GST is the most ambitious and remarkable indirect tax reform in India’s post-Independence history. Its objective is to levy a single national uniform tax across India on all goods and services. GST has replaced a number of Central and State taxes, made India more of a national integrated market, and brought more producers into the tax net. By improving efficiency, it can add substantially to growth as well as government finances. Implementing a new tax, encompassing both goods and services, by the Centre and the States in a large and complex federal system, is perhaps unprecedented in modern global tax history.

GST is a tax on goods and services with comprehensive and continuous chain of set-off benefits up to the retailer level. It is essentially a tax only on value addition at each stage, and a supplier at each stage is permitted to set-off, through a tax credit mechanism, the GST paid on the purchase of goods and services. Ultimately, the burden of GST is borne by the end-user (i.e. final consumer) of the commodity/service.

With the introduction of GST, a continuous chain of set-off from the original producer’s point and service provider’s point up to the retailer’s level has been established, eliminating the burden of all cascading or pyramiding effects of an indirect tax system. This is the essence of GST. GST taxes only the final consumer. Hence the cascading of taxes (tax-on-tax) is avoided and production costs are cut down.

As already noted, prior to the introduction of GST, the indirect tax system of India suffered from various limitations. There was a burden of tax-on-tax in the pre-GST system of Central excise duty and the sales tax system of the States. GST has taken under its wings a profusion of indirect taxes of the Centre and the States. It has integrated taxes on goods and services for set-off relief. Further, it has also captured certain value additions in the distributive trade. There is now a continuous chain of set-offs which would eliminate the burden of all cascading effects.

Presently, services sector in India constitutes a tax base with vast potential which has not been exploited as yet. It is in this context that GST is justified as it has subsumed under it almost all the services for the purpose of taxation. Since major Central and State indirect taxes have got subsumed under GST, the multiplicity of taxes has been substantially reduced which, in turn, would decrease the operating costs of the country’s tax system. The uniformity in tax rates and procedures across the country will go a long way in reducing compliance costs.

In a nutshell, GST is a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. GST is an indirect tax for the whole of India to make it one unified common market. GST is designed to give India a world class tax system and improve tax collections. It would end the long-standing distortions of differential treatment of manufacturing sector and services sector. GST will facilitate seamless credit across the entire supply chain and across all States under a common tax base.
2.1 Evolution of GST in India

In 2000, the Vajpayee Government started discussion on GST by setting up an Empowered Committee, headed by Asim Dasgupta (West Bengal Finance Minister) to design the GST model. Thereafter, the Task Force on Implementation of the Fiscal Responsibility and Budget Management Act, 2003 (Chairman: Vijay Kelkar) recommended the removal of all inefficient and distortionary taxes so that India obtains the efficiencies of a single national tax, and suggested a comprehensive GST based on VAT principle. The idea of moving towards a GST was proposed in 2005 by the then Union Finance Minister, P. Chidambaram in his budget speech for the year 2005-06 where he observed that the entire production-distribution chain should be covered by a goods and services tax that encompasses both the Centre and the States. He reiterated his idea in 2006-07 budget speech and proposed April 1, 2010 as the date for introducing GST. Towards this objective, an Empowered Committee (EC) of State Finance Ministers was to work with the Central Government to prepare a roadmap for introduction of GST. The final version of the report of EC was presented in the form of ‘A Model and Roadmap for Goods and Services Tax in India’ on April 30, 2008.

After receiving comments on the report from Government of India and concerned officials of the State Governments and taking into account their recommendations, the EC released the First Discussion paper on Goods and Services Tax in India on November 10, 2009 to obtain the inputs of industry, trade bodies, and people at large. On 22nd March 2011, the Constitution (115th Amendment) Bill was introduced in the Lok Sabha to operationalize the GST and enable Centre and States to make laws for levying of GST. However, the Bill lapsed with the dissolution of the 15th Lok Sabha. Thereafter, on 19th December, 2014 the Constitution (122nd Amendment) Bill, 2014 was introduced in the Lok Sabha to address various issues related to GST. It is noteworthy that the introduction of GST required a Constitutional amendment as the Constitution did not vest express power either in the Central Government or State Government to levy tax on the ‘supply of goods and services’. While the Centre was empowered to tax services and goods up to the production stage, the States had the power to tax sale of goods. Since the GST regime requires goods and services to be simultaneously taxed by both the Central and State Governments, a Constitutional amendment was needed. The Constitution (122nd Amendment) Bill, 2014 was passed by the Lok Sabha on 6th May, 2015 after which the Rajya Sabha passed the Bill with 9 amendments on 3rd August, 2016. The Lok Sabha then passed the modified Bill on 8th August, 2016. After getting approval of half of the States, it was sent to the President for his assent which was given on 8th September, 2016. Thus the road to GST rollout was cleared and the process of enactment was completed.

2.2 Salient Features of GST in India

The salient features of GST in India have been highlighted below:

1. **Supply as the base**: GST would be applicable on “supply” of goods or services as against the erstwhile concept of tax on the manufacture of goods or on sale of goods or on provision of services.

2. **Destination-based tax**: As opposed to the previous principle of origin-based taxation, GST would be based on the principle of destination-based consumption taxation.

3. **Dual GST**: The Centre and the States would simultaneously levy tax on a common base. The GST to be levied by the Centre would be called Central GST (CGST) and the GST to be levied by the States (including Union territories with legislature) would be called State GST (SGST). Union territories without legislature would levy Union territory GST (UTGST).

4. **Inter-State supply**: An integrated GST (IGST) would be levied on inter-State supply of goods or services. This would be collected by the Centre so that the credit chain is not disrupted. Imports of goods and services would be treated as inter-State supplies and would be subject to IGST. (This would be in addition to applicable customs duties).
5. **Central taxes subsumed**: GST would subsume the following taxes that were levied and collected by the Centre: Central excise duty; Additional duties of excise; Additional duties of customs (commonly known as countervailing duty); special additional duty of customs (SAD); service tax; and cesses and surcharges insofar as they relate to supply of goods or services.

6. **State taxes subsumed**: GST would subsume the following taxes that were levied and collected by the State: State VAT; Central Sales Tax; purchase tax; luxury tax; entry tax; entertainment tax (except those levied by the local bodies); taxes on advertisements; taxes on lotteries, betting and gambling; and State cesses and surcharges insofar as they relate to supply of goods or services.

7. **Applicability**: GST would apply to all goods and services except alcohol for human consumption. GST on five specified petroleum products (crude, petrol, diesel, aviation turbine fuel, natural gas) would be applicable from a date to be recommended by the GST Council.

8. **Threshold for GST**: A common threshold exemption would apply to both CGST and SGST. Taxpayers with an annual turnover of ₹ 20 lakh (₹ 10 lakh for special category States (except J&K) as specified in article 279A of the Constitution) would be exempt from GST. A compounding option (i.e. to pay tax at a flat rate without credits) would be available to small taxpayers (including to manufacturers other than specified category of manufacturers and service providers) having an annual turnover of up to ₹ 1 crore (₹ 75 lakh for special category States (except J&K and Uttarakhand) enumerated in article 279A of the Constitution). The threshold exemption and compounding scheme is optional.

9. **Exports**: All exports and supplies to Special Economic Zones (SEZs) and SEZ units would be zero-rated.

10. **Input tax credit**: Credit of CGST paid on inputs may be used only for paying CGST on the output and the credit of SGST/UTGST paid on inputs may be used only for paying SGST/UTGST. In other words, the two streams of input tax credit (ITC) cannot be cross utilized, except in specified circumstances of inter-State supplies for payment of IGST. (For details, see the Chapter on Input Tax Credit).

11. **Electronic filing of returns**: There will be electronic filing of returns by different class of persons at different cut-off dates. Various modes of payment of tax available to the taxpayer including internet banking, debit/credit card and National Electronic Funds Transfer (NEFT)/Real Time Gross Settlement (RTGS).

12. **Tax deduction on payment made**: While the provision for TDS has not been notified yet, it is obligatory on certain persons including government departments, local authorities and government agencies, who are recipients of supply, to deduct tax at the rate of 1% from the payment made or credited to the supplier where total value of supply, under a contract, exceeds ₹ 2,50,000.

13. **Tax collection at source by E-commerce operators**: While the provision for TCS has not been notified yet, it is obligatory for electronic commerce operators to collect ‘tax at source’, at such rate not exceeding 2% of net value of taxable supplies, out of payments to suppliers supplying goods or services through their portals.

14. **Refund**: Refund of tax can be sought by taxpayer or by any other person who has borne the incidence of tax within two years from the relevant date. Refund is to be granted within 60 days from the date of receipt of complete application and interest is payable if refund is not sanctioned within 60 days.

15. **Anti-profiteering clause**: An anti-profiteering clause has been provided in order to ensure that business passes on the benefit of reduced tax incidence on goods or services or both to the consumers.
2.3 Proposed benefits of GST

The implementation of GST is expected to bring in various benefits as discussed below:

1. **Dynamic common market**: GST would make India a dynamic common market and result in generation of positive externalities. By ensuring uniformity of indirect tax rates across the country, it will substantially improve the ease of doing business.

2. **Elimination of cascading effect**: Under GST, provision of seamless input tax credit across transactions will avoid tax cascading, eliminate double taxation and improve resource allocation.

3. **Efficiency**: Subsuming of all major indirect taxes will result in the removal of inefficient taxes. With a single tax to be paid, manufacturers will become more competitive and this could lead to growth in exports.

4. **Reduced compliance costs**: Harmonisation of tax rates and laws along with seamless input tax credits and a sound IT infrastructure is expected to lead to reduced compliance costs. As all the taxpayer services like registrations, payments, returns etc. will be available online, the compliance process would become simpler.

5. **Reduction in tax evasion**: Uniform rates of taxation would reduce the incentive for tax evasion by eliminating rate arbitrage opportunities between neighbouring states and that between intra-State and inter-State sales.

6. **Improved collection efficiency**: GST is also desirable from the point of view of tax policy and collection. Even if the taxes are lowered, the revenue of the Union and the states is expected to be buoyant due to less evasion. A single rate across all goods and services will eliminate classification disputes and make tax assessment more predictable. Harmonisation of tax assessment, levy and collection procedures across states will reduce compliance costs, limit evasion, enhance transparency and improve collection efficiency.

7. **Revenue generation**: By controlling tax leakage from the system and having a wider base, GST would generate more tax revenues for both the Central and State Governments.

8. **Encourages savings and investment**: As GST is a tax on consumption and not on income, so the tax system inherently encourages savings and investments instead of consumption. Further, input tax credit would lead to a decrease in the cost of capital goods and provide boost to investments.

9. **Improved efficiency of logistics**: Due to GST implementation, the restriction on inter-State movement of goods is likely to be lessened and the logistics sector is anticipated to start consolidating warehouses across the country. In the erstwhile indirect tax structure, decisions related to logistics and distribution centres were based on tax considerations as opposed to operational efficiency. With GST in place, these decisions will now be based on operational efficiency and warehouses would be set up at locations that would help in reaching customers faster and reduce costs.

10. **Regulation of the unorganized sector**: For a large unorganized sector that exists in business, GST has provisions for online compliances and payments, and availing of input credit only when the supplier has accepted the amount, thereby bringing accountability and regulation to these businesses.

11. **Export competitiveness**: With GST in place, the export industry in India would be able to have internationally competitive prices due to the smooth process of claiming input tax credit and the availability of input tax credit on services. The exports of goods or services would be a zero rated supply under GST implying that GST would not be levied on export of goods or services. All this, in turn, would provide a push to government’s ‘Make in India’ campaign.
12. **Higher threshold for registration:** As per the current VAT structure, any business with a turnover of more than ₹ 5 lakh (in most states) is liable to pay VAT (different rates in different states). Similarly, for service tax, service providers with turnover less than ₹ 10 lakhs are exempted. Under GST this threshold has been increased to ₹ 20 lakhs thus exempting many small traders and service providers.

13. **Composition scheme for small businesses:** The composition scheme under the GST regime is a method of levy of tax designed for small taxpayers whose turnover is up to ₹ 1 crore (₹ 75 lakhs in case of 9 Special Category States). Those who opt for this scheme can file returns on a quarterly basis unlike the others who have to file returns on a monthly basis. Under the scheme, small businesses, manufacturers and restaurants will be subject to a GST rate of 0.5%, 1% and 2.5% respectively on turnover. The Composition scheme has been designed to simplify and reduce the burden of compliance for smaller taxpayers.

14. **Benefits to consumers:** The final price of goods is expected to be lower due to seamless flow of input tax credit between the manufacturer, retailer and supplier of services. Average tax burden on companies is likely to come down which is expected to reduce prices and hence benefit the consumer.

### 2.4 Concerns regarding GST

1. **Lack of preparedness:** The understanding of the provisions of GST is still at a nascent stage for many people engaged in business. They are still trying to assess the mandated GST compliance provisions that their relevant functional departments (such as IT Department, Legal department) need to adhere to.

2. **Compliance related issues:** Businesses need to file multiple returns which may increase manifold in accordance with business models. Clients will need to ensure timely compliance by registered suppliers to ensure there is no loss of input credit. This will necessitate correct data and reports to fill accurate GST returns.

3. **Increased costs due to software purchase:** Businesses have to either update their existing accounting or ERP software to a GST-compliant software or buy a GST software so that they can keep their business going. Both the options lead to increased cost of software purchase and training of employees for an efficient utilization of the new billing software.

4. **Small businesses:** Small and medium-sized enterprises (SMEs) who have not yet signed for GST have to quickly grasp the nuances of the GST tax regime. They will have to issue GST-complaint invoices, be compliant to digital record-keeping, and of course, file timely returns. This means that the GST-complaint invoice issued must have mandatory details such as GSTIN, place of supply, HSN codes, and others.

5. **Lack of skilled resources and re-skilling existing workforce:** As GST has been introduced recently, skilled staff with complete and updated subject knowledge of GST is not easily available. This has resulted in an urgent need for adequate skilled human resources well-versed with GST to ensure swift implementation. In addition, businesses will need to re-train their employees in GST compliance, further increasing their overhead expenses.

6. **Multiple rate structure:** The GST presently has a four slab structure with tax rates kept at 5%, 12%, 18% and 28%. The multiple tax structure has been justified on the ground that necessary items of mass consumption should be taxed at a lower rate while luxury items should be taxed at higher rates. However, multiple rates are likely to increase administrative complexity as well as create classification disputes. Such a system makes it difficult to evaluate the overall effects of the tax design.
2.5 Structure of GST

There are four categories of indirect taxes under GST:

4. Integrated Goods and Services Tax (IGST).

2.5.1 Central Goods and Services Tax (CGST)

GST levied by the Centre on intra-State supply of goods or services or both is called CGST. It is levied under Central Goods and Services Tax (CGST) Act, 2017 which makes provisions for the levy and collection of tax on intra-State supply of goods or services or both by the Central Government. The Act is divided into 21 chapters which deal with matters connected with the levy, collection and administration of GST.

As regards the levy and collection of the tax, Section 9 of the Act reads as follows:

“(1) Subject to the provisions of sub-section (2), there shall be levied a tax called the central goods and services tax on all intra-State supplies of goods or services or both, except on the supply of alcholic liquor for human consumption, on the value determined under section 15 and at such rates, not exceeding twenty per cent, as may be notified by the Government on the recommendations of the Council and collected in such manner as may be prescribed and shall be paid by the taxable person.

(2) The central tax on the supply of petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas and aviation turbine fuel shall be levied with effect from such date as may be notified by the Government on the recommendations of the Council.

(3) The Government may, on the recommendations of the Council, by notification, specify categories of supply of goods or services or both, the tax on which shall be paid on reverse charge basis by the recipient of such goods or services or both and all the provisions of this Act shall apply to such recipient as if he is the person liable for paying the tax in relation to the supply of such goods or services or both.

(4) The central tax in respect of the supply of taxable goods or services or both by a supplier, who is not registered, to a registered person shall be paid by such person on reverse charge basis as the recipient and all the provisions of this Act shall apply to such recipient as if he is the person liable for paying the tax in relation to the supply of such goods or services or both.

(5) The Government may, on the recommendations of the Council, by notification, specify categories of services the tax on intra-State supplies of which shall be paid by the electronic commerce operator if such services are supplied through it, and all the provisions of this Act shall apply to such electronic commerce operator as if he is the supplier liable for paying the tax in relation to the supply of such services:

Provided that where an electronic commerce operator does not have a physical presence in the taxable territory, any person representing such electronic commerce operator for any purpose in the taxable territory shall be liable to pay tax:

Provided further that where an electronic commerce operator does not have a physical presence in the taxable territory and also he does not have a representative in the said territory, such electronic commerce operator shall appoint a person in the taxable territory for the purpose of paying tax and such person shall be liable to pay tax.”

2.5.2 State Goods and Services Tax (SGST)

GST levied by the States on intra-State supply of goods or services or both under their respective SGST Acts is called SGST. Union territories with legislature (Delhi and Puducherry) are covered