

An Analysis of Goods & Services Tax in India after One Year Operation

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ABSTRACT

Goods & Services Tax (GST) in India came into effect from 1st July 2017 with high expectation from all concerned. It was further opined that "With the launch of GST, Team India has proven its potential and diligence. The people connected with GST have gone beyond politics and unanimously contributed to ensure welfare of the poor class". After the GST implementation, several States have reported growth in revenue collection during the first few months followed by a dip in revenue collection in spite of the widening of the tax net and better compliance of GST rules. In this paper, an attempt has been made to review the effects of GST after its operation in India during the last twelve months of operation. The post-GST era in India has so far witnessed numerous exporter strikes, error and mismatch in returns filed. GST in India not only boasts of one of the highest tax rates but also consists of the largest number of tax slabs. It is worthwhile to mention in this context that GST may be considered as a tool of doing business at ease in India.

1. Introduction And Background of the Study

Tax collection in federal form of governments in different parts of the Globe vests with the Union Government. India also follows the same policy with tax matter. States had their Tax collecting power confined to their territory. In most cases Central Government enjoy the power to levy taxes and collect the same, which increases efficiency in collection minimising undesirable economic effects. The sole aim of the Central Government in designing the tax reforms is to generate surplus revenues after meeting its current need and transferring the surplus collections to the States in the form of financial grants, because in most cases it has been observed that the tax revenues generated by the States is lower than the revenue expenditure due to expense profligacy. This gives rise to deficit financing.

As a consequence to the wake of the financial crises, State Governments try to restructure the tax system for increasing tax revenue. To counter way the increasing profligacy of public expenditure State Governments have to depends excessively, on federal transfers or resort extensively to overdrafts. Multiplicity of taxes gave birth to complexity of the tax regime in India prior to the introduction of Goods and Services (GST) with effect from 1st July 2017. Vide the one hundred and first amendment of the Government of India. The amendment was passed in the Parliament on 29th March 2017. GST, a comprehensive destination based tax system aimed at subsuming various indirect taxes. GST introduced in the 70th Year of India's Independence will go down in the Indian tax resume history as it replaced a thicket of indirect Central and State Levis, which has been blamed for tarnishing India's tax friendly image. It tried to unite the whole economy into a seamless national market. The introduction of GST made the States loose their power of taxing goods and services. The GST regime saw a shift from multiplicity of taxes to a unified tax structure. Central government assured compensation to States for loss of revenue.

In most countries GST rate hovered in between 10% to 22% with minimum tax slabs. The paradox of Indian GST system lies in the fact that though simplification of tax rate was propagated but the actual story remains in the introduction of tax rates varying from 0% to 28%, which was restricted to 14.5% in Value Added Tax (VAT) regime. Rightly called by World Bank 'GST a very complex Taxation system', the post GST era in India has so far witnessed numerous exporter strikes, error and mismatch in returns filed. GST in India not only boasts of one of the **highest tax rates** but also consists of the largest number of tax slabs. India has the highest standard GST rate. On the planet, it is second only to Chile. The non-zero rated products (5%, 12%, 18% and 28 %) combined with the remaining zero-rated products and the 3 % GST rated Gold are a sharp deviation from the one Nation one GST Tax dream. Petroleum products, power, and real estate are still outside the GST ambit. Gross Domestic Product (GDP) has shown an in case but tax revenues have fluctuated, which is a cause of concern.

2. Review of Literature

After the operation of VAT in India for more than a decade, a question arises as to why subsuming of different tax acts prevalent in India before the introduction of GST became inevitable. To address this issue one may look at the study conducted by Arindam Dasgupta in an article "**An assessment of the revenue impact of state level vat in India**" pointed out, "In Haryana, Orissa and the six identified special category statesthe return may have been large enough to justify the cost of reform planning and implementation". He has further pointed out that "given the apparent lack of readiness of states, implementing GST in 2012-2013 is a high risk step whose returns may not repay the cost of planning and implementing the GST.

In a report entitled "**GST in India: A Big Leap in the Indirect Taxation System**" by Ethisham Ahmed and Satya

Poddar (2009), it was pointed out that implementation of GST may be an accelerator for boosting of growth in the Indian economy.

The Study of Clossen Sijbren, (2013) focuses as follows: 'A modern Goods and Service tax (GST) would do much to alleviate the problems of India's current indirect tax system which is serious impediment to the formation of a single common market and further economic growth'.

For GST to be effective and equally beneficial in the long run for the stake holders (which includes Central Government, State Government and consumers) Pinki, Supriya Kamna and Richa Verma (2014) highlighted GST network should be backed by strong and efficient Information Technology (IT) infrastructure.

Agogo Mawli (2014) stressed the in appropriateness of GST for low income under developed countries as GST retards growth of poor countries. He stressed that to induce economic growth GST rate should be kept below 10%.

Implementation of GST has been in the pipe line of the Indian economy for more than a decade. Shefali Dani (2016) in her study "A Research Paper on an Impact of Goods and Service Tax (GST) on Indian Economy" tries to find out and explain the reasons for hue and cry against the implementation of GST.

3. Concept of GST

GST is levied both in case of Inter-State sale and Intra-State sale. In case of inter State sale, the revenue collected is divided equally as Central Goods and Services Tax (CGST) and States Goods and Services Tax (SGST). GST encompassed indirect taxes levied by the Central Government (Example: Excise duty, Central Sales tax, service tax, Customs duty, countervailing duty). SGST encompasses several taxes previously levied by State Government and includes VAT, Purchase tax, Luxury tax etc. In case of interstate sale integrated Goods and Services Tax (IGST) comes into effect. IGST examines interstate transaction of goods and services.

4. Objectives of the Study

The authors have tried to evaluate the performance of the GST after its operation in India for more than a year.

5. Data Source and Methodology

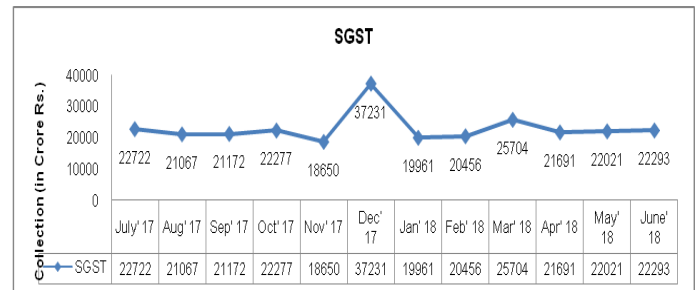
The paper uses an exploratory research techniques based on secondary data available from past literature from respective Journals, Reports, Newspapers, books, magazines and Websites on which reference material of GST is available. The research design is descriptive in nature. In doing this study help of some graphs and tables have been taken.

6. Analysis

Table1: Revenue collection (in Crore Rs.) after GST implementation:

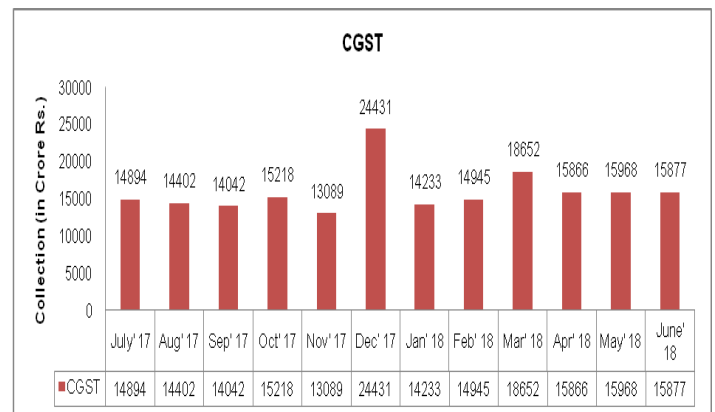
	SGST	CGST	IGST	Comp. Cess	Total Collection
July' 17	22722	14894	47469	7198	92283

Aug' 17	21067	14402	47377	7823	90669
Sep' 17	21172	14042	48948	7988	92150
Oct' 17	22277	15218	44359	1492	83346
Nov' 17	18650	13089	41270	7798	80807
Dec' 17	37231	24431	17142	7899	86703
Jan' 18	19961	14233	43794	8331	86319
Feb' 18	20456	14945	42456	7317	85174
Mar' 18	25704	18652	50548	8554	103458
Apr' 18	21691	15866	49120	7339	94016
May' 18	22021	15968	49498	8123	95610
June' 18	22293	15877	49951	8362	96483



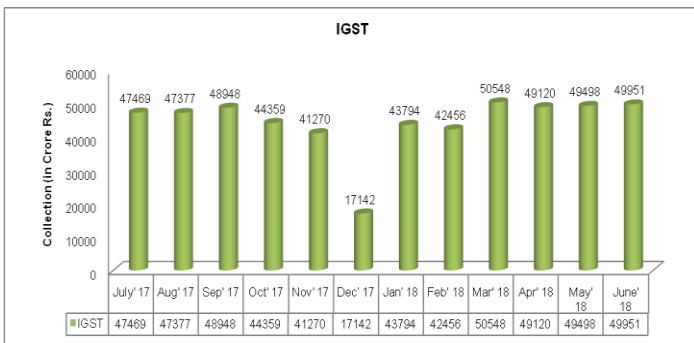
Graph 1: Collection of Revenue from SGST

SGST collection witnessed several ups and down during the entire study period of one year (i.e from July 2017 to June 2018). From July' 17 to Sep' 17 SGST witnessed a downfall. During third quarter of financial year 2017 – 2018 a down trend was noted in collection in the month of Oct' 17 and Nov' 17. Thereafter it touched a peak in December 2017. During the last three months of financial year 2017 – 2018 an uptrend was noted. As one glimpses through the first quarter of financial year 2018 – 2019 an uptrend in GST collection was visible.



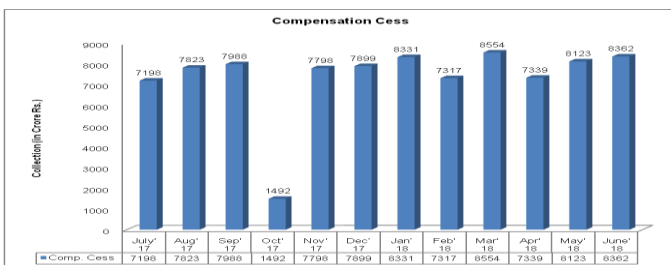
Graph 2: Collection of Revenue from CGST.

On the other hand CGST collection depicted a different story till September'2017. A sharp rise in revenue collection was noted in October'2017 (Rs.1176 Crore increase). There after CGST collection showed a downfall in the month of November'2017 by Rs. 2129 Crore. CGST collection declined by about 14% in the month of November'2017 when compared with October'2017. Again December 2017 saw an upshot in CGST collection. The last quarter of financial year 2017 – 2018 saw an increase in revenue collection by about 31.1% with respect to January 2018. The CGST collection came down in April 2018, which again saw an upraise in May 2018 and downfall in June 2018.



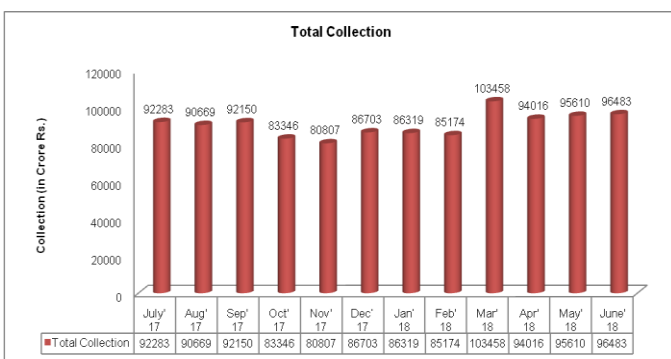
Graph 3: Collection of Revenue from IGST.

IGST collection showed a downfall in August'2017 in comparison to July'2017. There after an uptrend was noted in September'2017. With the lapse of another two months IGST collection showed a sharp decline of around 16% with respect to September'2017. IGST collection declined by about 7% in the month of November'2017 when compared with October'2017. During the entire time frame IGST collection was lowest in December 2017. In January 2018 IGST collection spurred up registering a downfall in February 2018. An uptrend was noted in the month of March 2018. First quarter (Q₁) of financial year 2018 – 2019 registered an increase in IGST collection.



Graph 4: Collection of Compensation Cess

Another contrasting feature becomes apparent when we concentrated on the graph of Compensation. It is worthwhile to note that compensation declined with increase of revenue collection particularly in the month of October'2017. Compensation rises sharply with the fall in revenue collection in the month of November'2017. There after the figure of Compensation Cess increased and decreased with the change in time frame and with the variation in collection.



Graph 5: Total Collection of GST

It may be noted from total collection that total GST collection registered a steep decline during the month of September'2017 to November'2017 by around 12%. During the

second quarter of financial year 2017 – 2018 total GST collection registered a downfall.

The first two months of 2018 registered a decline in GST collection followed by a sharp rise in March 2018. Thereafter during the Q₁ of financial year 2018 – 2019, GST collection spurred up.

Though the above graph shows leap in tax collection, but the post GST era caused a wave of dismal amongst the consumers, dealers, manufacturers inspite of GDP increase from 5.7% in Q₁ of Financial Year 2017-2018, 6.3% in Q₂ of Financial Year 2017-2018, 7% in Q₃ of Financial Year 2017-2018, 7.7% in Q₄ of Financial Year 2017-2018 to 8.2% in Q₁ of Financial Year 2018-2019.

GST was welcomed from nearly all sectors of the economy as it helped the nation to give the message to investors that GST is a tool of 'ease of doing business' in India. It has been observed that the GST implementation witnessed mixed reactions during last year from the Indian Taxpayers, Governments and Consumers. Manpreet Singh Badal, finance minister of the northern state of Punjab has pointed that GST has caused "Chaos and Pandemonium". In the next few lines the authors have try to focus some problems which dealers, customers and other stakeholders have faced.

Reports state that Small Medium Enterprise's (SME's) up winding are their business as it is becoming increasingly difficult to continue with the increased tax rates. It may be worth mentioning here "Most of the handicraft products are traditional arts reflecting our cultural heritage carried forward from several centuries" (Source: Times of India Online; December 13, 2017.). The SME Sector faces difficulty in filing online returns due to link failures and other technical glitches apart from increasing cost of maintaining records in computers. The SME sector is facing problem with respect to transition to online GST return filing and deploying of Single Responsibility Principle (SRP). Highest GST rate of 28 %, in certain products forces manufacturers in SME sectors to opt for purchase from unregistered dealers, which may leads to the problems as enumerated below.

The provision of imposing taxes at full rate in case of Composite dealers created problems for not only small traders but also for units in the Micro Small and Medium Enterprises (MSME) sectors. Below is explained how this created a problem for the dealers:

Let dealer 'A' purchase a commodity 'X' having value of Rs. 100/- from a manufacturer having a rate of tax of 28%. The tax incidence is depicted below considering dealer 'A' as a regular and composite dealer is depicted below:

Table 2: Illustration of Problem for the Dealers

Sl. No.	Particulars	Dealer 'A' considered as a composite dealer sold goods to end Customer	Dealer 'A' registered dealer sold goods to end Customer
1.	Value of Goods (X)	Rs.100/-	Rs.100/-

2.	Tax payable as GST	Rs. 28/-	Rs. 28/-
3	Input Cost	RS. 128/-	RS. 128/-
4.	ITC* that can be claimed	Rs. 00/-	Rs. 28/-
5.	Cost to Dealer	Rs. 128/-	Rs. 100/-
6.	Selling Price	Rs.150/-	Rs.150/-
7.	Output Tax Payable	Rs. 1.5/-	Rs. 32.8/-
8.	Total Tax Payable	Rs.29.5/-	Rs. 32.8/-
9.	Profit Earned	Rs. 20.5/-	Rs. 17.2/-
10.	ITC that can be claimed by end Customer.	Rs. 00/-	Rs. 00/-

*Input Tax Credit.

In above situation it is seen when any product is sold to an end customer (who is the final consumer) profit earned by the composite dealer is more than a registered dealer. Another paradox is that government also loses revenue in case of composite dealers' sale. Let us now extend the sale of registered dealer A to another registered dealer B.

The above problem can now be re-casted as follows:

Table 3: Illustration of Paradox Showing Government Losing Revenue

Sl. No.	Particulars	Dealer 'A' considered as a composite dealer sold goods to dealer 'B'	Dealer 'A' registered dealer sold goods to dealer 'B'
1	Value of Goods (X)	Rs.100/-	Rs.100/-
2	Tax payable as GST	Rs. 28/-	Rs. 28/-
3	Input Cost	RS. 128/-	RS. 128/-
4	ITC* that can be claimed	Rs. 00/-	Rs. 28/-
5	Cost to Dealer	Rs. 128/-	Rs. 100/-
6	Selling Price 'X'	Rs.150/-	Rs.150/-
7	Output Tax Payable	Rs. 1.5/-	Rs. 42/-
8	Total Tax Payable	Rs.29.5/-	Rs. 42/-
9	Profit Earned	Rs. 20.5/-	Rs. 50/-
10	Purchase Price of 'B'	Rs. 151.5/-	Rs. 192/-
11	ITC that can be claimed by dealer 'B'	Rs. 00/-	Rs. 42/-

From above it may be seen that registered dealers 'B' will prefer purchasing from another registered dealer rather than a composite dealer. Thus the scope of business for dealers becomes limited in case dealer is registered as composite dealer. It is worthwhile mentioning that the government is still giving chances to composite dealers to switch over as registered dealer till date.

After the implementation of GST this situation arose which made difficult for composite dealers (both Traders and manufacturers) to do business. Protests, demonstrations, representations came from business man throughout India to Goods and Services Tax Network (GSTN) Council. For raising the gross turnover limit of composite dealers to more than one crore. The following major decisions were taken by the GSTN council considering the representation of dealers.

(a).It was decided to raise the turnover limit from Rupees 1 Crore to Rupees 1.5 Crore. (b).Previously all goods sold by the composite dealers was chargeable to tax at a composite rate of 1.5%. From January 2018 it was decided that only taxable goods sold by composite dealers will be chargeable at the rate of 1%.

Assigning Maximum Retail Price (MRP) to hand made products of small illiterate artisans having small turnover becomes a complexity for marketing of this products.

Tax Collection at Source (TCS) by E-Commerce companies from sellers (selling products) in their portal at the time of payment blocks capital (of sellers) and this hampers day to day operation of E-Commerce companies as their accounting activities increased.

In case of Inter-state sale E-way Bill should be used when the sale values exceeds the threshold limit of Rs. 50,000/- .On the contrary the threshold limit for Intra-state sale for using E-way Bill varies from State to State with respect to sale value.

The consistent policy rollbacks and amendments, powered by the glitches GST Network, have enabled massive tax evasion. The increased pool of registered taxpayers has little but no impact on Revenue generation. Only 70% of taxpayers file returns regularly. A major headache is, however, the mismatch between initial and final returns filed by taxpayers. The concept of GST Audit to be implemented in the current year is expected to remove certain anomalies the dealers and Government is facing.

Senior Economist and West Bengal Finance Minister Amit Mitra have pointed out the following deficiencies as enumerated below:

(i). GST has been termed as unplanned as it was rolled out without proper preparation, as a result of which the economy was suffering. "We had requested not to roll out GST on July, 2017, but the Centre did not listen. As fallout, the GSTN software failed to manage so many transactions. Now, a lot of companies are filing returns manually because the software failed to take the huge load. As a result, hawala transactions have gone up." (Source: Times of India, 1 July, 2018).

(ii). He said "the GST would take away the ability of the states to generate revenues, and that said the implementation of the new tax regime had been mismanaged". "The original design was given up and a new design was introduced which was only a stop-gap. Now we hear that very soon a third design is going to be introduced in terms of the architecture of the GST". (Source: CNBC TV, June 28, 2018).

Amit Mitra's claim that "the exporters were awaiting refunds to the tune of Rs 25,000 crore, which have been stuck due to the inability of the GST Network", was countered by the Union Finance Minister Piyush Goyal, who said that efforts should be taken to counter illegal transactions. (Source: FIRSTPOST, 10 July, 2018).

The refund mechanism for exporters, including data matching, besides procedures governing them have caused problem in this sector. Refund problem for exporters especially for entities caused blockage of Working Capital. Efforts are being made to address the issues but it requires for intervention to resolve the same.

Frequent Changes in rate: Multiple rate structure, lower threshold for Composition dealers coupled with classification of commonly used goods under higher slab rates increased the complexity in the GST regime. This caused furor amongst the business community. On the industry's behest, on November 15 2017, the government rationalised GST rates on several commonly used items such as furniture, shampoos and select electronic items.

While reduction in GST rates was good for the industry as a whole, it came with its own set of challenges, revolving around the Employees Resource Planning (ERP) system such as changing of the rate masters, updating of product masters on real-time basis, revision of pricing policy and, discount schemes, affixing of new labels, issuing of communications to customers and distributors.

Anti-profiteering: One of the most talked about provisions in the GST law is the anti-profiteering provision. The provision mandates reduction in tax rate on the supply of goods and services or the benefit of input tax credit to be passed on to customers by a corresponding reduction in output prices.

Though such provisions have been introduced with an intention to check any profiteering, it is difficult for businesses to implement complex pricing decisions immediately after a rate cut/ increase in credit. Moreover, lack of clear mechanism for calculation of such benefit has caused uneasiness amongst the industry. Amidst such confusion, taxpayers, especially wholesalers and retailers have been issued notices to check whether they have passed on the benefits to end customers or not.

In GST 2.0, the industry looks forward for the release of clear rules and guidelines on anti-profiteering with an insight into the documentation and periodicity of this exercise for due compliance.

Filing of two monthly returns couple with two half-yearly returns by GST dealers did increase the work load, particularly in the SME sector. Business using accounting software or ERP for filing tax returns had to either modify their ERP's or upgrades their software through purchase of new GST complained software. This led to upsurge in operating cost for training man power and developing new IT infrastructure.

Previously SME manufacturing units having business turnover of less than 1.5 Crore was out of the ambit of the

excise duties. Currently the GST turnover limit has been shortened at Rs. 20 lakh, thus increasing the tax burden for many manufacturing SME's. Obviously the composition scheme gave relief, but the problem with composition scheme followers have been enumerated previously.

The complicatedness of the system can be easily realised if one looks at the number of amendments of GST council has introduced during the last 15 months of its operation. Every cloud has a silver lining. After looking into the Chaos and Pandemonium caused by GST, the authors have tried to focus their attention on the benefits which have percolated to the nation and the stake holders. The tax net after implementation of GST has increased as more and more dealers are voluntarily getting register in order to avail the Input Tax Credit (ITC) benefits. Expansion of tax base can be made if key items (electricity, alcohol, petroleum, natural gas, aviation fuel) can be brought under the ambit of GST. Bringing diesel, petrol and kerosene under the scope of GST is rather complicated task owing to the oppositions that most State Governments will produce.

Several GST amendments have tried to reduce the complicatedness by lowering the tax rates and simplifying the GST returns.

Redesigning of E-way bill through incorporating in-voice related information will give Government access to more data analytics through which the Government can plug revenue leakages. Notices about discrepancies between amounts mentioned in different GST returns as mentioned in the E-way bill portal can be a tool for the Government to check tax evasion. GST audit may be other instruments for checking tax evasion.

During the current Financial Year 2018 – 2019 the Central Government expect to earn 603900 Crore from GST, which makes an average collection of Rs. 50325 Crore per month. Data reveals that in April 2018 CGST portion out of IGST collected tantamount to Rs. 24560 Crore, which fall short of targeted collection by Rs. 25765 Crore. (Source: FIRSTPOST, June 29, 2018).

Within one year of GST launch 48 Lakh Enterprises has been added as compare with 66 Lakh Enterprises register in all these years since independence. These are nearly 73% increase in unique indirect tax payers under GST compared with pre GST system. Cost of compliance in GST is another advantage (Source: THE HINDU, August 12, 2018).

7. Conclusion

The roll out of GST has been both a curse and blessing for the stakeholders of GST. To overcome the curse the law implementers should play a proactive role with the other stakeholders for removing the curse. Listening to the problems, creating awareness about the GST glitches should be addressed properly. Only time proper compliance of GST rules acn pave the way for successful operation of GST in India in realising the vision of the Government with which GST was implemented.

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