UNDERSTANDING THE GOODS AND SERVICES TAX (GST): INDIAN CONTEXT

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1. A BRIEF INTRODUCTION TO THE HISTORY OF INDIA'S TAXATION STRUCTURE

1.1 The prime objective of Public Finance is to maximize the welfare of the society, by ensuring rational allocation of resources in conformity with the economy's priorities. The development of a nation to a large extent depends upon the mobilization of revenue and its spending. India is a federation. A salient characteristic of a federal government is legislative autonomy and financial independence. This principle has enshrined in the constitution of India. The Regularity Act of 1773 and Character Act of 1833 were the beginning of financial settlements in unified India. Thereafter, steps towards the separation of tax resources between the center and the provinces were taken on the recommendations of Mr. Montague, the then Secretary of State for India in 1919.

1.2 The basic framework for the tax system in independent India was provided in the constitutional assignment of tax powers. The important feature of the tax assignment is the adoption of the principle of separation in tax powers between the central and State Governments. Articles 268 to 300 of the Constitution of India deal with financial matters. Article 246 of the Constitution, lays down that Parliament has exclusive power to make laws with respect to any matter enumerated in Union List (List I of schedule VII). The states have complete power to make laws with respect to any matter enumerated in the State List (List II of schedule VII) and both Parliament and State Legislature have power to make laws with respect to any matter enumerated in the Concurrent List (List III of schedule VII). The constitution of India under Article 265 clearly states that no taxes shall be levied or collected except by the authority of law. Entries 82 to 92B of List I of the VII Schedule describe the taxation powers of the Union Government. Entries 45 to 63 of List II of the VII Schedule specify the taxation powers of the State Governments.List III does not contain any head of taxation which means the Union and the states have no concurrent powers of taxation. This provision has been made in the constitution so as to avoid duplication in tax administration, and to minimize tax rivalry between the Union and States; and among the States.

2. THE INDIAN TAXATION SYSTEM

2.1 India offers a well-structured tax system for its population. Taxes are the largest source of income for the government. This money is deployed for various purposes and projects for the development of the nation. Taxes are determined by the Central and State Governments along with local authorities like municipal corporations. The government cannot impose any tax unless it is passed as a law. Central Government levies taxes on income (except tax on agricultural income, which the State Governments can levy), customs duties, central excise and service tax. Value Added Tax (VAT), stamp duty, state excise, land revenue and profession tax are levied by the State Governments. Local bodies are empowered to levy tax on properties, octroi and for utilities like water supply, drainage etc. Indian taxation system has undergone tremendous reforms during the last decade. The tax rates have been rationalized and tax laws have been simplified resulting in better compliance, ease of tax payment and better enforcement. The process of rationalization of tax administration is ongoing in India, with the latest being the introduction of the Goods and Services Tax, the biggest indirect tax reform in India.

2.2 Broadly there are 2 types of taxes:

- Direct Taxes: In case of direct taxes (income tax, wealth tax, etc.), the burden of tax directly falls on the taxpayer.

- Income tax: According to Income Tax Act 1961, every person, who is an assesse and whose total income exceeds the maximum exemption limit, shall be chargeable to the income tax at the rate or rates prescribed in the Finance Act.

- Indirect Taxes: Indirect taxes are not directly paid by the assesse to the government authorities. These are levied on goods and services and collected by intermediaries (those who sell goods or offer services).

- Sales tax / Central Sales Tax (CST): Central Sales tax is generally payable on the sale of all goods by a dealer in the course of inter-state trade or commerce or, outside a state or, in the course of import into or, export from India.

- Value Added Tax (VAT): VAT was a multi-stage tax on goods that was levied across various stages of production and supply with credit given for tax paid at each stage of Value addition. Introduction of state level VAT was one of the most significant tax reform measures undertaken by India at the state level. The state level VAT had replaced the erstwhile State Sales Tax.

- Excise Duty: Central Excise duty was an indirect tax that was levied on goods manufactured in India. Excisable goods have been specified in the Central Excise Tariff Act.

- Additional Duty of Excise: Section 3 of the Additional duties of Excise (goods of special importance) Act, 1957 authorizes the levy and collection in respect of the goods described in the Schedule to this Act. This was levied in lieu of sales Tax and shared between the Central and State Governments.

- Special Excise Duty: As per the Section 37 of the Finance Act, 1978 Special excise Duty was attracted on all excisable goods on which there is a levy of Basic Excise Duty under the Central Excises and Salt Act, 1944. Since then each year the relevant provisions of the Finance Act specifies that the Special Excise Duty shall be or shall not be levied and collected during the relevant financial year.

- Customs Duty: Custom or import duties are levied by the Central Government on the goods that are imported. The rate at which customs duty are levied on the goods depends on the classification of the goods determined under the Customs Tariff.

- Service Tax: Service tax was introduced in India way back in 1994 and started with mere 3 basic services viz. general insurance, stock broking and telephone. Today almost all the services come under the ambit of service tax barring those mentioned in negative list.

3. TAX REGIME PRIOR TO GST

3.1 Before the introduction of the GST, the central government had the power to levy the major broad-based and mobile tax bases, which include taxes on nonagricultural incomes and wealth, corporate income taxes, customs duties, and excise duties on manufactured products. Over the years, the last item had evolved into a manufacturers' VAT on goods. Before GST, the major tax powers assigned to the states included taxes on agricultural incomes and wealth, sales taxes, excises on alcoholic products, taxes on motor vehicles and on transport of passengers and goods, stamp duties and registration fees on transfers of property, and taxes and duties on electricity. States also had powers to levy taxes on entertainment and on income earned by engaging in a profession, trade or employment; some states had retained these powers for themselves, while others had assigned them to local bodies.[1] Although the state list also includes property taxes and taxes on the entry of goods into a local area for consumption, use, or sale, these have been assigned to local bodies. Until 2003, India's constitution did not explicitly recognize and assign to any level of government the power to tax services. However, since all residuary tax powers were assigned to the central government, in 1994, this authority became the basis for levying a tax on selected services. In 2003 an amendment to the constitution specifically assigned the power to tax services to the central government.[2]

3.2 Prior to the introduction of the Goods and Services tax (GST), VAT was introduced as an indirect tax in the Indian taxation system to replace the then existing general sales tax. The Value Added Tax Act (2005) and associated VAT rules came into effect beginning April 1, 2005 in many Indian states. Value Added Tax is a multi-stage sales tax levied as a proportion of the value added. (i.e., sales minus purchases which is equivalent to wages plus profit). Though the system of State-Value Added Tax has certain advantages such as simplification of the existing sales tax system, fewer rates and very few exemptions, less opportunity for tax evasion and total transparency in the operation of the system, it did suffer from certain deficiencies. In India, there had been a VAT (MODVAT) in respect of Central Excise Duties. At the state level, the VAT system had been introduced in terms of Entry 54 of the State List of the Constitution.

3.3 India's tax system had a multitude of indirect taxes, applied at the central and state levels. Table 1 shows the most notable ones, which the GST has subsumed. It also summarizes the current central tax rates in the first panel and the current range of rates of state taxes in the second.

Table 1: Overview of India's Tax System

CENTRAL TAXES	RATE
Central Value Added Tax (CENVAT) or Central Excise	12.5%

[1]While this tax applies to individuals based on the income earned, it is considered distinct from income tax, since the total tax leviable is limited by a cap spelled out by India's constitution.

[2]The88thAmendmenttotheConstitutionofIndiaassigns thepowertolevyaservice tax to the central government, with the proceeds being collected and appropriated by the central and state governments, in accordance with principles formulated by the Parliament.

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duty Tax levied on the production of manufacturing goods	
Service TaxTax levied on provided services	15%
Central Sales Tax (CST) Tax on cross–state trade.	2%
Countervailing Duties (CVD) Additional import duty on imported goods which are produced in India in order to 'level the playing field' between domestic and foreign producer. Additional CVDs might be applied to offset the effect of concessions and subsidies granted by an exporting country to its exporters.	12.5%
Special Additional Duty of Customs (SAD) Additional import duty to counterbalance the sales or value added tax payable by local manufacturers.	4%

STATE TAXES	Range Rates
Value Added Tax (VAT) Tax levied on the production of manufacturing goods.	10%-14.5%
Sales Tax Additional tax levied on the production of manufacturing goods. It was replaced in most states by VAT, but not all.	0%-15%
Entry Tax Tax on the entry of goods for consumption, use or sale in that state.	0%-12.5%
Luxury Tax Tax on luxury goods and services that include hotels, resorts, and congregational halls used for weddings, conferences, etc.	3%-20%
Entertainment Tax Tax on feature films, major commercial shows and private festivals.	15%-50%

At the central level the most important taxes were the Central Value Added Tax (CENVAT), the service tax, the Central Sales Tax (CST), the Countervailing Duties (CVD), and the Special Additional Duty of Customs (SAD). The CENVAT (or Excise Duty) was a tax levied on the production of movable and marketable goods in India and is set at 12.5 percent. The service tax is a 15 percent tax on all services provided, wherein the service provider collects the tax on services from the service receiver and pays it to the government. The 2 percent CST is a tax levied on all cross–state trade that is not[3]destined for, nor originates from abroad. Even though the CST is a central tax, the revenue accrues to the state from which the sale originates. Finally, the government levies two additional taxes on imports in addition to tariffs. Those are the countervailing duties (CVD) and the special additional duties (SAD), which amount to 12.5 and 4 percent, respectively. The CVD is an additional import duty levied on imported goods that are also produced in India to 'level the playing field' between domestic and foreign producers. The SAD is levied on imports to ensure that local sellers do not lose out on competition by counterbalancing the sales tax or value added tax payable by local manufacturers.

3.4 At the state level the most important taxes included the state Value Added Tax (VAT), the entry tax, the luxury tax, and the entertainment tax. The VAT taxes manufacturing goods produced within the state and ranges from 10 to 14.5 percent across states. The sales tax is a tax on goods sold within the state and ranges from 0 to 15 percent. It has been replaced by the VAT in most states, but remains in a few states. The entry tax was levied on the entry of goods into a state for the consumption, use, or sale therein and it used to vary between 0 and 12.5 percent. The entry tax was similar to the CST in that it taxed cross–state trade, but unlike the CST, the revenues accrued to the importing state. Finally, each state raised its own luxury and entertainment taxes, which could go up to 20 and 50 percent, respectively. Luxury taxes were mostly levied on hotels, and entertainment taxes were typically levied on movie releases.[4]

4. TAX SYSTEM UNDER THE NEW GST

4.1 Introduction of GST is a part of the ongoing tax reforms. Goods and Services Tax is the single most important tax reform since independence. This tax covers all goods and services. It replaces the complex levy of goods and services at the center and at the state levels. The new GST will merge the aforementioned indirect central and state taxes into a single tax. There will be a four-tier rate structure of 5, 12, 18 and 28 percent. While necessity goods will be taxed at 5 percent and luxury and consumer durable goods at 28 percent, most goods and all services will be taxed at the standard rates of either 12 or 18 percent. The main purpose of the GST is to eliminate the compounding effect of the current multilayered tax system as well as the cross–state tax heterogeneity by fixing the final tax rate.[5]

4.2 GST'S 17-YEAR TIMELINE[6]

- February 1986: Finance Minister Shri Vishwanath Pratap Singh proposes a major overhaul of the excise taxation structure in the budget for 1986-87.
- 2000: Prime Minister Shri Atal Bihari Vajpyee introduces the concept, sets up a committee headed by the then West Bengal Finance Minister Shri Asim Dasgupta to design a GST model.

[3]Import tariffs will not be subsumed by the GST.

[4]The luxury and entertainment taxes has been subsumed by the GST.

[5]The tax system retained the dual system, that is, the GST is to be split into a Central GST (CGST) and the State GST (SGST). This implies that both the central and state government each collect taxes at half of the overall GST rate.

[6]http://www.thehindubusinessline.com/economy/gsts-17year-timeline/article9743284.ece

- 2003: The Vajpayee government forms a task force under Shri Vijay Kelkar to recommend tax reforms.
- 2004: Shri Vijay Kelkar, then advisor to the Finance Ministry, recommends GST to replace the existing tax regime.
- February 28, 2006: GST appears in the Budget speech for the first time; Finance Minister Shri P Chidambaram sets an ambitious April 1, 2010 as deadline for GST implementation. He says the Empowered Committee of finance ministers will prepare a road map for GST.
- 2008: Empowered Committee of State Finance Ministers constituted.
- April 30, 2008: The Empowered Committee submits a report titled 'A Model and Roadmap Goods and Services Tax (GST) in India' to the government
- November 10, 2009: Empowered Committee submits a discussion paper in the public domain on GST welcoming debate.
- 2009: Finance Minister Shri Pranab Mukherjee announces basic structure of GST as designed by Dasgupta committee; retains 2010 deadline.
- February 2010: Finance Ministry starts mission-mode computerization of commercial taxes in states, to lay the foundation for GST rollout.
- Shri Pranab Mukherjee defers GST to April 1, 2011.
- March 22, 2011: UPA-II tables 115th Constitution Amendment Bill in the Lok Sabha for bringing GST.
- March 29, 2011: GST Bill referred to Parliamentary Standing Committee on Finance led by Shri Yashwant Sinha.
- Shri Asim Dasgupta resigns, replaced by the then Kerala Finance Minister KM Mani.
- November 2012: Finance Minister Shri P Chidambaram holds meetings with state finance ministers; decides to resolve all issues by December 31, 2012 for GST rollout.
- February 2013: Declaring UPA government's resolve to introducing GST, Shri Chidambaram in his Budget speech makes provision for Rs. 9,000 crore to compensate states for losses incurred because of GST.
- August 2013: Parliamentary standing committee submits report to Parliament suggesting improvements on GST. GST Bill gets ready for introduction in Parliament.
- 2014: GST Bill cleared by Standing Committee lapses as Lok Sabha dissolves; BJP-led NDA government comes to power.
- December 18, 2014: Cabinet approves 122nd Constitution Amendment Bill to GST.
- December 19, 2014: Finance Minister Shri Arun Jaitley introduces the Constitution (122nd) Amendment Bill in the Lok Sabha; Congress objects.
- February 2015: Shri Jaitley sets April 1, 2016 as deadline for GST rollout.
- May 6, 2015: Lok Sabha passes GST Constitutional Amendment Bill.
- May 12, 2015: The Amendment Bill presented in the Rajya Sabha.
- May 14, 2015: The GST Bill forwarded to joint committee of Rajya Sabha and Lok Sabha.
- August 3, 2016: Rajya Sabha passes the Constitution Amendment Bill by two-thirds majority.
- September 2, 2016: 16 states ratify GST Bill; Hon'ble President Pranab Mukherjee gives assent to the Bill.
- September 12 year: Union Cabinet clears formation of GST Council
- September 22—23 year: Council meets for first time.

- November 3 Year: GST Council agrees on four slab tax structure of 5, 12, 18 and 28 % along with an additional cess on luxury and sin goods.
- February 18 year: GST Council finalizes draft compensation bill providing to make good any revenue loss to states in first five years of GST rollout.
- March 4 year: GST Council approves CGST and Integrated-GST bills.
- March 20 year: Cabinet approved CGST, IGST and UT GST and Compensation bills.
- March 27 year: Jaitley tables CGST, IGST, UT GST and Compensation bills in Parliament. Lok Sabha and Rajya Sabha pass all the four key GST Bills — Central GST (CGST), Integrated GST (IGST), State GST (SGST) and Union Territory GST (UTGST).
- May 18 year: GST Council fits over 1,200 goods in one of the four tax slabs of 5, 12, 18 and 28 %. Over 80% of goods of mass consumption either exempted or taxed under 5% slab.
- GST Council fixes cess on luxury and sin goods to create kitty for compensating states.
- May 19 year: GST Council decides on 5, 12, 18 and 28% as service tax slabs.
- Jun 21 year: All states except Jammu and Kashmir pass SGST law.
- June 30 yearMidnight: GST set to rollout.

4.3 CENTRAL GOODS AND SERVICE TAX (CGST)

Central GST or CGST would be levied under the CGST Act on the intra-state supplies of goods and services. Hence in case of intra-state supplies of goods and services, both the Central and State Government would combine their levies with an appropriate revenue sharing agreement between them. The power to levy CGST and SGST has been provided for in Section 8 of the GST Act, where it has been mentioned that: The following taxes shall be levied on all intra-state supplies of goods, or services or both, at such rates specified in the Schedule to the said Act on the recommendation of the Council, but not exceeding 14%, each. Such CGST and SGST is to be paid by a taxable person.

HIGHLIGHTS OF CGST

- CGST is applicable on both, goods and services.
- CGST is levied by the Central Government through a separate statute on all transactions of goods and services made for a consideration.
- Proceeds would be shared between the Central and State Government.

4.4 STATE GOODS AND SERVICE TAX (SGST)

State GST or SGST is a tax levied under the SGST Act on intra-state supplies of goods and services, that is administered by the respective State Government. SGST liability can be set off against SGST or IGST input tax credit only.

HIGHLIGHTS OF SGST

- SGST is levied by the State Governments through a statute on all transactions of supply of goods and services within the State.
- SGST would be paid to the accounts of the respective State Government.

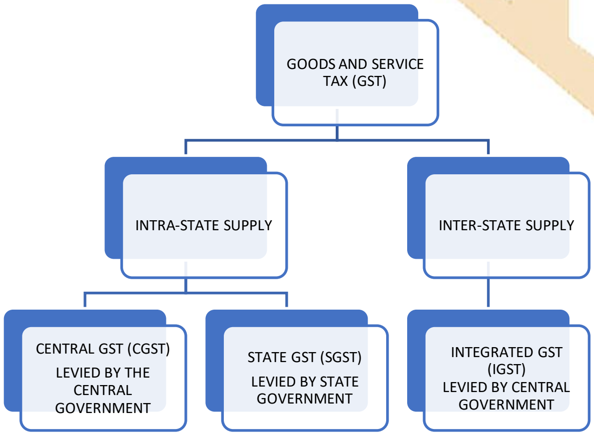
4.5 INTEGRATED GOODS AND SERVICE TAX (IGST)

Integrated GST or IGST is the tax levied under the IGST Act on the supply of any goods and/or services in the course of inter-state trade across India. Further, IGST would include any supply of goods and/or services in the course of import into India and export of goods and/or services from India. IGST will replace the present Central State Tax which is levied on the inter-state sales of goods. Thus, IGST would be applicable for all inter-state transactions, import and export of goods and/or services.

HIGHLIGHTS OF IGST

- Central Government would levy and collect IGST instead of CGST or SGST.
- Levied on inter-state supply of goods and/or services.
- Includes import of goods and/or services.
- Exports would be zero rated.
- IGST would be shared between the Central and State Government.

OVERVIEW OF THE GST LEVY-



5. FEATURES OF THE GST

- AMBIT OF GST

- It is applied to all taxable goods and services except the exempted goods and services and on transactions below the threshold limit.
- Exempted goods and services include alcohol for human consumption, electricity, custom duty, real estate.
- Petroleum products [crude oil, HSD (high speed diesel), motor spirit (petrol), natural gas, ATF (aviation turbine fuel)] are initially exempted from GST till the GST Council announces date of their inclusion.
- Tobacco products are included in GST along with central excise tax.

- IMPOSITION AND COLLECTION OF GST

- The power of making law on taxation of goods and services lies with both Union and state legislative assemblies. A law made by Union on GST will not overrule a State GST law.
- GST has two components CGST and SGST as discussed above. CGST will be collected by central government whereas states governments will collect SGST.
- IGST is levied on supplies in the course of interstate trade including imports which is collected by Central Government exclusively and distributed to imported states as GST is destination based tax. The proportion of distribution between center and states is decided on recommendation of GST Council.
- mention here that GST is a destination based tax

- GST COUNCIL

- It is set up by president under article 279-A. It is chaired by union finance minister.
- It constitutes of the union minister of state in charge of revenue and minister in charge of finance or taxation or of any other field nominated by State Governments. The 2/3rdrepresentatives in council are from states and 1/3rd from the states.
- Thedecisionofcouncilismadeby3/4thmajority ofthevotescastandquorumofcouncil is 50%.
- It will make recommendations on

(1) Taxes, surcharge, cess of central and states which will be integrated in GST.
(2) Goods and services which may be exempted from GST
(3) Interstate commerce – IGST- proportion of distribution between state and center
(4) Registration threshold limit for GST
(5) GST floor rates
(6) Special rates during calamities
(7) Provision with respect to special category states especially the north east states
(8) It may also work as Dispute Settlement Authority for GST.

➢ ADDITIONAL 1% TAX

- Additional 1% tax on interstate taxable supply of goods which is levied by center and directly portioned to the exporter state (origin state).
- This tax will be charged for two years or for longer time period recommended by GST Council.

➢ COMPENSATION TO STATES

- For maximum of 5 years' union will compensate states for the revenue losses arising out of GST implementation.
- This compensation will be made on the recommendation of GST Council.

6. ADVANTAGES OF GST

Under GST regime the burden of taxation will be allocated fairly between manufacturing and services via lower tax rates resulting in increased tax base and minimized exemptions. It is anticipated to help in establishing an effective and transparent tax administration. It is expected to remove the cascading effects of taxes and help in establishing of common national market. Apart from this some more advantages of GST are listed below:

➢ IGST- EFFECTIVE LOGISTICS

In current indirect tax system central sale tax (CST) is paid on interstate commerce of goods. 2% standard rate of CST is levied and distributed to exporter state as it is origin based tax. The input credit of CST can be offset with CST liabilities only. CST is paid only on interstate commerce of goods and not on supply (transportation) of goods. So, to avoid this tax large corporates build their own go downs in different states and transport their goods among states without paying CST which finally leads to decrease in cost of their product. Because of this tax dodging through warehousing by big corporates growth of small and medium enterprises hampered and they cannot survive in the market.

But, in proposed GST tax regime IGST is levied on interstate commerce and supply (both) of goods and services. Due to this an effective logistics system will come up which will prevent the tax dodging through warehousing by big corporates. This will protect small and medium enterprises from unhealthy competition of big corporates.

➢ ANCILLARIZATION

In present indirect tax regime all big corporates want to produce each and everything in-house only in order to reduce CST and cascading effect of tax. But in proposed GST system there is no CST and cascading effect which will lead to outsourcing, subcontracting and division of labor. Because of this specialization will increase in future which will help in reducing the cost of production. With the reduced prices domestic goods will be more competitive in international market which will result in increased export and help country to reduce current account deficit.

- SINGLE BASE COMPUTATION

With the introduction of GST cascading effects of taxes will not exists and there will be a single base for computation of tax for both central government and state government. Initially state governments will lose tax revenue due to less taxable value of goods. But in later years due to availability of cheap goods the number of taxpayers will increase and overall tax collection of states will also boost. This increase in tax revenue will lead to fiscal consolidation which is demanded by current state of Indian economy. As per CRISIL recent report GST is best reckon for fiscal consolidation as there is not much scope to cut government expenditure in India.

- EXPORT WILL BE ZERO RATE

No GST will be levied on exports because of which input credit of exporter will not be affected and he/she can use these input credit in future. With zero rated exports, domestic goods will be more competitive in international market and will help in increasing exports which in turn the fulfillment of objective of 3.5% share of India in world exports by 2020.

- SIMPLE TAX STRUCTURE

As multiple indirect taxes of state and central governments on goods and services will be replaced by a single tax, the tax structure will be hoped much simpler and easier to interpret. Reduction in the accounting complexities for business will make the manufacturing sector more competitive and boost the economy by 1%-2%.

7. CHALLENGES OF GST

- HIGH REVENUE NEUTRAL RATE (RNR)

RNR is the rate which neutralize revenue effect of state and central government due to change in tax system, means, the rate of GST which will give at least the same level of revenue that is currently earned by state and central governments from indirect taxes is known as RNR. As per the 13th Finance Commission the RNR should be 12% whereas state empowered committee demanding 26.68%. Union government is reckoning the rate band should be 15%-20% which is very high as compare to other counties. Hungary implemented GST from 1/4/2014 with 7% rate. Due to high RNR:

- Competitive edge of India in Asian giants will decrease and domestic industry may be wrecking.
- Tax evasion and smuggling will increase.
- Regressive nature of indirect taxes will badly affect the purchasing power of poor people which will have negative impact on human development index.

So, before implementing GST, RNR should be minimized. This can be achieved by inclusion of petrol, liquor, land, electricity within the ambit of GST which will enhance the tax base and increase revenue of government.

- COMPENSATION TO STATES

Currently, VAT is highest contributor in tax revenue of state governments. But after GST reform this will be subsumed along with surcharge and cess into GST. Due to which State Governments will occur revenue loss for sure and they will be more dependent on finance commission for tax devolution (currently 42%). To neutralize their revenue losses states are demanding compensation from Union Government. As per the 14th Finance Commission Union has to compensate States for maximum of five years with tapering effects. For first three years 100% compensation reduced to 75% and 50% in fourth and fifth year respectively. This compensation by Union will lead to fiscal burden and may not fulfill the fiscal deficit target of 3% by March 2017 announced by Finance Minister in 2015 budget. This fiscal target must be achieved for faster economy growth and full capital account convertibility in future. Industrialized states will be at loss in GST regime due to its destination based feature. It may demotivate the manufacturing industry and incite states to import more in order to increase their tax revenue. It is not good for manufacturing industry as well as for India because boosted manufacturing sector is the main driver of our economic growth in future. For temporarily relief to industrialized states additional 1% tax for two years on interstate sale and supply of goods is proposed in GST. with 1% additional tax, the main objective of GST to minimize cascading effect of taxes is fading out. So, to minimize cascading effect this additional tax at least should not be levied on supply of interstate goods.

- REGISTRATION THRESHOLD LIMIT

Initially there were different threshold limits for VAT (5 lacs), service tax (10 lacs) and excise duty (1.5 crore). But for implementation of GST common threshold limit for all indirect taxes is required. It will turn into a conflict between state and center. States want to fix the limit as 10 lacs opposing 25 lacs limit suggested by union. The lower threshold limit will broaden the tax base and increase the revenue of government but it will also require a robust IT infrastructure, to address the database of increased assess, which is presently missing out in Indian states. IT infrastructure will play a vital role in implementing IGST as union will electronically distribute IGST to states. To grapple the data base a strong network is required which is managed by GSTN (Goods and Service Tax Network) proposed in GST. GSTN has major responsibility to tackle biggest challenge of IT infrastructure in a time bound manner.

However, the GST Council has decided that the GST will apply when turnover of the business exceeds Rs 20lakhs (Limit is Rs 10lakhs for the North Eastern States). [Earlier the limit was Rs 10lakhs and Rs 5lakhs for NE states.]

- OTHER ISSUES

- Union government need to coordinate with 30 states for "input credit" due to transfer of credit in SGST.
- State tax officials training and development before implementation of GST.
- Effective credit mechanism is essential for GST. Owing to CENVAT it is not a problem but for states again it is a major challenge.
- Analysts say that real estate market will be cramped by GST and it may result in 12% down turn in demand of new houses because of increased cost up to 8%. (A study commissioned by Curtin University of technology).

8. CONCLUSION

Due to dissilient environment of Indian economy, it is demand of time to implement GST. Consumption and productions of goods and services is undoubtedly increasing and because of multiplicity of taxes in current tax regime administration complexities and compliance cost is also accelerating. Thus, a simple, user -friendly and transparent tax system is required which can be fulfilled by implementation of GST. Its implementation stands for a coherent tax system which will colligate most of current indirect taxes and in long term it will lead to higher output, more employment opportunities and flourish GDP by 1-1.5%. It can also be used as an effective tool for fiscal policy management if implemented successfully due to nation-wide same tax rate. It execution will also results in lower cost of doing business that will make the domestic products more competitive in local and international market. No doubt that GST will give India a world class tax system by grabbing different treatment to manufacturing and service sector. But all this will be subject to its rational design and timely implementation. There are various challenges in way of GST implementation as discussed above in paper. They need more analytical research to resolve the battling interest of various stake holders and accomplish the commitment for a cardinal reform of tax structure in India.

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