing the heating coil to manufacture his toaster, Rajesh would have had to pay an import duty on that heating coil, which would have been added to the cost of the toaster when sold to Jayashree.

In case you are all in a spin, not to worry. We're nearing the end of this short review of India's indirect tax structure prior to July 1, 2017. The only aspect left to include is exports. What if our enterprising young entrepreneur, Rajesh decided to sell his toasters to Frank in the US? Well, he would have paid an export duty, of course, and increased the price he charged Frank. The import duty and export duty together made up what was called the Customs Duty in indirect taxation.

So, in essence, you had four broad categories of indirect taxes: Excise Duty, Customs Duty, VAT/CST, and Service Tax. These had to be paid separately to different collecting agencies and their returns filed separately as well. Viewed in this light, one ought to be glad for GST, which subsumes all of these into one tax. At least that's the theory. We'll go into the practice later on in this book.

In order to manage all these taxes, keep track of the taxpayers, and set the rules, rates and regulations pertaining to indirect tax, the government had set up the Central Board of Excise and Customs (CBEC). Created way back in 1855 by George Robinson, the British Governor-General of India at that time, the CBEC's powers did steadily increase as the share of indirect

taxes in the total tax kitty has increased. But now the CBEC will see its powers wane, which is where the Goods and Services Tax comes in.

### The New Kid Arrives

The purpose of this introduction to India's tax system prior to the implementation of the Goods and Services Tax (GST) was to highlight the significance of the new indirect tax regime. The new GST system is the successor to almost each and every one of the taxes mentioned earlier, all of them combined into a single taxation structure. So, now, when Rajesh sells his toaster to Jayashree, he pays GST. Jayashree pays GST when she buys the toaster from Rajesh, and you pay GST when you buy it from Jayashree. When Surender comes to fix your broken toaster, he will add GST to his bill. And when Rajesh chooses to export his toaster to Frank, he will add GST there too. Gone are the days of Service Tax, Excise Duty, VAT, and Central Sales Tax. Everything is now GST. Only Customs duty remains in the form of basic customs duty, while all the additional duties on imports such as countervailing duty (CVD) have been subsumed into GST.

And, along with the new tax, the government also created a new administrator—the GST Council—to take over from the old one. The CBEC has not been scrapped, but a lot of its duties have now been transferred to the GST Council. The GST Council has the Finance Minister as its Chairman, and the Revenue Secretary of the Ministry of Finance as the Secretary to the Council. Other members include the Finance Ministers of the various states and Union Territories with legislatures.

The GST Council is the body that decides the various rules and laws that govern GST, and, importantly, it is the body that decides the rates of tax and their applicability to various goods and services. This is a significant departure from the previous system, and a move towards a more federal structure of taxation, where the Centre and the States jointly agree on the tax rates for the entire country.

The modalities of the new tax structure and its administrator are, of course, a little more complicated than that. But not by much. We'll get to the details shortly, but first let's see how the Goods and Services Tax itself came to be.

# Chapter 2

The road to July 1, 2017 has been a long one. The first instance, more or less, of a finance minister looking to overhaul the tax system into something resembling GST was in 1986, when Vishwanath Pratap Singh proposed a significant upgradation of the excise taxation structure in his 1986-87 Budget.

'In excise taxation a vexatious question which has been often encountered is the taxation of inputs and the cascading effect of this on the value of the final product. The Long Term Fiscal Policy had stated that the best solution would be to extend the present system of proforma credit to all excisable commodities with the exception of a few sectors with special problems like petroleum, tobacco and textiles,' Mr. Singh said in his budget speech.

Notice how the concept of input tax credits for excisable commodities was thus introduced as far back as thirty-odd years ago. This was a concept that would raise its head again and again over the course of India's indirect tax history. Basically, Mr. Singh called for the extension of the existing Modified Value Added Tax (MODVAT) system to all goods under excise duty. Notice, also, how Mr. Singh presented the Budget on February 28, 1986 and rolled out the new, extended MODVAT system on March 1 of that same year. Let that be some context for the protests by industry today that they did not have enough time to prepare for GST.

Before we proceed, it is important to clarify some key concepts. Input tax credit, for example, will be mentioned several times before this tale is done and it needs to be clarified. During the manufacturing process, a manufacturer buys inputs, the prices of which include the tax paid on them. The system of input tax credits allows the manufacturer to deduct the tax already paid on inputs from the tax he has to pay on his final output. This avoids double taxation, where the manufacturer pays the tax on inputs twice over, once when he buys them and once when his final product is sold.

Another concept that needs to be made clear is the cascading of taxes. The multiplicity of taxes during the manufacturing and sale process—such as Excise Duty, VAT, and Sales Tax—meant that the same product underwent several taxation levies. In other words, the VAT on the toaster sold to you by Jayashree was computed on its price which already included the Excise Duty paid by Rajesh when he sold it to Jayashree. This 'tax on tax' is called the cascading of taxes.

'An important feature of the new scheme is its universal applicability to all types of excisable goods with a few exceptions like cosmetics, TV sets, refrigerating and air-conditioning appliances, etc.,' Mr. Singh added, another highlight of how the taxation system—and the thought process behind it—was evolving towards the current model of GST.

The first mention of a 'Goods and Services Tax' in an official capacity was made by Prime Minister Atal Bihari Vajpayee in 2000 when he introduced the concept, and set up a committee under the then West Bengal Finance Minister Asim Dasgupta to design a GST model. Again, flash forward in irony to the current scenario where the West Bengal Finance Minister Amit Mitra has been among the most vociferous voices arguing against the premature rollout of GST.

The Vajpayee government in 2003 then formed a taskforce under Vijay Kelkar to recommend tax reforms. The next year, Mr. Kelkar, then advisor to the Finance Minister, recommended that GST replace the existing taxation system. Things began to speed up from there, with then Finance Minister P. Chidambaram first introducing the concept of GST in the 2006 Budget.

'It is my sense that there is a large consensus that the country should move towards a national-level Goods and Services Tax that should be shared between the Centre and the States. I propose that we set April 1, 2010 as the date for introducing GST. World over, goods and services attract the same rate of tax. That is the foundation of a GST. People must get used to the idea of a GST,' Mr. Chidambaram had said.

There are two things to note here. The first is the introduction of the first GST deadline. There have been several subsequent deadlines, but this was the first to be missed. The objections to GST that led to the delay in the first instance are important to this narrative, and form a significant part of the explanation for the current incarnation of the taxation regime.

Mr. Chidambaram said that an Empowered Committee of State Finance Ministers would lay out the road map for GST. This Committee submitted its report, titled 'A Model and Roadmap Goods and Services Tax (GST) in India', in 2008 and then released the first discussion paper to the public in 2009.

### **The Empowered Committee Recommendations**

### • *The structure of GST*

The salient features of the Goods and Services Tax as envisaged by the Empowered Committee are pretty similar to the current implementation of the tax. But, as they say, the devil lies in the details, and it was this devil that led to the considerable delays in the rollout of the taxation system.

But first, the main features. The most striking similarity and the biggest departure from the pre-GST regime was that the GST would be divided into two taxes, the Central GST and the State GST. Earlier, each of the taxes were implemented distinctly—Excise by the Centre, VAT by the states, etc. But GST, being a single tax, was to be levied equally by the centre and states.

'This dual GST model would be implemented through multiple statutes (one for CGST and SGST statute for every State). However, the basic features of law such as chargeability, definition of taxable event and taxable person, measure of levy including valuation provisions, basis of classification etc. would be uniform across these statutes as far as practicable,' the discussion paper said.

The second marked step forward introduced in this version of GST was that it would be 'applicable to all transactions of goods and services made for a consideration except the exempted goods and services, goods which are outside the purview of GST and the transactions which are below the prescribed threshold limits'.

This is interesting since it first introduced a single taxation system for both goods and services, a vital step towards the GST we have today. Another important aspect of this statement was that transactions below a certain limit would be exempt from GST. That is not how the current GST is structured, as will be discussed later on in this book. (The current

exemption is based on the turnover of businesses, not the value of transactions.)

The discussion paper also said that the Central GST and the State GST were to be treated as separate taxes. As such, the taxes paid under Central GST could be used as input tax credits only for the Central GST and not for the State GST, and vice-versa.

In keeping with this model, the discussion paper further said that the administration of the Central GST would be assigned to the Centre and of the State GST to the States. 'This would imply that the Centre and the States would have concurrent jurisdiction for the entire value chain and for all taxpayers on the basis of thresholds for goods and services prescribed for the States and the Centre,' the paper said.

Under the thresholds prescribed by the Empowered Committee, businesses dealing in goods or services, with a turnover of less than Rs. 10 lakh a year, would be outside the ambit of GST. Those businesses with a turnover of Rs. 10 lakh a year or more would be assessed by the states, up to a turnover limit of Rs. 1.5 crore a year. Those companies—dealing in either goods or services, or both—with an annual turnover of Rs. 1.5 crore or more would be assessed by the Centre.

The system also proposed a Composition Scheme—much like the current GST set up—where small companies could register for GST, but be freed from the higher compliance burden of the new taxation system. This Scheme was to be open to only those companies with a gross turnover of less than Rs. 50 lakh a year, and would qualify them for a floor taxation rate of 0.5 per cent.

The discussion paper then turned to the taxes that would be subsumed into GST, and the principles behind their selection:

The criteria read thus: '(i) Taxes or levies to be subsumed should be primarily in the nature of indirect taxes, either on the supply of goods or on the supply of services. (ii) Taxes or levies to be subsumed should be part of the transaction chain which commences with import/manufacture/production of goods or provision of services at one end and the consumption of goods and services at the other. (iii) The subsummation should result in free flow of tax credit in intra- and inter-State levels. (iv) The taxes, levies and fees that are not specifically related to supply of goods & services should not be subsumed under GST. (v)

Revenue fairness for both the Union and the States individually would need to be attempted.'

The last point is perhaps the most noteworthy, since the idea of revenue fairness would rear its head several times before we get to July 1, 2017.

So, keeping all these criteria in mind, the Empowered Committee decided to subsume a number of taxes into GST. On the Central side, these included Central Excise Duty, Additional Excise Duties, the Excise Duty levied under the Medicinal and Toiletries Preparation Act, Service Tax, Countervailing Duty, Special Additional Duty of Customs, and all surcharges and cesses.

On the States' side, the GST was to subsume VAT/Sales Tax, Entertainment Tax (unless it is levied by the local bodies), Luxury Tax, taxes on lottery, betting and gambling, State Cesses and Surcharges in so far as they relate to supply of goods and services, and Entry Tax not in lieu of Octroi.

There were also several item-specific recommendations made by the Empowered Committee, most of which match the current implementation of the GST legislation. Alcohol, for example, was to be kept out of GST. Tobacco and tobacco products, however, were to be included in GST. The Empowered Committee also included a peculiar recommendation in the case of tobacco products—that the Centre should have the option to levy an excise duty on them over and above the GST.

The report doesn't go into why it thought this should be the case for tobacco products, but the thinking presumably was the same as it was behind placing tobacco products under the 'luxury and sin' cess currently being implemented—that a higher incidence on tax would dissuade tobacco use. It was, however, a counter-productive idea as it would have led to a cascading of taxes and undo the benefits of GST. This is important since, as explained earlier, the cascading effect was leading to the same item being taxed multiple times. Levying an Excise Duty on tobacco over and above the GST would have retained this tax on tax, and so would have undermined one of the key changes the new tax regime was trying to bring in.

Petroleum products such as crude oil, high-speed diesel, and aviation turbine fuel were to be kept out of GST. The Committee didn't take a call on natural gas, however.

## • *Integrated GST*

The Empowered Committee then dealt with another critical element of GST—the inter-state transactions of goods and services. The question here was a simple one: how do you tax a transaction that crosses state lines? Which state gets the revenue?

For this, the Committee introduced the Integrated GST (IGST) Model.

'The scope of IGST Model is that Centre would levy IGST which would be CGST plus SGST on all inter-State transactions of taxable goods and services . . . The inter-State seller will pay IGST on value addition after adjusting available credit of IGST, CGST, and SGST on his purchases. The Exporting State will transfer to the Centre the credit of SGST used in payment of IGST. The Importing dealer will claim credit of IGST while discharging his output tax liability in his own State. The Centre will transfer to the importing State the credit of IGST used in payment of SGST,' the report said.

This is simply a complicated way of saying that, in the event of an inter-state trade of goods or services, the taxes to be levied would be Central GST and Integrated GST, instead of Central GST and State GST, as would have been the case if the trade was done within a single state. This is an administrative issue for the most part, since the rates of SGST and IGST are the same.

Thus, the Committee sought to ensure that all parties involved—the exporting state, the importing state, the buyer, the purchaser, and the Centre—were all suitably dealt with. This is important, since it is very similar to the IGST system in place at present.

#### • Rate structure

We finally come to perhaps the most important aspect of GST—the rate structure. The Empowered Committee decided that the GST would have two rates for the most part.

'The Empowered Committee has decided to adopt a two-rate structure—a lower rate for necessary items and goods of basic importance and a standard rate for goods in general. There will also be a special rate for precious metals and a list of exempted items,' the report said.

Notice how the Committee is already straying from its 'two-rate' model by including a special rate for precious metals and proposing a list of exempted items. This is important because it gives a clue to what led to the current GST regime's impractical seven rates of tax.

The Committee decided that exports would be zero-rated. Again, this is important in the context of the current scenario, since it is the same tax treatment applied under the NDA's GST regime. Imports were to be taxed under GST, with the states' share of the tax going to the state in which the imported items were consumed.

Crucially, the Empowered Committee also recognized the need for compensation to be paid to states during the first five years of implementing GST for any potential loss they might suffer due to the removal of the cascading effect of taxes and the payment of input tax credits. The Committee, however, did not specify an amount.

### The First Roadblocks

In order to implement all these changes—such as empowering states to tax services and imports—the government had to bring in Constitutional Amendments. In order to expedite this, a joint working group was created on September 30, 2009 'to prepare, in a time bound manner a draft legislation for Constitutional Amendment, draft legislation for CGST, a suitable Model Legislation for SGST and rules and procedures for CGST and SGST'.

Quite pleased with the efforts of the Empowered Committee, then Finance Minister Pranab Mukherjee in his 2009-10 Budget speech recommitted to the April 1, 2010 deadline for the rollout of GST and said that the government had accepted the broad contours of GST as laid out by the Empowered Committee.

'I have been informed that the Empowered Committee of State Finance Ministers has made considerable progress in preparing the roadmap and the design of the GST. . . I am glad to inform the House that, through their collaborative efforts, they have reached an agreement on the basic structure in keeping with the principles of fiscal federalism enshrined in the Constitution. . . The broad contour of the GST Model is that it will be a dual GST comprising of a Central GST and a State GST. The Centre and the States will each legislate, levy and administer the Central GST and State

GST, respectively. I will reinforce the Central Government's catalytic role to facilitate the introduction of GST by 1st April, 2010 after due consultations with all stakeholders,' Mr. Mukherjee said.

This commitment was short-lived, however, with the deadline for the rollout of GST soon pushed back by a year to April 1, 2011.

But this is where the parliamentary democracy system of India truly became a roadblock to the implementation of GST. The passage of the GST Constitutional Amendment Bills required a two-third majority in both Houses of Parliament and a two-third majority in the state assemblies. Several aspects of the proposed legislations were met with stiff resistance by the BJP and the states it controlled, leading to a deadlock and multiple delays in the rollout of the GST.

For example, in August 2010, the BJP-ruled states, and, it must be said, several non-BJP states, rose up in protest against a proposed provision in the draft constitutional amendment bill that would give the centre powers to veto any decisions taken by states over their own taxations matters.

'It is impossible to implement GST from April 1 next year,' then Madhya Pradesh Finance Minister Raghavji went on record as saying. 'Everybody is opposed to the veto power of the Union Finance Minister. We need more time. States' autonomy and federalism will be destroyed (if we accept this bill). This is against the fiscal autonomy of the states. Majority of the states—BJP ruled states and others like UP, Tamil Nadu, Orissa and some others are also against it.'

The other major objection to the UPA's GST proposals was to the rates the government was considering implementing. Mr. Mukherjee in July 2010 announced that the CGST rate from the time of implementation would be a lower rate of 6 per cent on essential and basic goods and a standard rate of 10 per cent, in keeping with the dual rate model proposed by the Empowered Committee. The states were expected to follow this example with dual rates of 6 per cent and 10 per cent for SGST as well. Services were to be taxed at 8 per cent by each.

'This mutually supportive approach will ensure that we have a single rate for CGST and SGST in the range of 12 to 20 per cent in the first year of GST introduction,' Mr. Mukherjee said. 'The peak effective rate will be about 15 per cent which will be quite acceptable to the trade and industry. Eventually, it will settle down to a level of 16-18 per cent for both CGST and SGST which will mean an effective rate of 12 per cent.'

Ironically, given the NDA's subsequent proposals for the GST rates when its turn came to be at the Centre, the BJP vehemently opposed this rate structure saying the burden on the common man would be too great.

'A 10 per cent CGST rate and a higher rate of SGST will force the common man to pay tax at more than 20 per cent against the present 5 per cent (VAT) on essential items like food, medicines, agricultural produce, footwear, readymade clothes, etc., and 12.5 per cent on other goods,' Gujarat Finance Minister Saurabh Patel pointed out at the time.

The third major issue the UPA government failed to tackle was that of compensation. While Finance Minister P Chidambaram in 2013 promised a sum of Rs. 34,000 crore to states as compensation for the losses incurred due to the reduction of the Central Sales Tax rate in preparation for GST, many states opposed this, saying their losses would be far higher. Gujarat, under the leadership of then Chief Minister Narendra Modi, said the destination-based taxation principle of GST would result in the state losing Rs. 14,000 crore every year.

Given the nature of the opposition as detailed above, the UPA government repeatedly failed to achieve the required majority in Parliament to pass the Constitutional Amendment Bills, forcing the government to time and again push back the implementation date.

This back and forth continued till 2014, when the BJP-led NDA government came to power at the Centre with a landslide victory. With this, the GST Bill cleared by the Parliamentary Standing Committee in 2011 lapsed, paving the way for the Narendra Modi government to introduce its own version of GST—more or less the version we have today.

## Chapter 3

The Bharatiya Janata Party-led National Democratic Alliance came to power at the Centre in the general elections of 2014, with the BJP winning a single-party majority of 282 seats in the Lok Sabha. The new government wasted no time in getting the ball rolling on GST, and so, in December of that year, the Union Cabinet, chaired by Prime Minister Narendra Modi, approved the 122nd Constitution Amendment Bill to be tabled in Parliament. Not one to waste an opportunity, the government, represented by Finance Minister Arun Jaitley, introduced the Bill in the Lok Sabha the very next day.

The Bill was, in principle, quite similar to the one designed by the UPA government. But it differed in some details and it is those details that made all the difference between it being held up indefinitely in Parliament as it was, and being eventually passed by both Houses.

First and foremost, the Constitutional Amendment Bill provided for the simultaneous power of the states and Centre to legislate on GST. This, of course, is at the heart of a federal system of taxation.

Notably, the Bill also provided for the creation of a new body—the Goods and Services Tax Council. This was a key step in implementing the GST since this body would be the nodal authority for all the rules, rates, and subsequent revisions in the new tax regime. And, in keeping with the federal structure of GST, the new body would comprise members from the Centre and the states.

This GST Council was to be chaired by the Union Finance Minister and was to include either the state Finance Ministers or Ministers nominated by the state governments.

The role of the GST Council includes making recommendations to the Centre and the states regarding:

- The taxes, cesses and surcharges levied by the Union, the States and the local bodies which may be subsumed in the Goods and Services Tax
- The goods and services that may be subjected to, or exempted from the goods and services tax
- The model Goods and Services Tax Laws, principles of levy, apportionment of Integrated Goods and Services Tax and the principles that govern the place of supply
- The threshold limit of turnover below which goods and services may be exempted from the Goods and Services Tax
- The rates of Goods and Services Tax
- Any special rate or rates for a specified period, to raise additional resources during any natural calamity or disaster
- Special provision with respect to the states of Arunachal Pradesh, Assam, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand
- Any other matter relating to the goods and services tax, as the Council may decide

The Council is also to recommend the date on which the GST would be levied on petroleum crude, high-speed diesel, petrol, natural gas and aviation turbine fuel.

In other words, this new body took over from the Central Board of Excise and Customs the regulation of all indirect taxes and was given wideranging duties to do with the new unified taxation structure. This concept itself has incited a lot of debate and discussion over the last two years or so as many Members of Parliament felt that, since the new body was not under the audit authority of the Comptroller and Auditor General of India, it would not be answerable to Parliament as the CBEC is.

A key point to note is that, within the Council, the Centre's weightage, if decisions came to a vote, would be one-third while all the states taken together would comprise two-thirds of the vote.

Another important element introduced by the 122nd Constitutional Amendment was the concept of a proportional compensation to states for any loss incurred due to the implementation of GST. Remember Mr. Chidambaram's promise of a Rs. 34,000 crore package and the outrage it caused among the states?

Well, the NDA government managed to do much better, but also found that the states would still not give in without a fight. The Constitutional Amendment said that the 'Centre will compensate States for loss of revenue arising on account of implementation of the GST for a period up to five years. A provision in this regard has been made in the Amendment Bill (The compensation will be on a tapering basis, i.e., 100 per cent for first three years, 75 per cent in the fourth year and 50 per cent in the fifth year).'

The key difference between the approach taken by the NDA and the UPA before it was that the Centre did not insist on a specific sum as compensation. Instead, it said that it would try to meet a proportion of the losses incurred by the states, no matter what the amount. This immediately won the Centre a lot of support from the states, even though some still held out for an even more attractive package.

Similar to the legislation brought in by the UPA government, the NDA's Constitutional Amendment also laid out the various central and state taxes that would be subsumed by GST. For central taxes, these included the Central Excise Duty, Additional Excise Duties, Service Tax, Additional Customs Duty (CVD) and Special Additional Duty of Customs (SAD). The state taxes to be subsumed included VAT, Central Sales Tax, Entertainment Tax, Octroi and Entry Tax, Purchase Tax, and Luxury Tax.

'All goods and services, except alcoholic liquor for human consumption, will be brought under the purview of GST. Petroleum and petroleum products have also been constitutionally brought under GST. However, it has also been provided that petroleum and petroleum products shall not be subject to the levy of GST till notified at a future date on the recommendation of the GST Council. The present taxes levied by the States and the Centre on petroleum and petroleum products, i.e., Sales Tax/VAT, CST and Excise duty only, will continue to be levied in the interim period,' the government said in a statement at the time.

Now, since the GST is a consumption-based tax, the states strong in manufacturing felt that they would be losing a lot of their revenue due to the new tax regime, and so they insisted on a mitigating feature to be included in the legislation over and above the compensation package. This feature was a 1 per cent additional duty on the inter-state supply of goods, which would be assigned to the state where the supply originated. Although this provision was to be in force for only two years, it went against the very

spirit of GST—since it would again lead to a cascading of taxes—and came under hot debate.

The Bill, when laid in Parliament in the Winter session of 2014, met with stiff opposition from the Congress, and the debates and agitation surrounding the Bill stalled the functioning of that entire Parliamentary session. In February 2015, Mr Jaitley set April 1, 2016 as the deadline for the rollout of the GST. It seems missed deadlines are government-agnostic —everybody does it!

The Constitutional Amendment Bill was passed by the Lok Sabha on May 6, 2015 and was presented to the Rajya Sabha soon after. Of course, politics is never a smooth process, and so the Congress demanded that the Bill be sent to a Select Committee of the Rajya Sabha before it could be passed. Crucially, the Congress also demanded that the GST rate be capped at 18 per cent, and this cap be included in the Bill itself. The Centre refused to entertain this demand, saying that including any rate in the Bill would mean that altering the rate at any point in the future would necessitate a Constitutional Amendment.

In hindsight, this seems like a prudent course of action. Imagine the sluggish nature of change under the current GST implementation if every rate change had to first go to Parliament!

This back and forth continued all through the rest of 2015 and most of 2016, with the Constitutional Amendment Bill sitting with the Parliamentary Standing Committee and the Opposition refusing to allow the Bill to be passed in the Upper House of Parliament.

Finally, on August 3, 2016, after much agitation and side deals, the Rajya Sabha passed the Constitution Amendment Bill by a two-thirds majority. Soon after, sixteen states ratified the Bill and then President Pranab Mukherjee gave it his assent.

Things began to speed along after this, with the Cabinet giving its nod for the formation of the GST Council on September 12, 2016 and the Council meeting for the first time a mere ten days later. The Council has met more than twenty times since its creation, but only a few of the meetings have yielded concrete and significant decisions.

During all the others, key issues like dual control and compensation to the states held up decision-making. However, as the government is so keen to repeat, all decisions taken by the GST Council have so far been by consensus, and that is quite an achievement. On November 3, the GST Council agreed to settle on a four-slab tax structure of 5% per cent, 12 per cent, 18 per cent and 28 per cent, along with an additional cess on luxury and sin goods. This, of course, was not counting the zero rate of tax for those items in the exempt category. In subsequent meetings, the Council added a 0.25 per cent rate of tax for rough diamonds, and a 3 per cent rate for gold and gold jewellery. This was a big departure from the earlier thinking, which was to include only two rates in GST.

The states also got their way in terms of compensation, with the Centre caving in and offering them 100 per cent compensation for the full five years. The Centre, however, refused to implement the 1 per cent additional duty to help manufacturing states, saying that this would lead to a cascading of tax, precisely the thing GST was designed to avoid.

The Council also decided to raise the threshold limit for inclusion into GST to a turnover of Rs. 20 lakh a year, compared to the Rs. 10 lakh recommended by the Empowered Committee under the UPA. The Centre was, however, forced to cede the bulk of the power to assess taxpayers to the states. According to the new agreement, the states would have the right to assess for scrutiny and audit 90 per cent of the taxpayers below the turnover threshold of Rs. 1.5 crore a year, while the Centre would have the right over the other 10 per cent. The centre and states would split the right to audit assesses with a turnover of over Rs. 1.5 crore equally. (The assesses are to be assigned to the centre and states via a randomized computer programme, thereby ensuring there is no overlap.)

The GST Council also implemented the Composition Scheme, varying it marginally from the recommendations made by the UPA Empowered Committee. The Council initially proposed that businesses with a turnover of up to Rs. 75 lakh would be eligible for this scheme, which basically allows them to register for an easier version of GST. Companies under the Scheme could file quarterly returns and pay, in lieu of their tax burden, 2 per cent of turnover in case of a manufacturer, 5 per cent of turnover for restaurants and 1 per cent of turnover for other goods suppliers.

However, with the benefits of the Composition scheme came some disadvantages. Those opting for the scheme would not be able to avail of input tax credits, or conduct inter-state supplies. The dealer will not be able to supply GST exempted goods, either.

Interestingly, the GST Council also recommended the creation of a National Anti-Profiteering Authority that was tasked with making sure that companies that benefit from the imposition of GST due to a lower tax incidence or because they can avail of input tax credits pass this benefit on to the consumer. The penalties for not doing so are pretty severe—including a fine and a possible cancellation of the company's licence to operate.

Regarding imports, the GST Council again took a stand different from what the UPA government was considering and instead said that imports would be treated as the same as inter-state trade and so would be charged Integrated GST. This meant that the tax on imports would be split between the Centre and the state in which the goods were being imported. Exports were zero-rated, as suggested by the UPA's Empowered Committee. This change and some of the earlier changes — could we perhaps look at implications.

On January 16, 2017, Mr. Jaitley announced the new deadline for GST as July 1, 2017. He was earlier aiming for April 1, but that seemed too early a date and hence the choice of July 1, by which time all concerned would be in a state of readiness, or so it was presumed.

By March, the GST Council had finalised all five legislations necessary to bring GST into effect—the Central GST, State GST, Union Territories GST, Integrated GST, and Compensation Bills. The Cabinet approved the Bills on March 20 and they were cleared by both Houses of Parliament on March 27. In May, the GST Council set the rates on almost every good and service that fall under GST and decided the cess rates as well.

By June 21, all the states except Jammu and Kashmir had passed the State GST legislation. Interestingly, Jammu and Kashmir did not pass the legislation and join GST till after July 1, making it the only state not to have taken part in the nationwide rollout of the indirect tax on that date.

Leading up to the implementation deadline, the government announced it would throw a gala celebration in Parliament on the night of June 30 to ring in the new tax regime. West Bengal Chief Minister Mamata Banerjee and the Congress Party both promptly said they would not attend the event. The Centre criticized them for it, but went ahead with its celebrations unhindered.

Finally, on the midnight of June 30, then President Pranab Mukherjee and current Prime Minister Narendra Modi—after long speeches—

announced the rollout of GST (a 'good and simple tax', according to Mr. Modi) amid much fanfare.

## **Conclusion**

Since July 1, the implementation of GST is well on its way. It would be easy to say that the process so far has been smooth and without hitches, but that would be far from the truth. While big companies have the wherewithal to hire consultants to handle the procedural issues of switching over to GST, smaller companies have been struggling with the compliance burden.

The main source of anguish for small traders and retailers is the multiplicity of tax rates. In a bid to accommodate the needs of all sections of society and yet maintain revenue neutrality, the GST Council implemented seven rates of tax under GST—0 per cent, 0.25 per cent for rough diamonds, 3 per cent for gold and gold jewellery, 5 per cent, 12 per cent, 18 per cent, and 28 per cent. This, of course, does not include the cesses over and above the highest rate of 28 per cent.

The story of GST in India is a good example of how trying to please everybody leaves almost everybody dissatisfied. So, when the GST Council decided to levy a low rate of tax on the items used by the common man, it also found that this would hit tax revenue in a big way. But then when it decided to tax luxury and demerit items at a high rate to make up the difference, it ran up against the problem of sacrificed simplicity—there were just too many rates.

With a multiplicity of rates comes a multiplicity of complications, and there can perhaps be no better illustration of this than the case of the chocolate-covered *barfi*. Overall, sweet shops—most of them small enterprises—have had to face a huge compliance burden, with *rosogollas*, *barfis*, *jal bhara*, *gulab jamuns*, and the like taxed at 5 per cent, chocolate at 28 per cent, and other snacks such as *namkeen*, *bhujia*, and plain *kachoris* at 12 per cent. So, the question arose, does a chocolate-covered barfi qualify as a barfi or a chocolate product?

It is a sign of how complicated things became that the government had to issue a clarification saying that all *sandesh* (ostensibly, barfi by another

name!), with or without chocolate, would be taxed at 5 per cent.

Similarly, the government had to issue clarifications on the tax treatment on a wide range of sectors and items, including education, items used in solar-power generation, gifts from companies to employees, sanitary napkins, food provided by religious institutions, services by resident welfare associations, lodging in hostels, legal services, hotel accommodation, textiles, transitional credit, and ads in print publications.

In some cases, even the clarifications were of no help since the reality on the ground differed from the theory to a very great extent. For example, solar-energy producers are still confused about the GST treatment of their sector. While the government has said that all items used in the production of solar energy would be taxed at 5 per cent, it has not specified the nitty-gritties of how this is to happen. So, for items such as wires and invertors, the tax rate is 5 per cent if used for solar energy generation purposes, but 12-18 per cent for all other purposes. Is the onus of proof of use on the company or on the government?

In the event of such a large difference in the tax incidence, the likely scenario will be for companies to say they are using these products for solar-power generation, leaving it to the government to prove that they are not.

## **Vexing Cesses**

In order to compensate the states for any loss they might incur due to the implementation of GST, the central government promised a compensation package that would cover all losses borne for the first five years following the rollout of GST. This was an impressive promise, and one that brought a lot of states round to adding their weight behind pushing GST through. But, it was also an expensive promise. The Centre, therefore, decided to implement cesses on luxury and demerit goods so as to earn extra revenue that could then be paid to the states.

While this is a simple concept in theory, again the implementation was made needlessly complicated, with the GST Council having to specify the cess rates on 55 items, most of which comprised different types of cigarettes, tobacco, and cars. Further, the Council saw fit to change the cesses on both cigarettes and motor vehicles, in two separate notifications issued following the rollout of GST. This, of course, led to a lot of

disgruntlement among carmakers with some even coming on record to voice their frustration.

'Implementation of GST was to create a single unified large market with a simplified tax structure for the auto industry. However, the recent rolling back to multiple rates back with pre-GST classification has come as a setback to the industry, shaking the confidence of the auto makers . . . Further, in the absence of a consistent and long-term policy, the investment for new products and new technology will be adversely affected,' Hyundai India said in a statement, for example. There were many more such angry voices raised at the time.

In a little more than four months since the rollout of GST, the GST Council has changed the rates on almost a hundred items, and has issued thirty-two notifications and corrigenda relating to GST. This doesn't include the numerous clarifications the Ministry of Finance has had to issue to dispel confusion around the tax treatment of particular items or sectors.

While this does highlight the government's keenness to take industry's reactions on board and shows its flexibility in how fast it can make changes, the changes themselves should not have been necessary.

The GST Council also decided to keep two key elements out of GST—crude oil and natural gas, and alcohol. The revenue the states were earning through VAT on these two items was just too attractive for them to relinquish it. But, on the other hand, this created complications across the board. Customers at restaurants have since found that, while food items come under GST on their bills, alcohol is still subject to VAT, leading to complicated calculations and, often, cheating on the part of the restaurants.

The dual tax system that existed due to keeping crude oil and alcohol out of GST also created problems for manufacturers, so much so that Finance Minister Arun Jaitley had to write to the states asking them to lower their VAT rates on petroleum products used in the production of other goods.

In the pre-GST regime, petroleum products as well as the final goods both attracted VAT, and so manufacturers could avail of input tax credit on petroleum products being used as inputs in the manufacturing process. However, in the post-GST scenario, the manufactured goods attract GST while the petroleum products used in their production attract VAT, a system that would lead to a cascading of taxes. These are needless complications that could have been avoided, given a little more thought and time.

### **Blow to Small Business**

The other big casualty in the overwhelming rush to implement GST was the small businessman and trading community. The way GST is structured, each and every one of them with a turnover of more than Rs. 20 lakh in a year has to register on the GST Network portal and file their returns in triplicate. While two of the forms are quite easy to fill, since they are autopopulated from the first form, that first form requires a number of details.

These small businessmen now have to formally keep track of each and every transaction they have made and log them, since the system of input tax credits requires them to mention each transaction in their returns. And all these records have to be kept electronically. The days of pen and notebook book-keeping has swiftly been ushered out.

Now, it is not anybody's argument that increased formalization of the economy is a bad thing, but changes like this require a lot of time and education—neither of which were provided in the required amounts.

In addition, really small vendors and service providers—with a turnover of less than Rs. 20 lakh a year—have also found that they have to register themselves on the GST portal since their buyers have to mention the vendors' GST numbers if they want to avail of input tax credits. In other words, buyers now seek out vendors with a GST number. It has, and increasingly will, become a system where having a GST number will be a competitive advantage for a small vendor.

To its credit, the government did set up a system of GST Suvidha Providers—basically companies acting as middlemen who could handle the software integration process into the GST portal for other businesses. These Suvidha Providers were to receive the software APIs from the government and then incorporate them into their own software so as to make the whole system compatible and seamless.

The problem here, again due to the rush, was that the APIs were not released till very late and so the Suvidha Providers did not have a fully functioning software that they could test prior to the rollout of GST. Crashes and errors were bound to occur, and they did.

The GST Council also recently changed the rules relating to the compliance burden on small businesses. During its 22nd meeting on October 6, the Council decided to increase the threshold limit for the Composition scheme, allowing businesses with a turnover of up to Rs. 1

crore to opt for the scheme. The Council also decided to allow companies with a turnover of up to Rs. 1.5 crore a year to file their returns and pay taxes once a quarter instead of once a month. This should be a great relief for small businesses, and should ease most of the compliance issues with GST as it takes care of about 90 per cent of the companies registered on the Network.

The bigger companies, making up 10 per cent in number but about 90 per cent in tax collections, can afford to pay accountants to ensure GST compliance.

The GST Council has also set up a Group of Ministers (GoM) to look into whether those opting for the Composition scheme can conduct interstate trade. The GoM is to also look into restaurants and how they should be treated under GST going forward. The problem is that restaurants are not lowering their prices for customers even though they can now avail of the benefit of input tax credits.

The GoM is looking into whether the tax rate on restaurants be reduced, or whether they should be disallowed from availing of input tax credits.

Most of these changes, however welcome, are after the fact. A little more planning before the launch could have meant they weren't needed at all.

### **Network Error**

Even the government's own IT infrastructure seemed under-prepared to handle GST, despite the several assurances made by the GST Network prior to the rollout.

'We have studied the taxpayer behaviour in terms of return filing for service tax, central excise and VAT and we found that 50 per cent of the taxpayers file their returns on the last day, and during that last day, most of them are between 4-5 PM. About 30 per cent file on the penultimate day and only 20 per cent file before that. We have kept that in mind while designing the system,' Navin Kumar, ex-chairman of the GST Network had said in an interview while he still held his post.

All these calculations and preparations were clearly not enough since, come return-filing time, the portal repeatedly crashed, leaving tax filers stranded and the government no option but to extend the filing deadlines.

Under GST, each month's returns have to be filed between the 10th and 20th of the next month, which meant that the returns for July were to be filed between August 10-20 and the returns for August were to be filed between September 10-20.

Such was the confusion in the lead-up to the initial deadline that the government decided to extend the deadline for both July and August to September. In the meantime, companies had to only file a simplified form. However, with the systems again crashing as the new deadline approached, the government was forced to announce yet another return-filing deadline. And then yet another deadline extension.

'Seventy-five days of GST implementation in the country has turned out to be a situation of complete nightmare coupled with great hustle and bustle for the traders who have to follow different compliance formalities under GST. On the other hand, they also have to wind up taxation formalities of the erstwhile VAT tax regime,' said the Confederation of All India Traders (CAIT) while reacting sharply to the GST Network issues and the various rates and rules under the new tax regime.

## **Systemic Problems**

Another less discussed issue with GST is the sidelining of the Central Board of Excise and Customs and the expertise of central government officials in tax collection. As previously stated, under the agreement worked out between the Centre and the states, the states will have the right to assess 90 per cent of businesses with a turnover of less than Rs. 1.5 crore a year, with the remaining 10 per cent going to the Centre. The Centre and States will split the assessees earning more than Rs.1.5 crore a year equally.

In essence, what this does is to empower state tax officials with a large portion of the GST tax administration. This seems problematic since the CBEC officials have a significant expertise when it comes to collecting indirect taxes, especially service tax, and are well versed with the intricacies of the service economy. The CBEC was also the nodal body coming up with the rules, rates, and legislation for all indirect taxes. That role will now be played by the GST Council, leaving the CBEC a shadow of its former self. The government must find a way to better utilize the CBEC.

Finally, GST comes as a telling blow to companies still reeling from the effects of demonetization. The government on November 8, 2016, decided to demonetize Rs. 500 and Rs. 1,000 currency notes, which made up about 86 per cent of all currency in circulation at the time. The reasons behind this were manifold, including curbing corruption and black money, stopping terrorist activities and currency counterfeiting, and increasing digital transactions. Whether those goals were achieved or not is not the matter of discussion here, but the effect on businesses—especially small businesses and traders primarily dealing in cash—was undoubtedly devastating.

Entire sectors in the informal economy shut down due to lack of business, and the added burden of understanding the new tax system and becoming GST-compliant has left many businesspeople in despair.

## **International Experience**

GST in India varies from the international best practices most significantly in its multiple rates of taxation. Almost every one of the 160 countries implementing GST has a single rate. At most, they have two rates.

Australia, for example, introduced GST in 2000 and implemented it at a flat 10 per cent on most goods and services, apart from the ones exempted from tax. Canada moved to a Harmonized Sales Tax (HMT) in 1997, which was a combination of the partial GST the country had implemented earlier and the provincial tax each of Canada's provinces used to levy. The HMT, too, is a single rate of tax.

Brazil has a Tax on Circulation of Goods and Services (TCMS), which is on a dual-rate basis and is non-cumulative, allowing input tax credits to be collected. Similar approaches are followed by New Zealand, Singapore, Denmark, Finland, Sweden, and Malaysia.

The Malaysian example is a particularly interesting one for India, since they managed to do what India failed to do time and time again—stick to an announced deadline. In the 2014 budget, Malaysian Prime Minister Najib Razak announced that GST would be implemented at a single rate of 6 per cent from April 1, 2015. Indeed, on that day, the entire country moved to the GST regime. But more importantly, the government readied the rules and rates and gave its people ample warning before making such a big change.

## **Long-term Benefits**

However, all those short-term problems aside, most experts agree that GST will have an immensely beneficial effect on the economy in the long term due to the increased formalization of the economy and the relative ease of doing business across the country. The new tax regime is also expected to attract increased amounts of foreign investment as multinational companies find it easier to comply with tax regulation.

The argument is that GST will reduce the tax burden on manufacturers as they can avail of input tax credits and so this will foster greater growth in the manufacturing sector. The transport sector is also expected to benefit immensely from GST as the uniformity of tax treatment across the country will mean the removal of check posts and toll plazas at inter-state borders. Not only will this reduce the transport time, but it will also help in the transport of perishable goods, which currently often spoil on the way to their destinations.

Additionally, since the GST system encourages all businesses and traders to register onto the portal and file their returns, the expectation is that this will increase transparency and also boost government revenue due to a wider tax base. The zero rating of exports is also expected to boost the country's export competitiveness due to the lower cost of transactions.

'Although some uncertainties remain around the design and pace of implementation of the GST, its adoption is poised to help raise India's medium-term GDP growth to above 8 per cent as it will create a single national market and enhance the efficiency of intra-Indian movement of goods and services,' the IMF said in its annual country report on India.

The benefits of GST have made themselves apparent in the countries where it has been implemented only 2-3 years after implementation. The initial phases were often met with resistance, even for relatively simpler systems and where ample preparation time was provided. In Malaysia, for example, Kuala Lumpur witnessed anti-GST protests on the streets by small and medium businesses following the rollout of its GST.

At a more individual level, the common man is expected to benefit from GST due to its simpler structure—a restaurant bill, for example, will no longer have a service tax, VAT, Swachh Bharat cess, and Krishi Kalyan Cess. At the moment, there will only be GST and VAT (only if alcohol was served). If alcohol also enters GST, then the only tax on your bill would be GST.

The other benefits of GST for the common man are more indirect. With more companies and individuals entering the tax net due to the stricter compliance rules under GST, the government stands to earn more in tax revenue, which it can theoretically spend on social schemes and infrastructure.

So far, the government has said that it will collect more than Rs. 90,000 crore from GST in July and August each, exceeding the target it had set. This is a heartening sign, and, if it continues in the months to come, then it will validate some of the expectations of the new tax regime.

There is still much to be done in GST. Mr. Jaitley has already hinted at a possible rationalisation of tax rates by combining the 12 per cent and 18 per cent rates into a single rate if revenues continue to be strong. The compliance burden to do with the GST portal also needs to be reduced. Businesses and traders still need to be educated about how to navigate the world of GST.

The list is long. But, as was mentioned at the beginning, the implementation of GST has been a typically Indian story, and that story is far from over.