

# GST in India: From Dream to Reality

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# FEATURED PERSPECTIVE

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In this article, the author discusses the details of India's long-delayed goods and services tax, which is expected to be implemented on April 1, 2017.

In his 1532 masterpiece *The Prince*, Machiavelli said, "It must be considered that there is nothing more difficult to carry out, nor more doubtful of success, nor more dangerous to handle, than to initiate a new order of things." This sentiment aptly captures the pending introduction of the goods and services tax in India in 2017.

After a decade of negotiations between the central government and the states over the structure of the GST first announced in 2006, both houses of Parliament cleared the constitutional amendment bill in the just-concluded monsoon session. (Prior coverage: *Tax Notes Int'l*, Aug. 8, 2016, p. 466.) India has thus confirmed its decision to adopt a dual GST model, meaning that the central government and the states will collect and administer central GST (CGST) and states GST (SGST), respectively.

The central government will administer the integrated GST (IGST) for interstate movement of goods and services. The IGST will be a combination of CGST and SGST, and the SGST will be accrued to

destination states where consumption takes place. The division of taxation power between the central government and the states (as provided in the Indian Constitution) does not provide for dual empowerment. Therefore, a prerequisite for the introduction of GST is amending the constitution to provide that empowerment.

The GST will subsume several indirect taxes levied by both the central government and the states, including central excise (on manufactured goods), service tax (on provision of services), state VAT (on sale of goods), entry tax/octroi, central sales tax, luxury tax, entertainment tax, and others. In place of all these taxes, one tax — the GST — will be administered by the central government and the states concurrently.

GST administration will be based on GST Net, a powerful IT infrastructure, which will operate a common GST portal. The ease of interacting with GST Net lies in the fact that the portal taxpayers file one application for registration, one document for payment of taxes after self-assessment, and one set of returns. These documents are then split in two: one for the central government and the other for the states. All interactions will be through e-filing. Even in cases involving allegations and disputes, taxpayers are expected to interact with only one tax authority — the CGST or SGST.

### GST Council

Apart from empowering the central government and the states to administer GST, another important feature of the 122nd Constitution Amendment Bill was the creation of the GST Council, which includes all state finance ministers and is chaired by the union finance minister. The GST Council will make recommendations to the legislatures regarding issues related to policy and implementation of GST, including rates and items to be excluded.

After failing to pass in the 2015 and 2016 sessions of Parliament, changes were made to the bill to satisfy

opposition parties. Consequently, the bill was passed by the Rajya Sabha (upper house) on August 3 and by the Lok Sabha (lower house) on August 8, almost unanimously. It has moved on to the state legislatures, where it must be ratified by at least 16 states (half their total number) before the constitutional amendment can take effect. The government proposes to complete this process by mid-September so that the GST Council can begin its work as soon as possible.

After the constitutional amendment, the central GST bill and the integrated GST bill will be enacted by the Parliament, and the state GST bill will be enacted by the respective state legislatures. These three laws will be based on the draft model GST law that has been in the public domain since June 2016. The enactments empowering the collection of CGST, SGST, and IGST are expected to be completed during the winter session.

### **GST Benefits**

In a GST regime, there is no cascading of taxes since a seamless flow of credit will be available under a single tax regime. Therefore, the prices of goods are expected to decline. The GST will also lead to a drastic reduction of contact points between tax authorities and taxpayers. This, in turn, will result in a substantial reduction in compliance costs.

Abolishing the entry tax will eliminate interstate border checks and the man-hours lost at each border post, which will reduce transportation and logistics costs. This, coupled with states having the same rate of SGST, will give the country a common economic market and a tremendous economic boost.

### **Implementation Challenges**

The first implementation challenge is creating the GST Net, the technology behind GST operations, and ensuring that it is fully functional. All of the technical

issues relating to the structure of GST will have to be finalized soon, including the threshold for tax, which will reveal the extent to which the government wants to bring small business into the GST system.

Finalizing the list of common exemptions for the central government and the states is another challenge, as fixing the threshold and number of exemptions will determine the tax base.

On the administrative side, the major challenge will be reorganizing and restructuring both the central government and state indirect tax administrations to correspond with changes in jurisdiction, workload, and concepts of taxation.

### **Awareness Programs and Capacity-Building**

It is critically important that the government organize extensive awareness programs through print, electronic, and broadcast media. For small business, it is particularly necessary to start organizing industry-specific “hand-holding” programs and developing and distributing self-learning/interactive GST kits.

While the government has started capacity-building programs for its officials, corporations and other taxpayers are lagging behind. Employee training (at all levels) on technical issues and IT capabilities needs to be expedited, and the Enterprise Resources Planning program will have to be overhauled.

Last but not least, the government must set up GST monitoring cells at different levels to assist in the implementation of GST. It will have to ensure that tax relief generated by the GST regime is passed on to consumers, leading to a commensurate fall in prices. On a related note, the government will need to tackle undue profiteering through the Price Control and Anti-Profitteering Act.

With a target implementation date of April 1, 2017, these measures should be expedited following the preparatory steps being taken now. ◆