# GST in India: Concept and SWOT Analysis

**Bharti Sharma[1], Manmohan Singh[2], Manjeet Kharub[3]**

[1]PhD Scholar, Department of Business Management, Chandigarh University, Mohali, Punjab
[2]Adjunct Professor, Department of Business Management, Chandigarh University, Mohali, Punjab
[3]Associate Professor, Department of Mechanical Engineering, CVR College of Engineering, Hyderabad, Telangana
[1]bhardwaj.bharti989@gmail.com, [2]manjeetkharub@gmail.com

***Abstract--*** The introduction of Goods and Services Tax (GST) is a very significant step in the field of indirect tax reforms in India. By amalgamating a large number of Central and State taxes into a single tax, it mitigates the cascading or double taxation in a major way and pave the way for a common national market. From the consumer point of view, the biggest advantage is in terms of a reduction in the overall tax burden on goods, which was previously estimated to be around 25%-30%. This paper presents the basic concept of GST and a SWOT (Strengths, Weaknesses, Opportunity, and Threats) analysis. History of GST, benefits, shortcomings, Government policies on GST along with SWOT analysis have been provided in this paper, which may be helpful for the businessmen and the layman to understand GST in broader way.

**Keywords-- GST, Tax system, Government policies, SWOT analysis.**

## I. INTRODUCTION

Goods and Service Tax (GST) is a Value Added Tax (VAT), which hypothetically to be put into effect from April 2010, but because of conflicting interest of stakeholders and various political controversies it has been passed in both Houses of Parliament on Aug. 3, 2016. The introduction of Goods and Services Tax on 1st of July 2017 has been considered a very significant step in the field of indirect tax reforms in India [1]. By amalgamating a large number of central and state taxes into a single tax, the aim was to mitigate cascading or double taxation in a major way and pave the way for a joint national market .From the consumer point of view, the most prominent advantage would be regarding a reduction in the overall tax burden on goods, which was estimated to be around 25%-30%. Introduction of GST would also make Indian products competitive in the domestic and international markets. GST or Goods and Services Tax is a value added tax, levied at all points in the supply chain with credit allowed for any tax paid on inputs acquired for use in making the supply. Therefore, it is the end consumer who bears this tax as the last person/entity in the supply chain.

### *A. Indirect taxation system before implementation of GST*

1. Before the implementation of GST, taxation laws between the Centre and states were clearly demarcated. There were no overlaps between the fiscal powers, whatsoever. The Centre would levy tax on goods manufacture, except alcohol for consumption, narcotics, opium, etc.
2. The states had the power to charge tax on the sale of goods.
3. The Centre would levy the Central Sales Tax that was collected by the originating states.
4. The Centre was also levying service tax on all types of services.
5. Additionally, the Centre was charging and collecting additional duties of customs on goods that were imported into or exported from India. This tax was levied in addition to the Basic Customs Duty [2, 3]. This additional duty of customs is referred to as Countervailing Duty (CVD) and Special Additional Duty (SAD) and it counter balances excise duties, state VAT, sales tax, and other such taxes.

6. The introduction of the GST regime made amendments to the Constitution so that the Centre and states are empowered at the same time to levy and collect GST. This concurrent jurisdiction of the states and Centre also requires an institutional mechanism that ensures joint decisions are taken about the structure and operation of GST

### *B. Shortcomings in the previous tax structure and need of GST*

1. **Tax Cascading:** The most significant contributing factor to tax cascading is the partial coverage by Central and State taxes. The exempt sectors are not allowed to claim any credit for the CENVAT or the Service Tax paid on their inputs [3].
2. **Levy of Excise Duty on manufacturing point:** The CENVAT is levied on goods manufactured or produced in India. Limiting the tax to the point of manufacturing is a severe impediment to an efficient and neutral application of tax [4]. Taxable event at manufacturing point itself forms a narrow base. For example, valuation as per excise valuation rules of a product, whose consumer price is Rs. 100/-, is, say, Rs. 70/-. In such a case, excise duty as per the present provisions is payable only on Rs.70/-, and not on Rs.100/-.
3. **Complexity in determining the nature of transaction** – Sale vs. Service.
4. **Inability of States to levy tax on services:** With no powers to levy tax on incomes or the fastest growing components of consumer expenditures, the States have to rely almost exclusively on compliance improvements or rate increases for any buoyancy in their own-source revenues.
5. **Lack of Uniformity in Provisions and Rates**
6. **Fixation of sites** – Local Sale vs. Central Sale.
7. **Interpretational Issues:** whether an activity is sale or works contract; sale or service, is not free from doubt in many cases.

### *C. Constitution (One Hundred and First) Amendment Act, 2016*

In order to address prevalent issues in taxation, the Constitution 122nd Amendment Bill was put forth in the 16th Lok Sabha on 19th Dec. 2014 [5, 6].

1. The Bill suggests levy of GST on all goods and services, except alcohol that humans consume.
2. The tax is levied as Dual GST by the Centre and states/union territories. The component levied by the Centre is Central Tax - CGST, while that levied by the state is State Tax - SGST. The tax levied by union territories is Union Territory Tax - UTGST.
3. The Centre would levy the GST on inter-state trade or imports of services and goods. This tax is referred to as Integrated Tax - IGST.
4. The Central Government will also levy excise duty on tobacco products, in addition to GST.

The tax on five petroleum products, i.e., high speed diesel, crude, petrol, natural gas, and Aviation Turbine Fuel (ATF) will be outlined later after a decision is made by the GST Council.

### *D. Decisions taken by GST council*

Some of the major decisions taken by the GSTC so far are [5, 6, 7, 8]:

- There would be four tax rates under the GST regime, i.e., 5%, 12%, 18%, and 28%. Some goods and services were also classified as exempt from tax.
- A cess above the peak rate of 28% would be levied on certain sin and luxury goods.
- The administrative control over 90% of taxpayers with turnover less than Rs.1.5 crore would be with the State tax administration. 10% of control would be with the Central tax administration.

Administrative control over taxpayers having turnover above Rs.1.5 crore would be equally divided between the State and Centre tax administration [9].

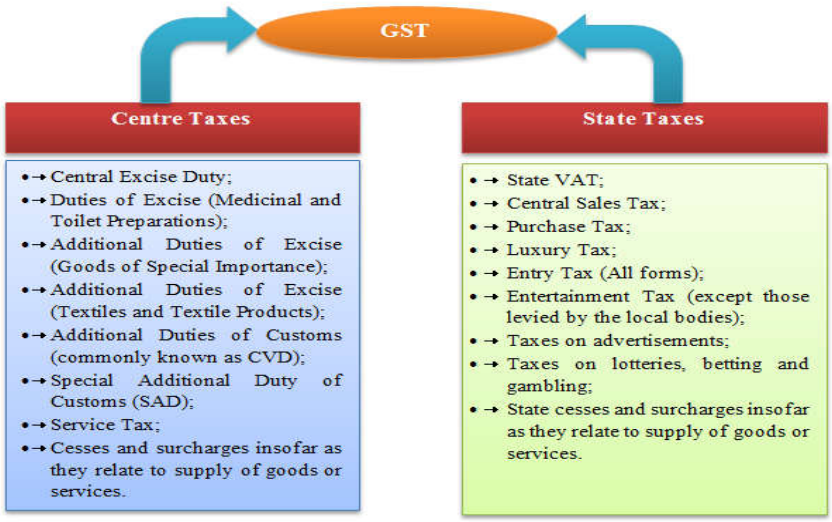


**Fig. 1**. Integration of taxes under GST

After the implementation of GST, various indirect taxes of center and states are merged into a single tax i.e. GST, as shown in Fig. 1.

Table I shows the list of states which are assigned special status under Goods and Services Tax Law [2]:

Table I

SPECIAL CATEGORY STATES

| **Sr. No.** | **Name of the State** |
|---|---|
| 1. | Arunachal Pradesh |
| 2. | Assam |
| 3. | Jammu & Kashmir |
| 4. | Manipur |
| 5. | Meghalaya |
| 6. | Mizoram |
| 7. | Nagaland |
| 8. | Sikkim |
| 9. | Tripura |
| 10. | Himachal Pradesh |
| 11. | Uttarakhand |

The threshold limit of aggregate turnover for all the above states has been kept at Rs. 10 lakh. So the same example will apply here too, but the numbers will get modified.

Let’s assume that the turnover of the farmer Mr. B living in Nagaland is Rs. 15 lakh from agriculture. His taxable turnover from the sale of plastic bags is only Rs. 50,000. Mr. B will still have to register under GST as his aggregate turnover exceeds the threshold limit of Rs. 10 lakh for special category states.

### *E. Global scenario and GST*

More than 150 countries have introduced GST/National VAT in some form. It has been a part of the tax system in Europe for the past 50 years and is the preferred form of the indirect tax in the Asia-Pacific region [1, 9, 10, 11]. There are different models of GST currently in force, each with its own peculiarities. While country such as Singapore virtually taxes everything at a single rate, some countries have more than one rate (zero rate, certain exemptions and higher and lower rates). In some countries it is recoverable only on goods used in the production process and specified service [4]. The standard GST rates in most of the countries ranges between 15-20%. In Scandinavian countries (north Europe) where social security coverage is higher, it ranges between 22-25 percent.

## II. OBJECTIVES OF THE STUDY

The study has following objectives:

1. To evaluate the history and features of GST in India.
2. To do a SWOT analysis of GST in Indian context.

## III. HISTORY OF GST

Seven months after the formation of the Modi government, the new Finance Minister Arun Jaitley introduced the GST Bill in the Lok Sabha, where the BJP had a majority. In February 2015, Jaitley set another deadline of 1 April 2017 to implement GST [3, 6, 8, 9, 12, 13, 14]. Detailed description of history of GST in India below Table II:

Table II
HISTORY OF GST

| Year | Description |
|---|---|
| **2000** | In India, the idea of adopting GST was first suggested by the Atal Bihari Vajpayee Government in 2000. The state finance ministers formed an Empowered Committee (EC) to create a structure for GST, based on their /experience in designing State VAT. Representatives from the Centre and states were requested to examine various aspects of the GST proposal and create reports on the thresholds, exemptions, taxation of inter-state supplies, and taxation of services. The committee was headed by Asim Dasgupta, the finance minister of West Bengal. Dasgupta chaired the committee till 2011. |
| **2004** | A task force that was headed by Vijay L. Kelkar the advisor to the finance ministry indicated that the existing tax structure had many issues that would be mitigated by the GST system. |
| **February 2005** | The finance minister, P. Chidambaram, said that the medium-to-long term goal of the government was to implement a uniform GST structure across the country, covering the whole production-distribution chain. This was discussed in the budget session for the financial year 2005-06. |
| **February 2006** | The finance minister set 1st April 2010 as the GST introduction date. |
| **November 2006** | Parthasarthy Shome, the advisor to P. Chidambaram, mentioned that states will have to prepare and make reforms for the upcoming GST regime |
| **February 2007** | The 1stApril 2010 deadline for GST implementation was retained in the union budget for 2007-08 |

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|---|---|
| **February 2008** | At the union budget session for 2008-09, the finance minister confirmed that considerable progress was being made in the preparation of the roadmap for GST. The targeted timeline for the implementation was confirmed to be 1 April 2010 [15]. |
| **July 2009** | Pranab Mukherjee, the new finance minister of India, announced the basic skeleton of the GST system. The 1st April 2010 deadline was being followed then as well |
| **November 2009** | The EC that was headed by Asim Dasgupta put forth the First Discussion Paper (FDP), describing the proposed GST regime. The paper was expected to start a debate that would generate further inputs from stakeholders |
| **February 2010** | The government introduced the mission-mode project that laid the foundation for GST. This project, with a budgetary outlay of Rs.1,133 crore, computerised commercial taxes in states. Following this, the implementation of GST was pushed by one year [5]. |
| **March 2011** | The government led by the Congress party puts forth the Constitution (115th Amendment) Bill for the introduction of GST. Following protest by the opposition party, the Bill was sent to a standing committee for a detailed examination |
| **June 2012** | The standing committee starts discussion on the Bill. Opposition parties raise concerns over the 279B clause that offers additional powers to the Centre over the GST dispute authority. |
| **November 2012** | P. Chidambaram and the finance ministers of states hold meetings and set the deadline for resolution of issues as 31st December 2012. |
| **February 2013** | The finance minister, during the budget session, announces that the government will provide Rs.9,000 crore as compensation to states. He also appeals to the state finance ministers to work in association with the government for the implementation of the indirect tax reform. |
| **August 2013** | The report created by the standing committee is submitted to the parliament. The panel approves the regulation with few amendments to the provisions for the tax structure and the mechanism of resolution [4]. |
| **October 2013** | The state of Gujarat opposes the Bill, as it would have to bear a loss of Rs.14,000 crore per annum, owing to the destination-based taxation rule. |
| **December 2014** | India's new finance minister, Arun Jaitley, submits the Constitution (122nd Amendment) Bill, 2014 in the parliament. The opposition demanded that the Bill be sent for discussion to the standing committee. |
| **February 2015** | Jaitley, in his budget speech, indicated that the government is looking to implement the GST system by 1st April 2016. |
| **May 2015** | The Lok Sabha passes the Constitution Amendment Bill. Jaitley also announced that petroleum would be kept out of the ambit of GST. |
| **August 2015** | The Bill is not passed in the Rajya Sabha. Jaitley mentions that the disruption had no specific cause. |
| **March 2016** | Jaitley says that he is in agreement with the Congress's demand for the GST rate not to be set above 18%. But he is not inclined to fix the rate at 18%. In the future if the Government, in an unforeseen emergency, is required to raise the tax rate, |

| | |
|---|---|
| | it would have to take the permission of the parliament. So, a fixed rate of tax is ruled out [8]. |
| **August 2016** | The Congress-led opposition finally agrees to the Government's proposal on the four broad amendments to the Bill. The Bill was passed in the Rajya Sabha. |
| **September 2016** | The Honorable President of India gives his consent for the Constitution Amendment Bill to become an Act. |
| **2017** | Four Bills related to GST become Act, following approval in the parliament and the President's assent:<br>Central GST Bill<br>Integrated GST Bill<br>Union Territory GST Bill<br>GST (Compensation to States) Bill<br>The GST Council also finalized on the GST rates and GST rules. The Government declares that the GST Bill will be applicable from 1st July 2017, following a short delay that is attributed to legal issues. |

## IV. KEY FEATURES OF GST

The following are the key features of the GST:

***Key Features of GST***

Dual Goods and Service Tax : CGST and SGST

Inter-State Transactions and the IGST Mechanism: The Centre would levy and collect the Integrated Goods and Services Tax (IGST) on all inter-State supply of goods and services. The IGST mechanism has been designed to ensure seamless flow of input tax credit from one State to another. The inter-State seller would pay IGST on the sale of his goods to the Central Government after adjusting credit of IGST, CGST and SGST on his purchases (in that order). The exporting State will transfer to the Centre the credit of SGST used in payment of IGST. The importing dealer will claim credit of IGST while discharging his output tax liability (both CGST and SGST) in his own State [1, 5]. The Centre will transfer to the importing State the credit of IGST used in payment of SGST.

Destination-Based Consumption Tax: GST will be a destination-based tax. This implies that all SGST collected will ordinarily accrue to the State where the consumer of the goods or services sold resides.

Computation of GST on the basis of invoice credit method: The liability under the GST will be invoice credit method i.e. **CENVAT** credit will be allowed on the basis of invoice issued by the suppliers.

Payment of GST: The CGST and SGST are to be paid to the accounts of the central and states respectively.

Goods and Services Tax Network (GSTN): A not-for-profit, Non-Government Company called Goods and Services Tax Network (GSTN), jointly set up by the Central and State Governments will provide shared IT infrastructure and services to the Central and State Governments, tax payers and other stakeholders [13, 16].

INPUT TAX CREDIT (ITC) SET OFF: ITC for CGST & SGST will be taken for taxes allowed against central and state respectively.

GST on Imports: Centre will levy IGST on inter-State supply of goods and services. Import of goods will be subject to basic customs duty and IGST.

Maintenance of Records: A taxpayer or exporter would have to maintain separate details in books of account for availment, utilization or refund of Input Tax Credit of CGST, SGST and IGST.

Administration of GST: Administration of GST will be the responsibility of the GST Council, which will be the apex policy making body of the GST. Members of GST Council comprised of the Central and State ministers in charge of the finance portfolio [4, 11].

Goods and Service Tax Council: The GST Council will be a joint forum of the Centre and the States. The Council will make recommendations to the Union and the States on important issues like tax rates, exemption list, threshold limits, etc. One-half of the total number of Members of the Council will constitute the quorum of GST council [3].

## V. SWOT ANALYSIS OF GST

### *A. Strength of GST*

1. Collection it will reduce cascading effect of taxes;
2. Compliance cost will reduce;
3. Few numbers of rates;
4. Time saving due to call of Entry, Octroi taxes;
5. Reduction of corruption;
6. Simplification of tax collection and administration;
7. Lower burden of taxes on end consumers;
8. Give edge to the industry on their foreign competitors;
9. Easy flow of resources across the country;
10. Reduction in inflation;
11. Widening tax base and tax of Central as well as State.

### *B. Weaknesses of GST*

1. Change in Business software
2. Increase in operating cost of business
3. Policy change during the middle of the year
4. Disruption to business
5. Lack of skilled resources and need for re-skilling
6. This system is very fond of technology, but India is a developing country where people are not habitual of technology

### *C. Opportunities of GST*

***For Consumer:***

(i) Simpler tax system (ii) Reduction in prices of goods and services due to elimination of cascading (iii) Uniform prices throughout the country (iv) Transparency in taxation system (v) Increase in employment opportunities

*For Trade/Industry:*

(i) Reduction in multiplicity of taxes (ii) Mitigation of cascading/double taxation (iii) More efficient neutralization of taxes especially for exports (iv) Development of common national market (v) Simpler tax regime-fewer rates and exemptions [16].

***For Central/State Governments:***

(i) A unified common national market to boost Foreign Investment and "Make in India" campaign (ii) Boost to export/manufacturing activity, generation of more employment, leading to reduced poverty and increased GDP growth (iii) Improving the overall investment climate in the country which will benefit the development of states (iv) Uniform SGST and IGST rates to reduce the incentive for tax evasion (v) Reduction in compliance costs as no requirement of multiple record keeping [5, 12, 14].

***C. Threats of GST***

1. Inter-States supply of goods and services are considered as import and IGST will be applied (1%) in addition to custom duties.
2. The Central government promised for compensation to loss making States for a period of 5 years. The compensation will be as: 100% for first 3 years, 75 % for 4th year and 50% for 5th year. So, it is possible that all States does not implement it in effective manner to get compensation [17].
3. GST is not friendly with banking sector. Because the cost of goods become cheaper after GST and it will promote export. Presently, 14% service tax is being levied on baking transactions. GST will make these transactions more costly. Over and above, in most of countries banking sector is excluded from GST [4, 15, 17].
4. GSTC (Goods and Service Tax Council) will set the benchmark for resolving the dispute on recommendations of GSTC. It means GSTC will lay down the criteria for GSTC itself. It is against the principle of natural justice.
5. GST is not a guarantee in itself that it would not be influenced by political parties and politicians will not use it as a win-loss.

## VI. CONCLUSION

Although GST has been adopted by over 100 countries in the world, the scope of GST implementation greatly varies from one country to another. GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. GST is leviable on all supply of goods and provision of services as well combination thereof. All sectors of economy whether the industry, business including Govt. departments and service sector shall have to bear impact of GST. Implementing GST makes sure uniformity of taxes across the states in India, regardless of place of manufacture or distribution in India, which is better option when compared to VAT and in terms of administration; GST integrates the tax base and capable of allowing seamless flow of input tax credit along the value chain of goods and services, which will lead to reduced cost of overall goods and services existing. GST environment would lead to an improved disclosure of tax transactions, which may have a positive impact on direct tax collections also. India is a rich country, whose people are poor. Overall, if GST properly implements with tax exemption for certain goods like agricultural commodities, it will result in increasing revenue at the Centre as the tax collection system becomes more transparent, making tax evasion problem vanish and leading to economic growth, helping Indian people regain the wealth lost within country. In this paper, basic concepts of GST and SWOT analysis have been provided to understand the GST in broader way.

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