GOODS AND SERVICES TAX: WILL THE PROPOSED INDIRECT TAX REFORM CHANGE BUSINESS AND TAX DYNAMICS IN INDIA?

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India is presently at the doorstep of a revolutionary change in its indirect tax system with the introduction of the Goods and Services Tax ('GST'). This paper argues that due to the cascading effects of the present CENVAT and State VAT systems and the complexities of the current service tax regime, it is imperative for India to make the GST regime operative. This paper examines the GST in detail, analysing the proposed rates, taxes to be subsumed, proposed administrative setup and the amendments that are needed to make this scheme operative. The paper also analyses the impact of GST through a comparative study with other jurisdictions where such a tax has been made operative. The opinions of various states and various sectors in India regarding the proposed GST scheme have been discussed in tandem with possible methods of reconciliation.

I. INTRODUCTION

The Indian economy, which has shown steady growth and development in the past few years, is at the doorstep of a landmark reform in its tax laws. With proposed reforms in both direct and indirect taxation on the anvil, the Indian tax law is all set to be revamped and refurbished so that it meets the expectations of present times and also stays true to the established global standards.

India has seen a change in its indirect taxation structure for a few decades now, starting with the inception of the Modified Value Added Tax ('MODVAT') in 1986 and later, the much simpler and more user friendly Central Value Added Tax ('CENVAT') in 2002-03. Moreover, subsequent to an amendment to the Constitution allowing the Centre to levy taxes on services, the CENVAT also subsumed service taxes within its ambit in 2004-05. Now, India is preparing itself for a brand new indirect tax regime as it awaits the introduction of the GST. The Empowered Committee of State Finance Ministers had constituted a Joint Working Group in 2007 to lay down the roadmap for the implementation of the GST. The first discussion paper released by them on November 10, 2009 had set out a target date for its implementation as April 1,

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2010.[1] The Report of The Task Force on Goods and Service Tax published on December 15, 2009,[2] however, recommended its implementation to be delayed till October 1, 2010. The Union Finance Minister, Mr. Pranab Mukherjee, while delivering the budget speech in 2010,[3] extended the date to April 1, 2011, as he recognised that quick implementation of the GST was problematic on a few fronts. This deadline was subsequently extended to April 1, 2012. As the date of implementation of this revolutionary legislation draws nearer, it is pertinent to understand the concept of GST in detail.

II. THE CONCEPT OF GST

GST is a tax on goods and services, which can be levied whenever there is a sale or provision of service, provided that at that time, the seller or service provider can claim the input credit of tax which he has paid while purchasing the goods or procuring the service. This comprehensive tax seeks to eliminate the distinction between taxable goods and taxable services.

Although the introduction of the CENVAT and State VAT systems has minimised the cascading effects of the old Central Sales Tax structure to a large extent, the said system is incomplete at certain levels. There are many goods and services which are exempt at both Centre and State levels, like oil and gas production, mining, agriculture etc., wherein no credit is allowed for the tax paid on their inputs. This causes cascading of taxes. An extract from a working paper commissioned by the Ministry of Finance observes:[4]

> "Tax cascading remains the most serious flaw of the current system. It increases the cost of production and puts Indian suppliers at a competitive disadvantage in the international markets. It creates a bias in favour of imports, which do not bear the hidden burden of taxes on production inputs. It also detracts from a neutral application of tax to competing products. Even if the statutory rate is uniform, the effective tax

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1 The Empowered Committee of State Finance Ministers, *First Discussion Paper on Goods and Services Tax in India*, November 10, 2009, available at http://finmin.nic.in/GST/Empowered%20Committee%20of%20SFM%20%20First%20Discussion%20paper.pdf (Last visited on March 10, 2011).

2 Thirteenth Finance Commission of India, Report of the Task Force on Implementation of Goods and Service Tax, ¶11.9, December 15 2009, available at http://fincomindia.nic.in/writereaddata/html_en_files/Report1512091.pdf (Last visited on March 10, 2011).

3 Mr. Pranab Mukherjee, Finance Minister of India, *Speech at the Union Budget 2010-11*, February 26, 2010, available at http://www.thehindu.com/business/Economy/article113901.ece (Last visited on March 10, 2011).

4 Satya Poddar, Ehtisham Ahmed, Department of Economic Affairs, Ministry of Finance, Government of India, *GST Reforms and Intergovernmental Considerations in India* (Working Paper No.1/ 2009-DEA, March, 2009) available at http://finmin.nic.in/WorkingPaper/GST%20Reforms%20and%20Intergovernmental%20Considerations%20in%20India.pdf (Last visited on March 10, 2011).

> rate (which consists of the statutory rate on finished products and the implicit or hidden tax on production inputs) can vary from product to product depending on the magnitude of the hidden tax on inputs used in their production and distribution. The intended impact of government policy towards sectors or households may be negated by the indirect or hidden taxation in a cascading system of taxes."

Moreover, the CENVAT provides set-off for taxes paid on inputs and services up to the stage of production and the State VAT provides set-off for taxes paid on inputs and also on previous purchases. The main weakness of the CENVAT system is that it has kept the benefits of this mechanism of 'set-off' away from the hands of the manufacturers and dealers.

Similarly, the State VAT system is incomplete inasmuch as it fails to undo the cascading effect of the CENVAT load on goods. The State VAT system has also failed to subsume taxes such as luxury tax, entertainment tax, etc. The CENVAT and State VAT systems are dictated and governed by the restrictions imposed by the mandates of the Constitution, which prevents the Centre from taxing beyond the stage of production, a practice which has already been considered unworkable in countries like Australia and Canada. It also prevents the States from extending the taxes to services, which has posed difficulties in composite contracts involving both goods and services. This has led to inefficiency in the effective imposition and collection of these taxes.

With respect to services, the current service tax system is extremely complex and tax is levied for specified services which are classified into a large number of categories. This complexity and lack of standardised nomenclature for services, has been the subject of severe criticism. Moreover, although the burden of the Central Sales Tax on inter-state movement of goods has been reduced from 4 percent to 2 percent, such burden, where no credit is allowed at any level by the government, has not been fully phased out.[5]

The introduction of the GST aims at establishing a continuous chain of set-off from the original producer or service provider to the retailer, eliminating the cascading effects at successive levels of the value chain. Therefore, it seeks to eliminate the incidence of 'multiple taxation' in the indirect tax system.

As India is a federation, where the responsibility of taxation is shared by the Union and the States, the proposed model envisions a dual system of GST. Therefore, in keeping with the constitutional mandate of fiscal federalism, both levels have distinct responsibilities to perform. Thus, a Central GST,

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[5] *Id.*

which replaces the current CENVAT and a State GST, which replaces the current State VAT, will come within the ambit of the GST. Although this proposal has diluted what was said to be the greatest plus point of GST, *i.e.*, to have a uniform tax slab for the State and the Centre,[6] this system is certainly more pragmatic as it will help to phase out the multiplicity of indirect taxes in India in a slow and steady fashion.

GST includes within its ambit the system of Input Tax Credit ('ITC'), wherein a manufacturer is allowed to deduct the tax that he has already paid on an input from the tax on final product, as done in the VAT system. Therefore, he would have an available 'credit' while calculating GST. The credits obtained through the Central and State GSTs will operate in parallel and cross-utilisation of credits will not be allowed. Also, unutilised accumulated ITC has to be refunded.

Due to the multiplicity of taxes in the present system, basic phrases such as 'taxable event', 'supply of goods' and 'rendition of services' have not been uniformly defined. Moreover, different legislations in India define the terms 'goods' and 'services' differently. Also, in the modern world, the distinction between goods and services has become increasingly blurred due to the bundling of goods and services as well as e-commerce transactions. The current system does not prevent the same transaction from being taxed under both service tax and VAT or CST. This acts as a deterrent to economic growth. Moreover, the attempts of the Government to levy service tax and/or VAT on transactions related to immovable property have posed significant challenges to the real estate sector in the country. In order to curb these complexities, inconsistencies and unnecessary litigation, there is an urgent need to standardise the system, principles and procedures. The proposed GST system seeks to fill these gaps in the present system.

The GST system also seeks to nullify the present system of Central Sales Tax being imposed at source on Inter-State transactions. This will lead to a new Inter State Goods and Service Tax ('IGST') which covers such transactions, including stock transfers and consignments. This system brings out a revolutionary new principle in India, by which, inter-state transactions will be taxed at the destination and not at the source level. Similarly, services will be taxed at the state of consumption. This means that the originating State will have to pay no taxes in respect of the transaction. Specific provisions for this purpose have not been drafted as of now. The proposal envisages a system where inter-state sellers will pay IGST on value addition after adjusting available credit of IGST, CGST and SGST on their purchases.

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6 Ruma Dubey, *GST – India's most ambitious Indirect Tax Reform*, June 22, 2010, available at http://www.premiuminvestments.in/cover-feature/45364p106/45318.html (Last visited on March 10, 2011).

III. TAXES TO BE SUBSUMED

Initially, the following Central and State taxes are recommended to be subsumed:[7]

Central Taxes:

1. Central Excise Duty
2. Additional Excise Duty
3. Excise Duty levied under the Medicinal and Toiletries Preparation Act
4. Service Tax
5. Additional Custom duty, better known as Counter Veiling Duty ('CVD')
6. Special Additional Duty of Custom ('SAD') 4 percent.
7. Surcharges
8. Cesses.

State Taxes:

1. VAT/Sales Tax
2. Entertainment Tax (unless levied by local bodies)
3. Luxury Tax
4. Taxes on Lottery, Betting and Gambling
5. State Cesses and Surcharges, in so far as they relate to supply of goods and services
6. Entry tax not in the lieu of octroi
7. Purchase tax, although States which earn large revenue through purchase tax, in fear of losing such revenue, oppose its subsumption

Tobacco products will be subjected to GST with ITC. Alcoholic products will be kept out of the purview of GST and existing tax laws will

[7] *Supra* note 2.

continue to govern them. Few petroleum products, such as crude motor spirit and HSD will be kept outside the purview of GST, in accordance with the present practice in India. The task force has also recommended[8] that there should be minimum exemptions.

IV. TAX RATES

The Empowered Committee, in the 'First Discussion Paper',[9] had suggested the following rate structures for implementation of GST:

1. Necessary items and items of basic importance will be taxed at lower rates.

2. There will be a generic standard rate applicable to goods in general.

3. Precious metals will be subject to special rates.

4. There will also be a list of exempted items.

In the 'Report of the Task Force',[10] the Finance Commission has recommended a single rate of taxation, other than the zero rates, since every additional rate would increase the cost and complexity of administration and also the cost of auditing. In addition, it proposed a zero rate to be applicable to all goods and services exported out of the country. Similar benefits may also be given to Special Economic Zones ('SEZs'). Nevertheless, all imports will be subject to GST.

In a recent meeting with State Finance Ministers,[11] the Union Finance Minister Mr. Pranab Mukherjee has proposed an almost final rate structure for GST. The proposed standard rate is 10 percent for goods in general, 6 percent for concessional goods and 8 percent for services. The timeline for implementation of this scheme is 3 years, starting from the next fiscal year, *i.e.*, 2012-13, when there will be a 10 percent rate for goods in general and 6 percent for concessional goods. Therefore, combined GST will be 12 percent (concessional) and 20 percent (general). In the succeeding year, standard rate for general goods will be brought down to 9 percent. In 2013-14, the total GST will be brought down to a constant 16 percent (8 percent each on CGST and SGST). Therefore, the tax rates will be 20 percent for goods and 16 percent for services and essential items shall be subject to tax at a concessional 12

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8 *Id*.

9 *Supra* note 1.

10 *Supra* note 2.

11 Vikas Vasal, *Decoding the goods and services tax*, July 29, 2010, available at http://economictimes.indiatimes.com/personal-finance/tax-savers/Decoding-the-goods-and-services-tax/articleshow/6230329.cms (Last visited on March 10, 2011).

percent. Although 20 percent is high, it is less in comparison to the total amount which is payable under the current system, which is at 22.5-23 percent (excise + VAT).[12] Although the rate of IGST has not been disclosed yet, it is bound to be high and will cause a slight credit crunch as presently, the CST rate for inter-state transactions is only 2 percent.

There will be a compounding cut-off at Rs. 50 lakhs of gross annual turnover and a floor rate of 0.5 percent across the states. The GST will also have a uniform threshold limit across the country up to which no GST will be applicable:[13]

- CGST in case of goods – Rs. 1.5 crores.
- CGST in case of services – described by the Commission as 'appropriately high'.
- SGST in case of both goods and services – Rs. 10 lakhs.

In the present system, the thresholds prescribed for State VAT vary from State to State. This value is Rs. 5 lakhs for a majority of larger states and is even lower for the other states. In order to protect the interests of small entrepreneurs and small traders, the States arrived at a conclusion that the threshold for GST must be higher. Therefore, small businesses stand to profit from the imposition of GST.

The task force has also recommended[14] that for the computation of CGST and SGST liability, the invoice credit method should be used. Under this system, credit is allowed for tax paid on all intermediate goods or services on the basis of invoices issued by the supplier. As a result, all different stages of production and distribution can be interpreted as a mere tax pass-through, and the tax will effectively 'stick' on final consumption within the jurisdiction. This will facilitate the elimination of the cascading effect at various stages of production and distribution. The CGST and SGST will be credited to the accounts of the Centre and States separately.

V. ADMINISTRATION OF GST SYSTEM

Under the proposed GST system, all dealers including suppliers, manufacturers, service providers, wholesalers and retailers are required to obtain registration. If a person is not registered as a dealer, he will be unable to

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12 Sanjiv Shankaran, *Govt forced to dilute GST terms*, July 21, 2010, available at http://www.livemint.com/2010/07/21235541/Govt-forced-to-dilute-GST-term.html (Last visited on March 10, 2011).

13 *Supra* note 2.

14 *Id*.

charge tax. Moreover, he will not be entitled to claim credit of the input taxes and he will not be able to issue a tax invoice. The task force has made some recommendations with respect to the administrative procedure.[15]

All persons with annual aggregate turnover of goods and services above Rs. 10 lakhs will be required to register and obtain a GST registration number, which is a 12 digit number with its first 10 digits as the individual's PAN number and the remaining 2 digits as the state code. All branches in a state will work under a single registration number. The registrant dealer should furnish a form indicating the registration number for each state in which he operates, for him to effectively use the number. Over the course of time, the PAN number will be replaced by the proposed Unique Identification Number (UIN).

Although a fully consistent legislation is expected for the administration of CGST and SGST, some disputes are expected. It is proposed that dispute resolution is done by a nodal agency consisting of representatives of both the Centre and the States.

On implementation, the Central Board of Excise & Customs ('CBEC') shall be responsible for implementing the CGST and State tax administrations will separately take up the reins of implementing the SGST. All procedures under both systems must be uniform. Moreover, the unit of taxation for the purposes of GST should be a person as defined under the Income Tax Act, 1961. All units of a person will be considered as a single taxable unit in the Centre and States respectively. The Central Government shall establish a common IT infrastructure for the purposes of CGST and SGST. Moreover, the Centre shall also create a common Taxpayers Information Network (TIN), which provides information related to the system and its administration. The information shared with both CBEC and State administrations will be stored in a common database, available to both. In order to facilitate audit, an independent risk management strategy is to be enforced by the CBEC and State administrations. The levy of taxes must be made based on audited accounts. Moreover, since tax base is common, there should be a common appellate authority, including a common Authority for Advanced rulings.

VI. IMPLEMENTATION OF GST

The proposed dual system of GST charts out a system wherein both the Centre and the States will have concurrent powers for indirect taxation. The power to levy tax on goods and services are vested with both Central Government and State Government under Art. 246 read with List-I and List-II of Schedule VII of the Constitution. Accordingly, neither the Central Government nor the State Government can usurp the taxing powers of the

[15] *Id.*

other without constitutional amendments to such effect.[16] As has been noted earlier, the current system of taxation under the Constitution is inefficient in the present scenario. For the purpose of designing a comprehensive and neutral goods and service tax consonant with standards set by developed nations, it stands as insufficient.[17] Therefore, the following provisions of the Constitution need to be amended:[18]

- Specific entries in List-I and List-II of Schedule VII of the Constitution
- Art. 246, which categories the subjects on which the Union and the States can legislative respectively.
- Art. 269, which relates to taxed levied and collected by the Union, but assigned to the States.
- Art. 270, which provides for taxes which are levied and shared by the Union and the States.
- Art. 286, which imposes restrictions on the levy of tax on the sale or purchase of goods.
- Certain restrictive definitions given in Art. 366.

Moreover, for the successful implementation of this system, there are a few expectations out of it:

- Existing laws providing for taxation – Central excise laws, the Finance Act, 1994, VAT laws need to be repealed.
- Harmonisation of tax collection in India, giving due respect to the fiscal autonomy of both the Centre and the States. This will allow both to raise revenue in a uniform manner.
- At present, dealers having multi-state operations face considerable difficulties as they have to face assessments in various States which is very costly and time consuming. There should be a provision for centralised registration and assessment, at least for IGST.
- There should be sufficient provisions to protect 'casual dealers', who are not usually involved in business in other states, but enter into occasional business transactions there. The proposed system should allow

[16] M.P.Jain, Indian Constitutional Law (2008).
[17] M. Govinda Rao, *Unfinished Reform Agendum: Fiscal Consolidation and Reforms – A Comment* in Sustaining India's Growth Miracle, Columbia Business School 104-114 (2008).
[18] K. Parameswaran, Power of Taxation under the Constitution (1987).

temporary registration and assessment on a specific transaction basis, which gets cancelled when that transaction is complete.

- The current regime provides for the refund of taxes to exporters, but more often than not, such refunds are granted after a great delay, which causes financial hardships to them. Therefore, the proposed system must ensure 100 percent refund to exporters, EOUS and SEZs.

- It is possible that a dealer may provide both exempt and taxable supplies. Further, credits on procurements may be common. In such cases, utilisation of common credit has always been a thorny issue. A simple provision is required to address this issue under the GST regime.

- New industries have been provided exemptions and incentives by various states, which have not expired as of now. Such incentives should be allowed to continue under the new GST system.

- There are many issues in the documentation and issue of Form F in the present system. From the proposed system, what can be understood is that IGST will not be payable when goods are sent inter-state for job work or repairs, since goods are coming back after job work or repairs. Simplified paper work should be prescribed for this purpose.

- As this system completely revamps the present system, it will be subject to varied interpretations. Therefore, it would be preferable if the penal provisions did not apply for the first two years.

- The process of adjudication has to be streamlined, if the assessee is to have faith in the system. Therefore, pre-deposit of duty has to be abolished. The Kelkar Committee, in its Report,[19] had suggested that pre-deposit of duty should not be insisted upon when an appeal is filed with the first Appellate Authority. The proposed system should include this recommendation.

- The IGST system has been established to abolish border check posts. This will ensure smooth movement of goods.

VII. IMPACT OF GST

As the GST is a consumption based tax, the dual GST system will result in increased revenue for states which consume a lot of goods and services. Lesser developed states are likely to suffer in revenue during the initial

[19] Ministry of Finance & Company Affairs, Final Report, Task Force on Indirect Taxes, December 31, 2002 available at http://finmin.nic.in/kelkar/report.pdf (Last visited on December 24, 2011).

years and the Centre is expected to set up a mechanism to compensate such states during these years.

Mr. M.D. Sudharsan, Vice President – Legal and Secretarial, CavinKare (P.) Ltd., Chennai, has opined in a recent interview that the imposition of GST will have major effects on business location economics. According to him, the GST regime would make the industry rework the entire cost and pricing economic scheme that is prevalent as of now under the multiple taxation system and in various situations such as stock transfer versus sale, reduced need for multiple compliance authorities and formalities thus associated with it, the need to refit a modified version of ERP tools and adjustments in manpower and supply chain management costs. He also believes that the imposition of a new single-structured, self-adjusting GST will require business owners to alter the location of each enterprise, especially those having a pan-Indian presence. They would have to revamp their business location economics in all areas i.e. as to location of their procurement and manufacturing centres, location of mother depots for raw materials given the fact that stock transfers would also attract GST and location of various units of sale, based on incentives offered by the States.[20]

The existing tax system has distortions which allow certain goods and services to benefit over others. As the flaws of 'multiple taxation' and the cascading effect of the existing system are sought to be removed, the taxation burden would reduce as it goes down the value chain and by the time it reaches the consumer, rates will be the lowest possible. The introduction of GST will, therefore, bring about a macroeconomic dividend by reducing what has been called "negative grey area dynamic effects". Therefore, the overall macroeconomic effect would be to provide an impetus to economic growth. The 'Report of the Task Force'[21] observes:

> "Using CGE Model, the NCAER study commissioned by the Thirteenth Finance Commission estimates the impact of the introduction of a GST which would eliminate all taxes on production and distribution and rest on final consumption only. The study is based on two important assumptions of full employment and that 50 percent of indirect taxes remain embedded and 'stick' on production and distribution. The study concludes that 'implementation of a comprehensive GST in India will lead to efficient allocation of factors of production thus leading to gain in GDP and exports. This would translate into enhanced economic welfare and returns to the factors of

[20] M.D. Sudharsan, *GST Impact of Business Location Economics*, October 23, 2010, available at http://www.thehindubusinessline.com/2010/10/23/stories/2010102350331100.htm (Last visited on March 10, 2011).

[21] *Supra* note 2.

> production, i.e. land, labour and capital. The gains in real returns to land range between 0.42 and 0.82 per cent. Wage rate gains vary between 0.68 and 1.33 per cent. The real returns to capital would gain in the range of 0.37 and 0.74 percent. Further, the study also shows that 'implementation of GST across goods and services is expected, ceteris paribus, to provide gains to India's GDP somewhere within a range of 0.9 to 1.7 per cent. The corresponding change in absolute values of GDP over 2008-09 is expected to be between Rs. 42,789 crore and Rs. 83,899 crore, respectively."

Moreover, the effects of the introduction of GST in various other countries can be looked into to predict and assess the possible effects on revenue. In New Zealand, the GST was introduced in a neutral and efficient manner in 1987, whereby it yielded 45 percent higher revenues than what was anticipated. The Federal Manufacturers' Sales Tax in Canada, which was similar in form to the Indian CENVAT, was repealed to introduce a GST which resulted in an increase in the potential GDP by 1.4 percent, which comprised a 0.9 percent increase in national income from higher factor productivity and 0.5 percent increase from a larger capital stock.[22]

Therefore, it can be clearly understood that although the introduction of the GST in India will require some major changes in the current structure of operation, it is bound to increase revenue and boost the economy of the nation as such by facilitating reduction in the cost of goods and services to the ultimate customers or users.

VIII. ISSUES WHICH NEED ATTENTION

The ideal GST is one where the Centre and States both have one rate for all products. But the current scheme proposes a 2 tier GST system, which includes one by the States and the other by the Centre. As some goods and services like alcohol, power, etc. are completely removed from the ambit of the GST, some existing levies such as excise and sales tax may need to be retained for these. This is due to the fact that the financial autonomy of states is bound to be reduced by the abolition of constitutional amendments, thereby changing the structure of taxation in India. Therefore, they would like to retain some tax levers with themselves. Hence, uniformity in application of GST has already been compromised to a large extent.

The biggest flaw of the proposed system is that it stands to affect Centre-State relations in India. Although the Finance Commission and the working paper commissioned by the Ministry of Finance have envisaged a

[22] *Supra* note 4.

system where the Centre and States will harmoniously levy taxes under the new system, the proposed regime arguably gives more power to the Centre over the States. This is seen from the provision which states that all decisions on GST made by State finance ministries will be subject to the Central Ministry's veto, thereby subjecting these to control by the Centre. It can therefore be understood that no State will want to abdicate all its present indirect taxes and welcome the GST system completely as the political flexibility of States will be reduced by this system. If the States lose their fiscal flexibility, they shall become less controllable through political pressures. Further, this will make them lose the incentive to be financially solvent. Therefore, the power of the Union Finance Ministry to veto is a matter which requires further deliberations as it could effectively deter the harmonious imposition of taxes, thereby causing the collapse of the GST system in general.[23]

Moreover, as some States stand to lose revenue, the issue of subsuming the purchase tax has been met with scathing criticism. This issue still has not been resolved. Out of the taxes subsumed, entry taxes are subsumed to the extent of those not in lieu of octroi. Hence, entry taxes will still stand under the proposed system which is an issue. Moreover, officers are struggling to comprehend the IGST model, which involves complex transactions in a system involving inter-state credit of input tax.[24] Administrative reorganisation and capacity-building for tax administrations are equally important and are yet to begin. It is also necessary to prepare material for publicity, relating to complex issues and work out the details of transition.[25] Moreover, the policy regarding supplies to EOU/STP/EHTP/BTU units has not been made clear. The proposed GST system should be altered such that it adds clarity on such issues.

IX. CONCLUSION

After years of deliberation and discussion, GST is finally at India's doorstep and India needs to prepare itself for this revolutionary reform in Indirect Taxation. GST aims to consolidate and increase the efficiency of the indirect tax system in India, which presently harbours multiple taxes in a complex, indecipherable system. It will eliminate the cascading effects of taxation, facilitate and promote increase in revenue for both the Centre and the States and will result in provision of goods and services to consumers at much lower rates.

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[23] R. Jagannathan, *GST is good economics*, *but is it good politics?*, July 25, 2010, available at http://www.dnaindia.com/opinion/column_gst-is-good-economics-but-is-it-good-politics_1414155 (Last visited on March 10, 2011).

[24] Sukumar Mukhopadhyay, *Much of the criticism against proposed GST is unwarranted*, November 23, 2009, available at http://www.business-standard.com/india/news/muchthe-criticism-against-proposed-gst-is-unwarranted/377307/ (Last visited on March 10, 2011).

[25] M. Govinda Rao, *First step towards clarity in GST*, December 1, 2009, available at http://www.business-standard.com/india/news/m-govinda-rao-first-step-towards-clarity-in-gst/378200/ (Last visited on March 10, 2011).

Nevertheless, the efficacy of this system depends on its implementation. The uniform tax slab proposed by the Finance Minister seems sound and in tune with the economic needs of the country. But only a neutral and rational design of the forthcoming bill, considering the needs of all stakeholders will ensure its success. The framework of GST is ready and it is safe and secure as it is. India needs harmonization of tax collection, whereby the Centre and States will both stand to earn revenue and the system will work in a smooth manner.

Therefore, if properly and efficiently implemented, imposition of GST could be the greatest reform in the field of indirect taxation in India. It will bring about efficiency and transparency in the indirect tax mechanism in India and will no doubt be a big leap forward for the Indian economy.