
Problems and Prospects of GST on Telangana State

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ABSTRACT

The main aim of this paper is to make the readers to understand the concepts, Regime and Structure of Goods and Services Tax. The GST is one of the biggest tax reforms in India. In the post GST is implemented era, the tax terrorism is prevented. It may create more and more employment opportunities and may take necessary steps to control black money. GST is the boon to the small traders who may be saved from paying higher amount of tax. The GST model would be implemented in two statutes [one for CGST and SGST statute for every state]. The aim of GST is to simplify the tax administration and minimizing tax rate slabs and also to prevent unhealthy competition. Being a low indirect tax, GST will promote the economic development of India.

Key Words: GST, Indirect Tax - Terrorism, Tax Boon, CGST and SGST

INTRODUCTION:

Global Perspective

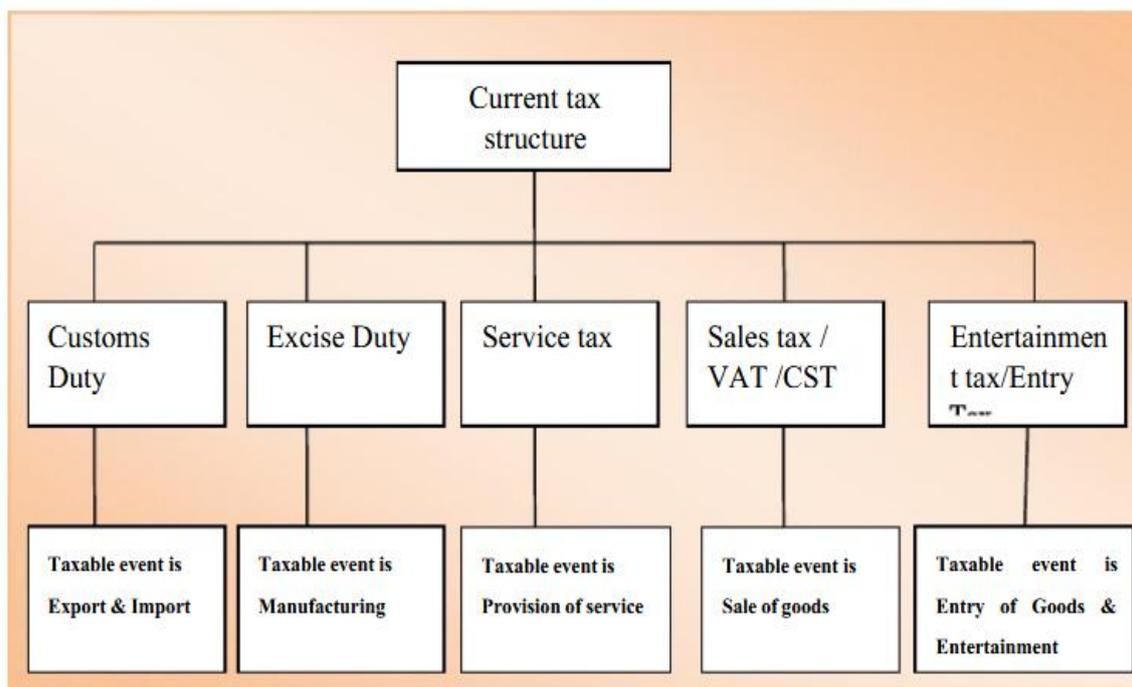
Charlet and Owens (2010) gave insights about VAT in their study. Wilhelm Von Siemens, a German businessman, had put forward the innovative idea of VAT regime in the 1920s. Maurice Laure, who was the former Joint Director of the French Tax Administration, is considered the 'Father of Value-Added Tax'⁴ regime. In 1954, France implemented the VAT system. In the mid- 1960s, Senegal and Cote introduced VAT at manufacturing level. In 1965, Brazil introduced a traditional VAT regime as a fiscal reform which applied at each and every stage of production. As of now, 140 countries have implemented different models of VAT/GST depending upon the country-specific requirements. Developed countries that have implemented VAT categorically are divided into two groups based on the rate of VAT. Many of the EU countries are under the first category and follow differential rates. The second group consists of developed nations like Singapore, Australia and Canada. They are following Vat with broad base and maintaining unified tax rates. Generally, developing countries prefer single rate system. GST is the variant form of VAT. India is also planning to implement the broad base GST with unified rates.

GST is the best system in the tax era of Indian indirect tax regime. It has been passed after a big struggle in the both houses of parliament during the month of August 2016. GST was conceived when the honorable Ex. Prime Minister of India Atel Behari Vajbayee. The more time is required even to do good things. (i.e., to make effect of the GST) This paper explains the concepts, the merits and demerits, features and SWOT analysis of GST. GST is one of the mile stones that have been taken by the present Government.

Current Indirect Tax Structure in India

In India, Current indirect tax structure mainly comprises customs duty, excise duty, service tax, sales tax (CST/VAT), and entertainment tax/entry tax (Figure 1).

Figure 1. Current tax Structure in India



Theoretical Background of GST

It is believed that the proposed GST should completely eliminate hidden indirect taxes and will avoid double taxation on various goods and services at each level of production, sales and distribution by way of input tax credit method. GST will facilitate a unique national market for various goods and services. GST regime shall provide unified tax rates across different states and thus by increasing the tax base. Common tax administration of Central and state governments will ensure effective tax compliance, minimum leakages of tax, and efficient tax coordination. Desired economic growth can be possible by attracting more capital infrastructure investments. Capital investors urging the favourable factors like elimination of double taxation and cascading effect of taxes, reduction in transaction costs associated with interstate sale of goods and services. Implementation of GST will avoid cascading effect of taxes and reduction in transaction costs which shall enhance India's ranking in World Bank's 'ease of doing business'¹. The present GST encompasses One Tax One Market concept, fungibility of credits – Reduced tax cascading, streamlined and standard IT Enabled Companies and simpler and rational tax structure.

According to Goods and Service Tax Bill (GST Bill), 2014, "Goods and Service Tax" should be a comprehensive indirect tax on manufacture, sale and consumption of various goods and services throughout India, to replace existing taxes levied by the central and state governments"².

Proposed GST shall be imposed and collected at various stages of production, sales and distribution of various goods and services based on input tax credit (ITC) method. ITC method will reimburse to prepaid taxes to registered business owners or adjusts the same from their current tax liability. This will help to avoid double taxation and completely eliminating cascading effect of taxes

According to the New Article 366(12A) of the Indian Constitution, GST means "any kind of tax imposed on supply of goods or services or both, except taxes on the supply of the alcoholic liquor for human consumption"³.

What is GST?

A Single and same level of taxation system implemented all over India is called Goods and Services Tax. It prevents existing system of charging Excise duty, VAT, Entrance Tax, Import duties, Luxury Tax, Service Tax, Central Sales Tax. A tax imposed on goods and services sales and consumption at national level is known as GST. GST is a single tax on the supply of goods and services, right from manufacturer to consumer.

Introduction of FRBM Act 2003 in Indian Public financial system helped majority of states to improve Fiscal management. Under this act, States and UTs should achieve the revenue deficit target by zero percent (0%) and Fiscal deficit to be limited to three percent (3%) of GSDP . Majority of Indian states were achieved their revenue deficit targets . At the same time, Union government is not able to achieve both the targets. The Reasons for ineffective fiscal performance of Union government are continuous decline in indirect tax revenue in GDP . Indirect tax buoyancy of prominent states was improved well above the level of Union government since 2008-09. Upcoming GST envisaged that central government will share their indirect tax buoyancy with state governments at predetermined rate and vice versa . This might be a win- win situation for all the parties of the tax system. Both the central and state governments will be benefited by increasing revenue share and cost reduction in tax administration.

Objectives of the Paper

The basic objective of the paper is to provide a fair view on GST regime and structure to the reader. However, the following are the specific objectives guiding the paper:

- i. To know the concept of GST and visualize the pros and cons of GST.
- ii. To find out the features of GST and conduct the SWOT Analysis of GST and
- iii. To present the GST in the International and Indian perspective.

Review of Literature

Here, an attempt is made to review the important research publications from 2014 to 2017 to flash light on the different areas covered by researches and scope for further research and publication by the present and potential researchers.

Anushuya, Karam Pal Narwal (2014), stated that, GST is a powerful concept in indirect tax. Some areas are untouched such as impact of GST on poverty alleviation, inflation, distribution and international trade etc. It concepts and impacts are analyzed with various aspects and techniques¹.

Monika Sehrawat and Upasana Dhanada, (2015), mentioned in his paper that a user-friendly and Transparent Tax system is GST. It can be used as an effective tool for fiscal policy management. It will result in lower cost of doing business that will make the domestic products more competitive in local and international market. No doubt, GST will give India a world class tax system by grabbing different treatment to manufacturing and service sector. It is expected to iron out wrinkles of existing indirect tax system and play a vital role in the growth of our nation².

Jayaprakash, (2014), opined that, GST is a further improvement over the existing VAT. It will ensure greater uniformity in the tax rates throughout the country and will end the cascading effects. GST will replace most of our existing tax system. The GST at the Central and State level are expected to give more relief to Industry, Trade, Agriculture and Consumers through a more comprehensive and wider coverage of input tax set-off and service tax set-off, subsuming of several taxes in the GST and phasing out of GST³.

Nitin Kumar, (2014), pointed out India has witnessed substantial reforms in indirect taxes over the past two decades. GST is one of the biggest tax reforms in India. GST is expected to unite the country economically as it will remove various forms of taxes that are currently levied at different points. In GST all indirect taxes such as octroi, excise duty, Central sales tax and VAT etc., will be subsumed under a single regime. It will encourage an unbiased tax structure that is neutral to business process and geographical locations. Many

countries have benefited from moving to a GST regime. Implementation of GST in India will help in removing economic distortions caused by present complex tax⁴.

Modi (2016) expressed his view that the tax terrorism came to an end and it reduced corruption and black money. The GST bill will make consumer the king. He hailed GST as a “Great step by team India” that will transform the economy, bring in transparency and bring in the system of “One country one tax”. He added that the day of passing the GST bill is a memorable day for our democracy⁵.

Aravind Subramanian (2016) mentioned that even if the GST rate is 18-20 per cent, there would be no average impact on inflation. Of course, a few commodities here and a few commodities there, the incidence will go up. But on an average, especially for the poorest, I will be very surprised if there is any impact on inflation at all. He suggested that 17-18 per cent standard rate for bulk of goods and services while recommending 12 per cent for demerit goods like luxury car, aerated beverages, Pan Masala and Tobacco. For precious metal, it recommended a range of 2-6 per cent⁶.

Shilpa Parkhi expressed that the changing face of Indian taxation is the way towards which developing country like India should head for. VAT was considered as a major improvement over the pre-existing central excise duty at the national level and the sales tax system at the state level. Now the GST will be further significant breakthrough-the next logical step-towards the indirect tax reform in the country⁷.

In the 23rd GST council meeting, a review of the GST Budgeted Revenue, Actual

Revenue and variations in GST collections was held to know the success or failure of GST at grass root level. The details are presented in the following Table:1

TABLE 1: GST REVENUE IN IMPORTANT STATES IN INDIA (RS. IN CRORES-AS AT NOV 24TH, 2017)

State	Budgeted Revenue	Actual Revenue	Variation
Maharashtra	19,656	18,063	1,593
Karnataka	11,742	8,500	3,242
Uttar Pradesh	10,838	8,747	2,091
Tamil Nadu	9,678	9,096	582
Gujarat	9,375	7,185	2,190
Delhi	5,454	4,982	472
Telangana	5,235	4,363	872
Andhra Pradesh	4,369	3,603	766

From the major states in India the revenue collection is not equal to Budgeted amount. However, as the GST is in transition, it will be difficult to conclude that it is a failing one. In future it will turn into the advantageous one.

As per the Prime Minister of India Shri. Narendra Modi, GST aims to eradicate the black money, roots of terrorism, Maoists huge money reserves in various dumps and gives a boost to digital India initiatives and fulfills the objectives of demonetisation. The Pros and Cons of GST are presented in Table 2

TABLE 2: PROS AND CONS OF GST

Benefits of GST	Limitations of GST
<ol style="list-style-type: none"> 1. Black money will be reduced. 2. Employment will be increased 3. “Make in India” will develop. 4. Electronic goods price will be reduced. 5. Increases the export 6. Healthy competition between industries will increase 7. Government revenue will increase 8. Price of consumer goods Car, TV, Fridge etc., will be reduced 9. “Tax on Tax” is reduced 10. Luxury Car’s price and cement price will come down 11. Foreign investment will increase 12. Movie ticket may be reduced 13. State Government will be benefited more than the Central Government 14. Tax structure is lean and simple 15. Transparent and Corruption-free tax administration i.e., GST will be levied only at the destination point and not of various points, and 16. GST will improve tax collections and boost India’s economic development. 	<ol style="list-style-type: none"> 1. Flats for Weaker Sections and Kits to the Mothers of New Born Babies will be negatively affected. 2. State Governments revenue will be reduced on account of reduced tax rates. 3. The prices of medicines, Air tickets, Cinema Tickets, Insurance premium, textile, jewellery, Mobile phones will increase. 4. Increases the rate of inflation all over the country in general and developing and poor states in particular. 5. Prices of cigarettes and beauty parlour for women and salon for men will increase. 6. Real Estate Regulation Act (RERA) is going to be a big burden on customers.

Here an attempt is made to conduct the strengths, weaknesses, opportunities and threats of GST to get the right insights in to the GST

Figure 2:SWOT Analysis of GST

Strengths

High growth rate
 Reduced labour cost
 Stable income of Government
 Lowest tax in the world
 Transparent
 Benefit to end users

Opportunities

New acquisitions
 New products and Services
 Growing demand
 Growing economy
 Reduction of Corporate Tax

Weaknesses

High loan rate
 Future profitability
 Competitive market
 affects existing long term tax

Threats

Price changes
 Government regulations
 Technical problems
 Tax changes
 Several year to get benefit
 Consumer may be ‘disincentive ‘ from spending.

Impact of GST on Telangana State

- * Airline traffic will be negatively effected due to the GST problem to Tier – I and Tier – II cities example Indigo Airlines problem.
- * Job Growth to trip due to GST and Demonetization in the wake of many Telangana Districts backward in nature.
- * Sweets purchase, Restaurants and Bars bill will shoot up in Telangana Backward Areas.
- * GST is brewing a storm in services sector like travel and tourism, insurance and entertainment industries.
- * GST is a magic in words but mirage in reality, because it is levied as an extra burden over and above the existing taxes without observing the slabs and schedules by malls, super bazars and corporate retailers in cities like Hyderabad.
- * GST may dampen Gold Sales, this due to the heavy tax rate and stringent norms on purchase of gold.
- * Builders in Real Estate Sector are told to pass on GST benefits to customers. However, it is not happening even after the implementation of RERA.
- * In the State of Telangana GST has trickled down the traffic volume and the dips are seem on ORR, Toll Tax collection points and other collection centers.
- * As more number of times, The GST returns are to be filed, there is a chaotic feeling in the minds of business community that much of the time and expertise is needed for frequent returns filing.
- * Prices are not decreasing in FMCG and Consumer durables though there is a possibility for it due to slabs change, input tax credit, service charge reduction on transport sector. Removal of check points and absence of 2% GST on goods manufactured in interstate movement is a main concern. However, GST system is good, simple and robust in nature.
- * In the 22nd GST council meeting, on receiving severe objections from the Chief Minister of Telangana, the council members reviewed the GST imposed on public utility works like Mission Bhagiratha, Mission Kakatiya, Double Bedroom houses for weaker sections, skill development and youth empowerment programs expenditure by concluding that they do not come under the purview of GST. This has saved around Rs. 21,600 CR. for the state government.

GST COUNCIL APPROVES E-WAY BILLING

The Goods and Services Tax (GST) council on Saturday, 5th August 2017 decided to implement the e-way bill system for the transport of goods across the country, finance minister Arun Jaitley said.

The council also decided to reduce the tax rate for job work for all forms of textile work to 5% from 18%. Apart from this, the council reviewed the progress of the implementation of the new indirect tax regime since July 1st, and approved the changes made by its implementation committee.

“The GST council has given its in-principle approval for the implementation of e-way bills,” Mr. Jaitley told reporters, following the conclusions of the 20th meeting of GST council. “There will be no check post since we want a smooth transfer of goods across states.”

CONSLUSIONS

Main Conclusions drawn from the present paper are as follows:

1. Both Central and State Government responsible are for the actual operations of GST. GST will make the consumer a king. The tax rate of GST will be between 5% is minimum and 28% is maximum. The SWOT analysis of GST opined that GST will be beneficial to small traders. The effects of GST may be known to the

general public only in its post implementation era from 1st July 2017 onwards. As the wish of our Prime Minister of India, our inflation rate may be within our control with the execution of GST.

2. None of that means GST in its present form is perfect, in fact far from it. It is not the simple ,one –rate ,one set of documentation ,national tax originally envisaged .The give and take process of reaching a final iteration that could get sufficient votes in the parliament of the planet’s largest ,most diverse democracy ,took a toll. The best description of GST now is that it is least bad of all the versions that stood a chance of being legislated. But why should we be excited about what some call a suboptimal versions? The answer lies in welcoming that which, even if not perfect, is profoundly good. GST Immediately replaces more than a dozen existing taxes. Although not as simple as it should ideally have been-and perhaps can evolve to be in future – GST today nevertheless dramatically simplifies India’s indirect taxes, as well as ease of doing business.

3. Furthermore, it removes the cascading effect of taxes on the vast majority of items consumed by Indians .And in doing so, creates inbuilt incentives for compliance, with evaders willy-nilly having to bear higher input costs that their GST compliant peers and competitors. Most importantly, it finally unites India as a single market after seven decades of independence. The value of that cannot be overstated, with incalculable benefits likely to emerge from no longer hobbling ourselves with fragmented regional markets and disparate tax regulations. In some ways, the implementation of GST has the potential to be as transformative for India’s economy as the inter stats commerce act was for the United States.

4. It is felt by the present ruling party that why would an opposition party, which loses no opportunity to brag about having first moved the GST bill in parliament, forfeit the opportunity to share the credit as its gala launch? The reason is not cussedness, as some believe .It is, instead, cold political calculus. Right or wrong, their calculation is that the complexity of such radical tax make over will lead to serious glitches and sustained dissatisfaction. In other words, ideal circumstances to stir the political pot, but only if you have kept adequate distance from celebrations. That approach by the principal opposition party-essentially, waiting for this government to trip up- has been more or less its only strategy for the past three years. It has not worked so far, and there is no reason to believe it suddenly will now. To be relevant again, they must go beyond hoping for their nemesis to implode.

5. According to the Indian Computer Emergency Response Team(CERT-In), a total of 44,679, 49,455, 50,362 and 27,482 cyber security incidents were observed during 2014, 2015, 2016 and 2017(till June), respectively, the government said in response to another query. The types of cyber security incidents include phishing, scanning/probing, web-site intrusions and defacements, virus/malicious code, targeted attacks, ATM malware, ransom ware and denial of service attacks among other threats. The government has taken a series of measures to strengthen the cyber security infrastructure. All the financial institutions had been advised by CERT-In, through the reserve bank of India to conduct an audit by the empanelled auditors on a priority basis and take immediate steps accordingly.

6. All organisations providing digital payment services have been mandated to report cyber security incidents to CERT-In expeditiously. The government has also formulated a cyber-crisis management plan for countering cyber-attacks for implementation by all ministries and departments. Till now, CERT-In has conducted 15 drills involving 148 organisations from different sectors to identify and plug the loopholes.

Table-03: Taxes to be subsumed/ continued

<i>Taxes to be subsumed</i>	
Central Levies	State Levies
) Additional duty of customs) State VAT
) Special additional duty of customs) Other state levies such as Luxury tax, Octroi, Entry tax, Purchase tax, Entertainment tax, etc.
) Central Excise	

) Service Tax) State Surcharges and Cesses related to supply of goods and services
) Central Sales Tax) Medical and Toilet Preparations(Excise Duties)act, 1955
) Central surcharges and Cesses related to supply of goods and services)
Taxes outside GST	
) Basic customs duty) Taxes and duties on alcohol for human consumption
) Stamp duty) Taxes and duties on electricity
Taxes and duties on petroleum products may be included within GST from a notified date	

SUGGESTIONS

GST is a new born infant baby legislation in India. The tax payers across the country are facing anxiety, chaos and confusion. This scenario as generated rumors and propaganda in favorable and unfavorable directions to the government. Here, an attempt is made to offer the following suggestions to strengthen the GST implementation and usefulness in manufacturing and services sectors:

1. The Indian tourism and hospitality industry has emerged as one of the key drivers of growth among the services sector in India. Tourism in India has significant potential considering the rich cultural and historical heritage, variety in ecology, terrains and places of natural beauty spread across the country. Tourism is also a potentially large employment generator besides being a significant source of foreign exchange for the country. India has moved up 13 positions to 52nd rank from 65th in Tourism & Travel competitive index. The tourism and hospitality industry in India recently got updated with a new set of Goods and Services Tax (GST) rates that will be rolled out from July 1. It will be applied on their services based on the tariffs and turnover they draw, the GST council has finalised.
2. GST has been one of the most awaited tax reforms for India. High GST rates on hospitality may prove to be detrimental for the sector. The high incidence of taxes may make India less competitive when it comes to tourism as international tourists may skip the destination. The government should appreciate that countries like Myanmar, Thailand, Singapore, Indonesia and others levy taxes ranging from 5 to 10 per cent. India cannot afford to have these kind of complex and high GST. A lower tax rate for budget hotels sector will ensure that the industry's quality upgrade continues while delivering standardized accommodation to millions of middle-class-travellers. People like consolidation of taxes as it leads to greater transparency and will help guests and buyers to understand the overall costs.
3. Before going into details of impact of GST on tourism and hospitality sector, it would be pertinent to make the readers understand the importance of tourism and hospitality sector for emerging economy like India.
 - Tourism in India accounts for 7.5% of the GDP and is the third largest foreign exchange earner for the country
 - The sector's total contribution to GDP has increased to US\$ 136.2 billion by the end of 2016 and is expected to further grow to US\$ 280.5 billion by 2026
 - The industry is expected to generate 13.45 million jobs across sub-segments such as Restaurants (10.49 million jobs), Hotels (2.3 million jobs) and Travel Agents/ Tour Operators (0.66 million).
 - As explained in the above points, the importance of tourism and hospitality sector for a growing economy like India, it would have been upheaval task for the government to fix the GST rates for the sector given its size and importance. The Tourism, Hospitality, Transport, Insurance and Entertainment sectors may be either exempted from the GST or be charged at 2%

Abbreviations

* CGST = Central Goods and Services Tax

* SGST = State Goods and services Tax

* GST = Goods and Services Act

* VAT = Value Added Tax

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⁴ Michael Lang, Pasquale Pistone and Josef Schuch (2014), available at