



TOWARDS GOODS AND SERVICES TAXATION –CHALLENGES AND OPPORTUNITIES

Dr. Johnson V.

Associate Prof. and Head, P G Department of Commerce, Pavanatma College, Murickassery, Keral, India.

Abstract

This paper outlines a brief history of taxation, the basic concept of Goods and Services Tax(GST)-a broad based and a single comprehensive tax levied on goods and services consumed in an economy- its evolution and landmarks and flagging major issues involved in its implementation in the Indian context. It also attempts to map the major areas of concern and level of preparedness of the state from the point of view of Revenue, Administration and Compliance. After all, GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. There is a saying in Kautilya's Arthshastra, the first book on economics in the world that the best taxation regime is the one which is liberal in assessment and ruthless in connection. The goods and services tax (GST) is aimed at creating a single, unified market that will benefit both corporate and the economy. Introduction of a GST to replace the existing multiple tax structures of Centre and State taxes is not only desirable but imperative in the emerging economic environment.

Key Words: GST, Indirect Tax, Multiple Tax Structure.

1. TAXATION IN A HISTORIC PERSPECTIVE

Taxation is the bedrock of public finance. The history of taxation dates back to time immemorial and it is not a recent development by any account. Emperors, kings and heads of states levied taxes or duties to pay for wars or the upkeep of castles and palaces or other public projects. A thorough research on the history of taxation system shows that taxes were levied on either on the sale and purchase of merchandise or livestock, though the process of levying and the manner of tax collection were unorganized. However all historical leaders and head countrymen collected taxes to run its authority, to meet military needs and civil expenditure for the overall welfare of the subjects.

The word tax is derived from the Latin word 'taxare' meaning to estimate. A tax is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority and is any contribution imposed by government whether under the name of toll, tribute, impost, duty, custom, excise, subsidy, aid, supply, or other name.

2. THE WORLD SCENARIO

The first known system of taxation was in Ancient Egypt around 3000 - 2800 BC. Records from that time show that the pharaoh would conduct a biennial tour of the kingdom, collecting tax revenues from the people. Other records are granary receipts on limestone flakes and papyrus. Early taxation is also described in the Bible. In the Genesis prophet Joseph was quoted as telling the people of Egypt how to divide their crop. "But when the crop comes in, give a fifth of it to Pharaoh. The other four-fifths you may keep as seed for the fields and as food for yourselves and your households and your children."

To the Athenians in Greece, war was a lifestyle, and a pricey one at that. As such, Athenians taxed their citizens for war costs with a tax they called "eisphora." The most historic factor of this tax was that it exempted no one, which many consider the first democratic taxation system, as after the wars the money was often refunded to the people. Taxes called "portoria" were first levied in Rome on imports and exports to the city. Caesar Augustus, who is now considered a genius tax strategist of his time, gave individual cities the job of collecting taxes. He also raised sales taxes on slaves from one percent to four percent, and created a tax to raise retirement funds for soldiers of the army. The occupation of the Roman Empire may have sparked the flame for first taxes in England. Before the French Revolution, civil unrest laid heavily on the shoulders of high taxes for lower classes. While clergymen and nobles were exempt to taxes, peasants and regular wage earning workers were not.

The history of taxation in the United States began when it was composed of colonies ruled by the British Empire, French Empire, and Spanish Empire. After independence from Europe the United States collected poll taxes, tariffs, and excise taxes. The United States imposed income taxes intermittently until 1895 when in apportioned taxes on interest, dividends and rents were ruled unconstitutional. The advent of the 16th Amendment to the United States Constitution modified the apportionment requirement in 1913, and since then the income tax has become one of the means of funding the Federal Government.

3. THE INDIAN CONTEXT

In India, the tradition of taxation has been in force from ancient times. It finds its references in many ancient books like 'Manu Smriti' and 'Arthashastra'. There was a perfect admixture of direct taxes with indirect taxes and they were varied in

nature. India's history of taxation suggests existence of a large and composite taxable population. With the advent of the moguls in India the country witnessed a sea of change in the taxation system of India. Although, they also practiced the same norm of taxation it was more homogeneous in structure and collection.

The period of British rule in India witnessed some remarkable changes in the whole taxation system of India. Although, it was highly in favor of the British Government and its exchequer it incorporated modern and scientific method of taxation tools and systems. Salt has been taxed in India for centuries. However, in 1835 the British East India Company raised the import taxes drastically after they began to impose rule over Indian provinces. The salt tax was raised and lowered by multiple leaders and events, and was not repealed until 1946. In 1922, the country witnessed a paradigm shift in the overall taxation system; setting up of administrative system and taxation system was first done in the history of taxation in India. The period thereafter witnessed rapid growth and modernization of the Indian taxation system

Systematic reforms of the tax system at the central level started only after market based economic reforms that began in 1991. The Tax Reforms Committee (TRC; India, 1991) laid out a framework and a roadmap for reform of direct and indirect taxes as a part of the structural reform process, following the unprecedented economic crisis. The paradigm shift in tax reforms adopted by the TRC was in keeping with the best practice approach of broadening the base, lowering marginal tax rates, reducing rate differentiation, simplifying the tax structure and adopting measures to make the administration and enforcement more effective.

The important proposals put forward by the TRC included reduction in the rates of all major taxes, i.e., customs, individual and corporate income taxes and excises to reasonable levels, maintain progressivity but not such as to induce evasion. The TRC recommended a number of measures to broaden the base of all the taxes by minimizing exemptions and concessions, drastic simplification of laws and procedures, building a proper information system and computerization of tax returns, and revamping and modernization of administrative and enforcement machinery.

4. RECENT REFORMS IN THE INDIRECT TAX SYSTEM

The recent reforms are, in fact, a continuation of the reforms initiated in 1991. The overall direction has been to broaden the tax bases, reduce the rates, reduce rate differentiation and make the tax system simple and transparent. There has been considerable simplification and rationalization of union excise duties as well. Besides reduction in the number of rates, the tax has been progressively converted from specific into ad valorem levy. The facility of providing credit on input taxes under the Convert too has been progressively extended to cover about 80% of the taxed commodities.

5. MAJOR MILESTONES IN INDIRECT TAX REFORM

1974	Report of LK Jha Committee suggested VAT
1986	Introduction of a restricted VAT called MODVAT
1991	Report of the Chelliah Committee recommends VAT/Goods & Services Tax (GST) and recommendations accepted by Government
1994	Introduction of Service Tax
1999	Formation of Empowered Committee on State VAT
2000	Implementation of uniform floor sales tax rates (1%, 4%, 8% & 12%)
2003	VAT implemented in Haryana in April, 2003
2004	Significant progress towards a Central VAT/ Sept 2004 GST – Integration
2005	VAT implemented in 26 more states
2007	First GST Study Released By Mr.P.Shome in Jan 2007
2007	FM announces for GST in Budget Speech
2007	CST Phase out Starts in April 2007
2007	Joint Working group formed by EC in May 2007
2007	WG submits its report in November 2007
2008	Empowered Committee finalises its view on GST structure in April 2008
2014	GST proposed to be implemented from 1.4.2016
2015	The Cabinet approved amendments to GST Bill to compensate states for revenue losses for five years.

6. EMERGENCE OF VALUE ADDED TAX

The most important reform initiated was the replacement of the cascading type sales tax with Value Added Tax (VAT) in the Centre and in the States, to address the burden of multiple taxation in the pre-existing Central excise duty and the State sales tax systems. Inputs were first taxed, and then after the production of finished commodity which already includes input tax,



output was taxed again. This has been causing burden of multiple taxation with cascading effects. Moreover, in the sales tax structure, when there was also a system of multi-point sales taxation at subsequent levels of distributive trade, then along with input tax load, burden of sales tax paid on purchase at each level was also added, thus aggravating the cascading effect further. This was done away with the introduction of VAT in the Centre and in the States.

In case of VAT, a deduction is made from the overall tax burden for input tax. This set off relieves from a substantial amount tax burden not only for input tax paid but also for tax paid on previous purchases. Thus, with VAT, the problem of multiple tax and related burden of cascading effect gets removed. Furthermore, since the benefit of set-off can be obtained only if tax is duly paid on inputs (in the case of Central VAT), and on both inputs and on previous purchases (in the case of State VAT), there is a built-in check in the VAT structure on tax compliance in the Centre as well as in the States, with expected results in terms of improvement in transparency and reduction in tax evasion.

In India, VAT was introduced at the Central level for a selected number of commodities in terms of MODVAT on March 1, 1986, and gradually all commodities were included by 2002-03 while the States started implementing VAT beginning April 1, 2005 and now all the States and Union Territories have implemented VAT .

7. WAY FORWARD TO GST

Despite the success of VAT, there are still certain shortcomings in the structure of VAT both at the Central and at the State level. The shortcoming in CENVAT lies in non-inclusion of several Central taxes in the overall framework of CENVAT, such as additional customs duty, surcharges, etc. and thus keeping the benefits of comprehensive input tax and service tax set-off out of reach for manufacturers/dealers. Moreover, no step has yet been taken to capture the value added chain in the distribution trade below the manufacturing level in the existing scheme of CENVAT.

Goods and Services Tax was first devised by a German economist during the 18th century. He envisioned a sales tax on goods that did not affect the cost of manufacture or distribution but was collected on the final price charged to the consumer. Goods and Services Tax is a broad based and a single comprehensive tax levied on goods and services consumed in an economy. GST is levied at every stage of the production-distribution chain with applicable set offs in respect of the tax remitted at previous stages. It is basically a tax on final consumption.

More than 140 countries have already introduced GST/National VAT. France was the first country ever to introduce GST in 1954. Most countries have a single GST rate. Typically it is a single rate system but two/three rate systems are also prevalent depending upon the requirement of the implementing nation. Standard GST rate in most countries ranges between 15-20%. All sectors are taxed with very few exceptions/ exemptions. Full tax credits on inputs – 100% set off is allowed. Canada and Brazil alone have dual VAT system, which India also proposes to implement.

7.1 Background of Goods and Services Tax (GST) in India

The Kelkar Task Force on implementation of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 had pointed out that although the indirect tax policy in India has been steadily progressing in the direction of VAT principle since 1986, the existing system of taxation of goods and services still suffers from many problems. The tax base is fragmented between the Centre and the States. Services, which make up half of the GDP, are not taxed appropriately. In many situations, the existing tax structure has cascading effects. These problems lead to low tax-GDP ratio, besides causing various distortions in the economy. In this context, the Kelkar Task Force had suggested a comprehensive Goods and Services Tax (GST) based on VAT principle.

The introduction of GST at the Central level will not only include comprehensively more indirect Central taxes and integrate goods and service taxes for the purpose of set-off relief, but may also lead to revenue gain for the Centre through widening of the dealer base by capturing value. The existing State-level VAT structure also has certain weaknesses. For instance there are even now, several taxes which are in the nature of indirect tax on goods and services such as luxury tax, entertainment tax, etc., and yet not subsumed in the VAT. Moreover, in the present State-level VAT scheme, CENVAT load on the goods remains included in the value of goods to be taxed under State VAT, and contributing to that extent a cascading effect on account of CENVAT element. This CENVAT load needs to be removed. The GST at the Central and at the State level will thus give more relief to industry, trade, agriculture and consumers through a more comprehensive and wider coverage of input tax set-off and service tax setoff, inclusion of several taxes in the GST and phasing out of CST.

GST is not simply VAT plus service tax but an improvement over the previous system of VAT and disjointed service tax. However, for this GST to be introduced at the State level, it is essential that the States should be given the power of levy of

taxation of all services. This power of levy of service taxes has so long been only with the Centre. A Constitutional Amendment will be made for giving this power also to the States.

7.2 Proposed GST Model for India -Dual GST System

The basic principal governing behind GST is to have single Taxation System for Goods and Services across the country. Currently Indian economy has various taxes on Goods and services such as VAT, Service Tax, Excise, Entertainment Tax, Luxury Tax Etc. In India, the consensus between Union and State governments is that *a system of Dual GST* would be the best solution for the country. In the proposed Dual GST system, both goods and services that pass through the supply chain are taxed under VAT principles both by the Union Government in the form of Central Goods and Services Tax (CGST) and by the State Government in the form of State Goods and Services Tax (SGST).

The following are the Central Taxes to be subsumed under Dual GST:

- (i) Central Excise Duty
- (ii) Additional Excise Duties
- (iii) Service Tax
- (iv) Additional Customs Duty (Countervailing Duty – CVD)
- (v) Special Additional Duty of Customs
- (vi) Surcharges
- (vii) Various Cesses

The following are the State Taxes that are to be subsumed under Dual GST:

- (i) VAT/ Sales Tax
- (ii) Entertainment Tax (unless it is levied by local bodies)
- (iii) Luxury Tax
- (iv) Taxes on lottery, betting and gambling
- (v) State cesses and surcharges on goods and services
- (vi) Entry tax.

7.3 Modus Operandi of GST

GST is a tax on goods and services with comprehensive and continuous chain of set-off benefits from the producer's point and service provider's point up to the retailer's 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 as available for set-off on the GST to be paid on the supply of goods and services. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages. The illustration shown below indicates, in terms of a hypothetical example with a manufacturer, one whole seller and one retailer, how GST will work. Let us suppose that GST rate is 10%, with the manufacturer making value addition of Rs.90 on his purchases worth Rs.300 of input of goods and services used in the manufacturing process.

The manufacturer will then pay net GST of Rs. 9 after setting-off Rs. 30 as GST paid on his inputs (i.e. Input Tax Credit) from gross GST of Rs. 39. The manufacturer sells the goods to the whole seller. When the whole seller sells the same goods after making value addition of (say), Rs. 60, he pays net GST of only Rs. 6, after setting-off of Input Tax Credit of Rs. 39 from the gross GST of Rs. 45 to the manufacturer. Similarly, when a retailer sells the same goods after a value addition of (say) Rs. 30, he pays net GST of only Re.3, after setting-off Rs.45 from his gross GST of Rs. 48 paid to whole seller. Thus, the manufacturer, whole seller and retailer have to pay only Rs. 18 (= Rs. 9+Rs. 6+Re. 3) as GST on the value addition along the entire value chain from the producer to the retailer, after setting-off GST paid at the earlier stages. The overall burden of GST on the goods is thus much less. This is shown in the table below. The same illustration will hold in the case of final service provider as well.

Stage of supply chain	Purchase Value Input	Value addition	Value at which supply of goods – services made to next stage	Rate of GST	GST on output	nput Tax credit	Net GST=GST on output – input tax credit
Manufacturer	300	90	390	10%	39	30	39-30=9
Whole seller	390	60	450	10%	45	39	45-39=6
Retailer	450	30	480	10%	48	45	48-45=3

The GST at the Central and at the State level will thus give more relief to industry, trade, agriculture and consumers through a more comprehensive and wider coverage of input tax set-off and service tax setoff, inclusion of several taxes in the GST and phasing out of CST. With the GST being properly formulated by appropriate calibration of rates and adequate

compensation where necessary, there may also be revenue/resource gain for both the Centre and the States, primarily through widening of tax base and possibility of a significant improvement in tax-compliance. In other words, the GST may usher in the possibility of a collective gain for industry, trade, agriculture and common consumers as well as for the Central Government and the State Governments. The GST may, indeed, lead to the possibility of collectively positive-sum game. Keeping this significance of GST in view, an announcement was made in the Union Budget to the effect that GST would be introduced from April 1, 2016.

7.4 The Constitution Amendment Bill

In a positive development towards India's progress into a nationwide unified market and removing trade barriers in the form of cascading effects of taxation, the Central Government tabled the 122nd Constitution Amendment Bill, 2014 ('Bill') on the introduction of Goods and Services Tax ('GST') before the lower house of Parliament on December 19, 2014. This Bill replaces an earlier bill introduced in 2011 by the erstwhile government which had since lapsed.

The Bill has also been introduced on the back of hectic negotiations and parlaying between the Centre and States on various contentious issues such as taxing powers and revenue sharing, after the current government had come into power in May 2014; it is therefore significant that it has been subjected to a level of debate and concessions by the Centre and States over the past 6 months, which is key to achieving success in amending the taxing powers of the Centre and States, which is a fundamental aspect of a federal democracy like India.

The Bill proposes to replace the current Indian tax regime which is multi-tiered. Currently, the Centre imposes excise duty on manufacture of goods, and service tax on provision of services (other than customs duty on imports). The States separately impose Value Added Tax (VAT) on the supply of goods and a portfolio of specific taxes such as entertainment tax, excise duties on alcohol for human consumption and medicinal and toilet preparations (MTP), entry tax and octroi. For mixed supply of services and goods (eg construction, restaurants), both service tax and VAT apply on the respective components. This results in a multiplicity of taxes with limited cross credits, conceptual difficulties, differential tax regimes between States and undue litigation.

In this update, we have summarized the key structural features of the proposals contained in this Bill, and how it differs from erstwhile bill introduced in 2011 along with our macro-level analysis. We have also provided a reference to the key next steps which this Bill would need to navigate through to reach fruition and our thoughts on how the industry should view this.

7.4a Salient features of the GST Constitutional Amendment Bill

- Insertion of new Article 246A conferring simultaneous power to the Union and the State legislatures to legislate on GST.
- Insertion of new Article 279A for the creation of a Goods & Services Tax Council, which will be a joint forum of the Centre and the States. This Council would function under the Chairmanship of the Union Finance Minister.
- To do away with the concept of 'declared goods of special importance' under the Constitution
- Central Taxes like Central Excise Duty, Additional Excise Duties, Service Tax, Additional Customs Duty and Special Additional Duty of Customs (SAD), etc. will be subsumed in GST.
- At the State level, Taxes like VAT/ Sales Tax, Central Sales Tax, Entertainment Tax, Octroi and Entry Tax, Purchase Tax and Luxury Tax, etc. would be subsumed in GST.
- The Centre will compensate States for loss of revenue arising on account of implementation of the GST for a period up to five years (The compensation will be on a tapering basis, i.e., 100 percent for first three years, 75percent in the fourth year and 50 percent in the fifth year).
- All Goods and services, except alcoholic liquor for human consumption, will be brought under the purview of GST.
- However, it has also been provided that petroleum and petroleum products shall not be subject to the levy of GST till notified at a future date on the recommendation of the GST Council.
- The present taxes levied by the States and the Centre on petroleum and petroleum products, i.e., Sales Tax/VAT, CST and Excise duty only, will continue to be levied in the interim period.
- Both Centre and States will simultaneously levy GST across the value chain. The Centre would levy and collect Central Goods and Services Tax (CGST), and States would levy and collect the State Goods and Services Tax (SGST) on all transactions within a State.
- The Centre would levy and collect the Integrated Goods and Services Tax (IGST) on all inter-State supply of Goods and Services. There will be seamless flow of input tax credit from one State to another. Proceeds of IGST will be apportioned among the States.
- GST is a destination-based tax. All SGST on the final product will ordinarily accrue to the consuming State.



- GST rates will be uniform across the Country. However, to give some fiscal autonomy to the Centre and States, there will be a provision of a narrow tax band over and above the floor rates of CGST and SGST.
- It is proposed to levy a non-vatable Additional Tax of not more than 1% on supply of goods in the course of inter-State trade or commerce for a period not exceeding 2 years, or further such period as recommended by the GST Council. This Additional Tax on supply of goods shall be assigned to the States from where such supplies originate.
- The term “Services” is proposed to be exhaustively defined as “anything other than goods”.

7.5 Salient features of the GST model

Salient features of the proposed model are as follows:

- I. The GST shall have two components: one levied by the Centre (referred to as Central GST), and the other levied by the States (referred to as State GST). Rates for Central GST and State GST would be approved appropriately, reflecting revenue considerations and acceptability.
- II. The Central GST and the State GST would be applicable to all transactions of goods and services made for a consideration except the exempted goods and services.
- III. The Central GST and State GST are to be paid to the accounts of the Centre and the States individually.
- IV. Since the Central GST and State GST are to be treated individually, taxes paid against the Central GST shall be allowed to be taken as input tax credit (ITC) for the Central GST and could be utilized only against the payment of Central GST.
- V. Cross utilization of ITC between the Central GST and the State GST would not be permitted except in the case of inter-State supply of goods and services.
- VI. Ideally, the problem related to credit accumulation on account of refund of GST should be avoided by both the Centre and the States except in the cases such as ex-ports, purchase of capital goods, input tax at higher rate than output tax etc.
- VII. To the extent feasible, uniform procedure for collection of both Central GST and State GST would be prescribed in the respective legislation for Central GST and State GST.
- VIII. The States are also of the view that Composition/Com-pounding Scheme for the purpose of GST should have an upper ceiling on gross annual turnover and a floor tax rate with respect to gross annual turnover.
- IX. The taxpayer would need to submit periodical returns, in common format as far as possible, to both the Central GST authority and to the concerned State GST authorities.
- X. Each taxpayer would be allotted a PAN-linked tax payer identification number with a total of 14/15 digits. This would bring the GST PAN-linked system in line with the prevailing PAN-based system for Income tax, facilitating data exchange and taxpayer compliance.

7.6 Benefit of Goods and Services Tax

1. Eliminates cascading effect of taxes across all supply chain by reducing cost of doing business and makes the economy competitive.
2. Eliminates multiplicity of taxes, rates, exemptions and exceptions.
3. Eliminates dual taxation of the same transaction (e.g. VAT & Service tax on EPC (engineering, procurement and construction) contracts).
4. Reduces cost of production.
5. Achieves, uniformity of taxes across the territory, regardless of place of manufacture or distribution.
6. Provides, greater certainty and transparency of taxes.
7. Ensures tax compliance across the economy.
8. Augments and creates buoyancy in the economy.

7.7 Major Issues

Some of the major areas – statutory, technological, governmental and public consensus - where initiatives have not been made or final decisions/consensus have not been reached are the following,

- **Model Act, Rules and Forms** :For a seamless rollout of a system like GST, it is imperative that the model Act and Rules both the Union and State Governments are prepared well in advance and discussed threadbare at all levels and with all the stakeholders.

- **Uniform Nomenclature, Classification and Coding of Goods and Services:** A comprehensive Schedule consisting of common and uniform nomenclature, classification and coding for goods and services applicable for the Union and States should be framed to suit the seamless functioning of dual GST. The list should be framed in line with the internationally accepted classification and coding by the Government of India in consultation with expert bodies. The Schedule should also consist of the list of exempted goods and services and a separate state list to address state-specific goods and services with their local nomenclature.
 - **Integrated E-platform:** This has to necessarily include nationwide networking and real time data transfer between the state departments and between states and the Central agencies. Another important area of intervention is related to legacy data from all the sources at the state and central level.
 - **Governance Mechanism** At present the tax governance at the state and the Union level remain as two separate domains. But in the GST context, there are many areas where, to avoid duplication and to enhance efficiency, certain crucial areas of administrative activities need to be shared between Union and the states. Such areas include registration, allotment of dealer ID, Investigation, Intelligence etc.
 - **Dissemination** There should be a national level public dissemination and outreach programme through all media, addressing all the stakeholders like tax payers about compliance issues, the consumers about the price/inflation impact, tax practitioners and legal personnel about the modalities and procedures.
 - **Firms may have to undergo dual audits**
Generally people believe GST means one administration. But it means two – central and state. Firms will file returns at one place – a portal – but after that there could be separate tracks going on in parallel. It is not a fair system. Both governments can do separate audits and take a different view on the same transaction. What happens then? Only dealers with an annual turnover of less than Rs 1 crore will be audited by the states; all others will be subject to dual audits. Even in the case of dealers below the threshold, the state will audit their returns and give a report to the Centre. The Centre can act separately.
- **The Assurance of a Common National Market for Goods and Services**
This is the most intriguing promotional promise in the Bill. A Tax common market for the GST requires a single collecting agency and a unified Return with common tax regulations. A two-tier tax collection and separate return system would belie this promise.

7.7a Sub-National Issues

The major concerns of the states/union territories which are to be discussed, deliberated and finalized by the states before rolling out the dual GST system along with the Union Government are outlined below.

1. **Re-organization of State Tax Administration:** In the process of switchover to GST, the present organizational structure, hierarchy, duties and responsibilities, nature & content of job description for each cadre are to be reexamined. The effective implementation of Dual GST demands state-of-the-art administration, for which a deliberate re-organization of the existing administrative set up is necessary. On the one hand, the effective implementation of GST is dependent upon a revamping of the present system of tax administration at the state level; on the other, this transition at the national level, should also be perceived and converted as an opportunity for re-engineering of the tax regime.
2. **Taxing of Services by States:** The Dual GST system proposes a new taxing power to states i.e., taxing of services also along with the existing system of taxation of goods. As far as the states are concerned, the identification of various Services (other than statutorily exempted services) within each state, their sources, potential revenue, tax collection methods, etc are new areas to be explored and integrated into the present mechanisms of tax administration and policy. The state machinery should seriously initiate the first steps towards this so as to be adequately prepared for the introduction of GST.
3. **Inter- State Transactions of Goods and Service:** The success of Dual GST is to treat India as a seamless unit in terms of indirect taxation. Presently there are breaks in the VAT trail wherever there are inter-state sales of goods or stock transfers. This system is proposed to be replaced by a new model called IGST (Integrated GST) whereby the VAT trail will not be broken even in the case of inter-state transactions. In the GST context, each state should estimate their potential revenue gain/loss/blockages, the methods of taxing inter-state transaction of services, reconciliation issues among states, issues relating to real time electronic exchange of data between the states etc. A comprehensive data base on inter-state movement of goods is also indispensable to develop a just rationale for calculating compensation packages for the states.
4. **Tax Rate - Revenue Neutral Rate.** The Dual GST ultimately boils down to the issue of tax rates at the Union and State level. It is rare that a single rate for Union and a single rate for States, both for goods and services, will be adopted or will become acceptable. Rather, it will probably be multiple rates (two or three rates) for Union and

5. States that will be acceptable. As of now, neither the empowered Committee of State Finance Ministers, nor the Union Government have not come to a final conclusion about the rates. In this context States have to take the initiative to calculate the Revenue Neutral Rates applicable to them taking into account various permutations and combinations of rates for goods and services. A comprehensive data base and a baseline study for RNR of each state under different rates are imperative, as they have a direct bearing on their power to negotiate with the Union for compensation packages for the years immediately following the introduction of GST.
6. **Draft Model of State specific GST Act, GST Rules with all forms:** As a prelude to the smooth transition to GST there should be detailed discussions and debates on the draft GST Act, Rules and Statutory forms amongst all the stake holders especially the taxpayers. But as of now neither the union nor any of the states have come out with a draft GST Act, Rules and forms in the public domain. It is high time that each state starts with the venture of drafting their GST Act, Rule & forms. Since the Dual GST presupposes uniform State Specific GST Act, GST Rules and Forms, the empowered Committee should take the lead in drafting a Model State specific Act, Rules and Forms and supply to each state for their comments.
7. **E-Governance & Tax Administration:** Each State is in different stages in their process of shifting from manual to a computerized system of tax administration and compliance. Some States like Kerala had achieved 100% e-governance in filing of returns and remittance of tax and are marching ahead in the process of e.governance in other areas also, like registration, return scrutiny, check post administration etc. But in the case of some other states, they have only initiated the process of switching over to e-platforms. The success of Dual GST depends on the resilience of the e.governance systems in tax administration at the national level. It is the right time for each state to conduct a Social Audit on their initiatives in E.Governance and based on the results of the study take necessary steps to proceed further in their process of E.Governance. A Comprehensive Office Manual under the GST regime is indispensable for effective administration. The preparation of such Manual should be initiated at state level in consultation with the Empowered Committee or such other councils formed under GST
8. **Threshold limits ,Small traders & Special type dealers**
A consensus has be arrived at regarding the threshold limit for GST, the fixation of which has to be sensitive to the specificities at the state level and the compliance cost under the new system. During initial years, GST may result in an increase in compliance cost. Therefore, for a smooth transition, the aspirations of small and marginal dealers should also be taken into consideration. An attractive exemption threshold limit with a composition scheme for such dealers should be introduced.
Special Dealers include works contractors, Annual Maintenance Contractors, IT Software dealers, who deal with a mixed bag of goods and services and also engage in inter-state, inter-country transactions. Treatment of such dealers under GST should be studied in depth from the Revenue, Administration and Compliance points of view.
9. **Invoice Tracking System**
One of the major areas of limitation in the implementation of VAT has been input tax credit, where various cases of evasions and frauds have been detected. This lacuna can be plugged only when invoice-to-invoice cross verification between dealers is made possible through e-platforms. Only a very few states like Kerala have put in place mechanisms for such cross verification through e-platforms. This has to be extended to all the states even before the introduction of GST and should be given top priority during the implementation.
10. **Awareness programmes**
There should be focused efforts to launch awareness programmes about GST through various media in order to sensitize the stakeholders and to create a favourable public opinion
11. **Training to the officials**
To make a smooth and effective transition to GST, it is imperative that intensive training programmes are organised to equip the officials. It has to be done once the Act and Rules are passed and before and during the implementation of GST.

7.8 Opportunities

1. **An end to cascading effects.** This will be the major contribution of GST for the business and commerce. At present, there are different state level and centre level indirect tax levies that are compulsory one after another on the supply chain till the time of its utilization.
2. **Growth of Revenue in States and Union.** It is expected that the introduction of GST will increase the tax base but lowers down the tax rates and also removes the multiple point This, will lead to higher amount of revenue to both the states and the union.
3. **Reduces transaction costs and unnecessary wastages.** If government works in an efficient mode, it may be also possible that a single registration and single compliance will suffice for both SGST and CGST provided

government produces effective IT infrastructure and integration of such infra-structure of states level with the union.

4. **Eliminates the multiplicity of taxation.** One of the great advantages that a taxpayer can expect from GST is elimination of multiplicity of taxation. The reduction in the number of taxation applicable in a chain of transaction will help to clean up the current mess that is brought by existing indirect tax laws.
5. **One Point Single Tax.** Another feature that GST must hold is it should be 'one point taxation'. This also gives a lot of comforts and confidence to business community that they would focus on business rather than worrying about other taxation that may crop at later stage. This will help the business community to decide their supply chain, pricing modalities and in the long run helps the consumers being goods competitive as price will no longer be the function of tax components but function of sheer business intelligence and innovation.
6. **Reduces average tax burdens.** Under GST mechanism, the cost of tax that consumers have to bear will be certain, and GST would reduce the average tax burdens on the consumers.
7. **Reduces the corruption.** It is one of the major problems that India is overwhelmed with. We cannot expect anything substantial unless there exists a political will to root it out. This will be a step towards corruption free Indian Revenue Service.

7.9 CONCLUSION

The implementation of GST is a challenging but highly promising proposition in a country like India which has to address the ever growing phenomenon of revenue expenditure mismatch, a serious threat to fiscal robustness and sustainable development. It will also improve the international cost competitiveness of native goods and services. Further it will also encourage an unbiased tax structure that is neutral to business processes and geographical locations. Once implemented, the proposed GST model would herald a new era in the indirect tax regime of India, subsuming and superseding all indirect taxes into a unified and simplified system, a step further above VAT system in addressing the effect of cascading and pyramiding of taxes and also enhancing the tax base.

REFERENCES

1. Acharya, Shankar 2005. "Thirty Years of Tax Reform in India", Economic and Political Weekly, 40(20), May 14.
2. Ahmad, Ehtisham and Nicholas Stern 1983. "Effective Taxes and Tax Reform in India", Discussion Paper 25, Development Economics Research Centre, University of Warwick.
3. Ahmad, Ehtisham and Nicholas Stern, (eds.) 1991. *Theory and Practice of Tax Reform in Developing Countries*, Cambridge: Cambridge University Press
4. Bagchi, A. and Pulin Nayak, 1994 "A Survey of Public Finance and the Planning Process: The Indian Experience", in (eds.) Bagchi, -Amaresh; Stern, -
5. Nicholas, *Tax Policy and Planning in Developing Countries 1995*, New Delhi and New York: Oxford University Press.
6. Bhagwati, Jagdish N. and B. Hansen, 1973. "A theoretical Analysis of Smuggling", Quarterly Journal of Economics, 87(2);172-187. Halla, S. 2005b. "Tax Rates, Tax compliance and Tax Revenues: India, 1988-2004",
7. Bird, Richard and Oliver Oldman, 1990. *Taxation in Developing Countries*. Baltimore: John Hopkins University Press.
8. Report of the Joint Working Group on Goods and Services Tax, Empowered Committee of State Finance Ministers, New Delhi, 2007
9. A Model and Road Map for Goods and Services Tax in India, New Delhi, 2008
10. Satya Poddar & Ehtisham Ahmad, *GST Reforms and Intergovernmental Considerations in India*, Department of Economic Affairs, Ministry of Finance, Government of India, March, 2009
11. Kavita Rao R & Sacchidananda Mukherjee, *Administration of GST: Can we continue with present structures?*, Training paper, NIPFP, 2009
12. Report of the Task Force on Good and Services Tax submitted to Thirteenth Finance Commission, 2009.
13. Recommendation on GST in the Report of the 13th Finance Commission (Chapter -5), 2009.
14. First Discussion Paper on GST by the Empowered Committee of State Finance Ministers, 2009 .
15. M. Govinda Rao *Goods and Services Tax: A Gorilla, Chimpanzee or a Genus like 'Primates'* SGulati Commemoration Lecture, January, 2011.