

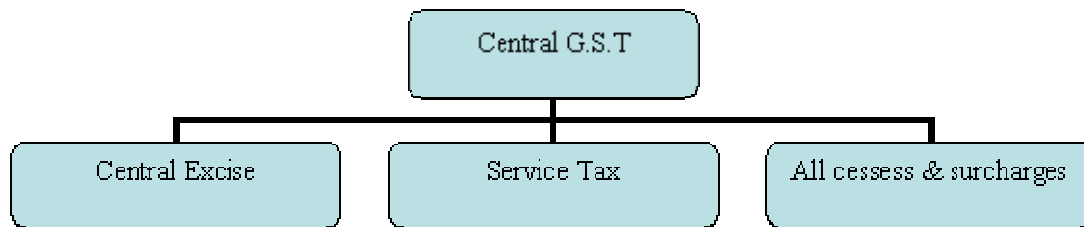
A Report on GST

Background

The effort to introduce the new tax regime was reflected, for the first time, in 2006-2007 Union Budget Speech. The then Finance Minister Mr. P. Chidambaram remarked that there is a large consensus that the country must move towards a national level GST that must be shared between the centre and the states. He proposed 1 April 2010 as the date for introducing GST

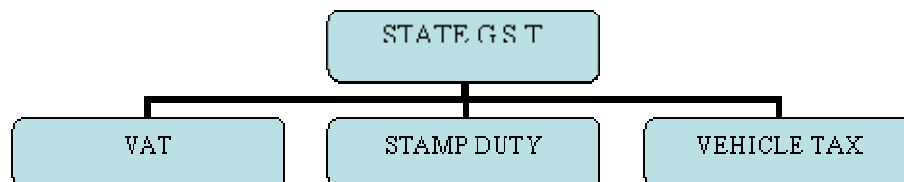
What is G.S.T?

A dual tax with both central and state GST components levied on the same basis. Thus, all goods and services barring a few exceptions will be brought onto the GST base. There will be no distinction between goods and services for the purpose of tax.



G.S.T will be applied in two part firstly Central G.S.T secondly State G.S.T,

1. Central G.S.T will be incumbent with acts of Central Excise, Service Tax & All cesses & surcharges.
2. State G.S.T will consist acts like VAT acts of respective state , stamp duty, vehicle tax etc.



THE BENEFITS:

1. Credits of tax payment will be more easily available rather under current tax system.
2. Tax base will broaden, allowing for a reduction in rates.
3. Distortion will reduce, as well as compliance cost of government.
4. Will spur growth; gains of \$15billion annually have been estimated.
5. Will promote employment.

Models:

(1) Australian Model: In Australia GST is a federal tax, collected by the Centre and distributed to the states. But India is a heterogeneous country and there is no chance that states may allow the Centre to collect all the taxes while they become just spending institutions

(2) Canadian Model: The GST in Canada is dual between the Centre and the states and has three varieties:

- i. Federal GST and provincial retail sales taxes (PST) administered separately - followed by the largest majority;
- ii. Joint federal and provincial VATs administered federally (Harmonious Sales Tax - HST); and
- iii. Separate federal and provincial VAT administered Provincially (QST) - only for Quebec as it is like a breakaway Province.

The first variety is fundamentally the Canadian model, which is similar (though not the same) to the existing situation in India.

(3) Kelkar-Shah Model: This model of a unified GST is based on a grand bargain to merge central excise, service tax and state VAT into one common base. Two different rates of tax are to be levied by the Centre and the states. The collection may be by the Centre. This is like the HST model in Canada;

(4) Bagchi-Poddar Model: This model, just like Kelker-Shahs, envisages a combination of central excise, service tax and VAT to make it a common base of GST to be levied both by the Centre and the states separately. This means that the Central Excise Act 1944 may be abolished and the goods tax may be only on the sale of goods. It may merge in it the service tax.

Hurdles in Implementation of GST in India

Bringing about an integration of all taxes levied on goods and services in a federal polity with sharp distribution of legislative powers is a Herculean task to say the least. The Constitution of India, 1950 demarcates taxing powers in a two-tier structure wherein levies on production and international imports are with the Union and post- production levies rest with the states. The Centre levies duties of excise on manufactures and import/countervailing duties on international imports apart from levying a tax on services under various taxing and the residuary entry in the Union List. The states levy VAT on goods sold or entering in the state under various entries of the state list. Even if all Union-level levies are integrated into a single levy and all state level levies culminate in a single State level levy; this may still have two levies and the resultant cascading and administrative burdens may nevertheless remain to an extent, though this may go a long way in harmonising levies. A harmonised, integrated and full fledged GST calls for the following:

1. Implementation of GST calls for effecting widespread amendments in the Constitution and the various constitutional entries relating to taxation.
2. Services have to be appropriately integrated in the tax network; and
3. Apart from all these, there has to be a robust and integrated MIS dedicated to the task of tracking flow of goods and services across the country and rendering accurate accounting of levies associated with such flow of goods and service.

Conclusion

From the above report on GST it is most clear that the advantages are may be evidently laid out that is the increasing proximity of our tax system to the global tax system. In a way, it may boost our economy and enable us to compete at the global front. As a result, even our system may match the international phenomenon. This is the biggest advantage of such a system. But every system has its own intricacies embedded at the initial stages. Lower incidence of tax, reduced prices, a move towards the global concept, reducing cost of tax compliance, better revenue collection, an efficient and harmonized consumption tax system in the country all this looks good on the card, but is it really so easy to implement? Keeping the various constitutional, technological, procedural and political barriers, the job seems easier said than done.