Intergovernmental Considerations of GST in India

Dr. Sunil Mishra
Assistant Professor, Department of Commerce
Har Sahai PG College, Kanpur

Introduction

The replacement of the national turnover tax by the value added tax in 2005 marked a major step forward in the reform of the domestic tax reform in India. State Secretary of Finance Asim in this report, led by the chairman Dasgupta undertaken the first has been sold have said distortion at the time and complexity related to taxes and a significant simplification of the structure and rates due to the expansion of the tax base in the old system. State VAT was designed with mainly based on the blueprint of the recommendations in the report Amatech Bagchi (after Bagchi Report) 1994 National Public Finance Policy Research Institute, led the team prepared. 1 Bagchi Report has clearly recognized that the multinational enterprise system is not the perfect solution for the tax problem in domestic trade by recommending the VAT (State Added Tax or VAT). However, the team felt that this was the only viable option within the existing framework of the Constitution and would form the basis for a more rational system in the future.

Thanks to the success of the state's VAT, the center and the states have now started designing and implementing the complete solution mentioned in the Bagchi report. As announced in the permit ministers of finance meeting in November 2007 the solution is to take the form of a 'double' of goods and services (GST), which is the amount that the government can be imposed simultaneously.

Current taxes and disadvantages

The main metropolitan consumption tax that the GST will replace is the CENVAT and service tax imposed by the Center and the VAT imposed by the state. This is all VAT on multiple levels. The structure of this tax is in the current Bagchi report - "irrational seureopgo archaic and complex knowledge of the most complex in the world, according to experienced professionals" much better than a few years ago, the prevailing system described as In recent years, significant made progress to improve the structure, broaden the base and rationalize tariffs. Some of the notable improvements are:

The rationalization of the CENVAT ratios is done by replacing a large part of the specific tariff with a raw material value rate based on the maximum selling price of the product (MRP) and reducing the variability. The value added tax (VAT) of the state removes all complexity associated with the application of sales tax at the time of the first sale. The American consensus on the uniformity of VAT rates has ended the harmful tax competition between them. It also reduced the accumulation of taxes.

Tax cascade

The tax cascade takes place under the tax of the center and the state. The most important contributions to the tax cascade are the partially applied central and national taxes. The production of oil and gas and mining, agriculture, wholesale and retail trade, real estate
constructions and coverage of services are not covered by the CENVAT and the service taxes imposed by the Center. The tax-free sector cannot claim credits from CENVAT or pay service tax for their contribution.

Similarly, the main value-added tax (VAT) under the credit is not allowed for the duty-free sector inputs, including the full sector services, real estate sector, agriculture, oil and gas extraction and mining. Another important factor for the cascade connections will not be allowed the credit in all levels of government as the national sales tax (CST) for a cross-border sale collected in the country of origin.

**Central and most important GST options**

The starting point for defining reform options is the basic structure of taxes. For the purpose of this discussion, the replacement of current taxes begins with the assumption that it starts in the form of a traditional value added tax, which allows a full and immediate contribution to both types of consumption (current and capital input due to taxable deliveries). Destination on the basis of destination (i.e. taxes on the place of consumption of goods and services, not on production sites). In this system, the supplier that is registered in the tax allows a tax credit on the basis of invoice issuance. This is the most common type of structure that is applied worldwide. The superiority with respect to other forms of consumption tax is well accepted both in India and in other countries. The choice is then mainly related to the tax and tax rates that levy taxes on central and national taxes. In the rest of this section we will discuss the problem of the assignment and we will come back to the issue of tax and tax rates in the next section.

The most important VAT allocation options are:

- Concurrent double GST,
- National GST and
- GST status.
- All these options require a constitutional amendment. We also consider the asynchronous double VAT option, for which no constitutional amendment is necessary to complete the discussion. These options are described in turn in the following sections.

**A. Concurrent double GST**

According to this model, taxes are imposed simultaneously by the Center and the United States. Both the central government and the competent committee seem to prefer the model.

The full details of the model are still waiting, but so far two variants have been identified in the forum. The first variant discussed in November 2007 means that Central and the United States are simultaneously levying GST on goods, but that most services (with the exception of services of a local nature) only apply to Center GST. CST applies to goods and services that extend to the entire supply chain, including wholesale and retail trade. The provincial VAT is limited to goods with only minor changes in the current VAT. In a more recent variant both goods and services are simultaneously subject to central and state taxes. This variant comes closer to the model recommended by the Kelkar commission of 2002.
The main difference between the two variants is the processing of services and shows concern about the possibility to define the service (i.e. destination) between countries. Even more recent variants recognize that there are a number of interlard services where destinations are difficult to determine. The state tax for this service is distributed to the countries in various ways, which are collected by the Center.

**Tax base and tax rate**

We now switch to issues of tax criteria and rates within the broadest structure of consumption types, based on destination, credit invoices GST. Ideally, all collective levies should be collectively levied on all goods and services in order to achieve the goals of simplicity and economic neutrality. Governments, however, often deviate from this ideal because of administrative and conceptual problems in applying taxes to concerns about the distribution of tax burdens (food, etc.) and certain sectors of the economy (e.g. health, education and finance). These concerns are important, both at the center and at the level of the state, and it is inevitable to ask the poor or other specific groups to exempt important items or to reduce taxes.

As mentioned earlier, lowering the allowance or exemption for basic needs is not an efficient way to help the poor, because this can provide the rich with significant benefits. The rich spend less than the poor, but they spend more money because of their income. As a result, the rich can be the most effective in lowering the tax rates on such goods. The needs of the poor can be tackled more effectively through spending and migration programs. Dissemination problems should be considered as part of the overall balance of all financial instruments, not only of the GST. In addition, fees and exemptions increase management and compliance costs. Create disputes about classification, retain additional data and organize sales incorrectly in order to create opportunities for tax avoidance and avoidance.

**A. Tax rate**

In the discussion about the GST designed for India, the tax suggested that we need to impose a total tax rate of 20% in the center and the state. 12% of those in the center, 8% will be attributable to the state, for example,. Kelkar Task Force Report). While the amount is lower than the current centers and provincial statutory rate is 26.5% (Cen vat 14% and VAT 12.5%), GST of this ratio is particularly confronted with significant resistance consumers in the retail trade are up to the pressure lifting and / or daily consumption, Low rates for articles. A standard rate of 25% at a high rate, such as his, with the exception of the Scandinavian countries being taxed countries managed to impose and maintain a VAT / GST is unlikely.

The successful GST model applied in other countries has shown a very broad base and relatively moderate tax rates, especially in the early years. For example, the New Zealand GST was introduced with a percentage of 10% consisting of virtually all goods and services (excluding financial services). The Singapore GST was introduced at 3%, but was now increased to 7% as the ineffective consumption taxes and tariffs were phased out.

**Harmonization of legislation and governance**

Dual GST requires coordination between the central state and the state. The ultimate goal is a uniform base and a set of rules for both taxes.
What should be the mechanism for achieving this harmony? Other options are taken over in other federal or trade blocs. An extreme case is the case of Australia, where GST is imposed and implemented as a single unified tax imposed by the Australian government. All income from taxes will be distributed the following week. Another example of Canada's Harmonized Sales Tax (HST) is imposed in three of the ten provinces. Taxes, such as the Australian Government GST, are levied and managed in accordance with government-wide laws. The biggest difference is in the revenue allocation system. Under the Canadian system, participation of the state in HST is optional, not compulsory. Taxes are levied at 7% per country (currently up to 5%), an increase of 8% in selected provinces. Income from a subsidy of 8% is divided among the participating regions on the basis of statistical calculations of the local tax standard (which is comparable with the income that would otherwise have arisen due to the separate imposition of their taxes). There is no "participation" in the country in Australia.

The center can play an important role in providing a forum for discussing and developing a common architecture for a harmonized management of the two taxes. It is responsible for developing GST policies and procedures in consultation with the relevant committees, such as delivery rules, registration and identification numbers of taxpayers, model GST law, tax forms and design of submission processes, data requirements and computer location. Processing of financial services, public entities and governments, housing and communication), tax collection procedures for cross-border and international cross-border transactions. The proposal for a competent committee (which delegates the operation of the Center GST for small brokers to the country) is very similar, although the contract structure has not yet been developed.

**Conclusion**

The Empowered Committee describes the GST as "the next logical step in the direction of a comprehensive, indirect tax reform." The financial history of India indeed has the potential to be the most important initiative. It could pave the way for the modernization of the tax administration - a simpler and more transparent system - and a significant improvement in voluntary compliance. For example, when GST was introduced in New Zealand in 1987, sales were 45% higher than expected. This is largely because compliance has improved. A more neutral and efficient structure can lead to huge dividends on the economy in terms of increasing production and productivity. Canadian experience implies potential benefits for the Indian economy. Canada's GST replaced the sales tax of the federal manufacturer, which was taxed at a rate of 13% with a design and structure similar to CENVAT in India. It is estimated that the potential gross domestic product (GDP) has increased by 1.4%. Higher productivity growth led to an increase of the national income by 0.9% (0.5% more capital by abolishing taxes).

**References**

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