



GOODS AND SERVICES TAXATION - SOME CHALLENGES IN GOVERNANCE AND COMMUNICATING TRANSITION

Dr. B.Sindhu

Assistant Professor, Pavanatma College Murickassery, Kerala.

Abstract

The indirect tax system in India is on the threshold of a complete revival with the introduction of GST, a Value Added Tax system which will replace all indirect taxes levied on goods and services by the Union and State governments. Goods and Services Taxation (GST) is a second generation reform in indirect Taxation in India .GST is a broad based and a single comprehensive tax levied at every stage of the production and distribution chain with applicable set-off in respect of the tax remitted at previous stages.. For Government it leads to reduction of tax compliance efforts and administrative costs and for business units it leads to transparency, complete set-off and removal of cascading effect of taxation. The present paper seeks to throw light on Some Challenges in Governance and Communicating Transition in connection with implementation of Goods and Service Tax (GST) in India, which is expected to roll out from 2016 April

Key Words: *Indirect Tax, Goods and Services Taxation, VAT, Reforms, Cascading Effect.*

INTRODUCTION

Goods and Service Tax is a Key Instrument for improving Economic Governance in India. The motive behind the implementation of the GST is to create a single and unified Indian market. Its implementation will result in a comprehensive indirect tax regime in India, covering manufacturing, sale and consumption of goods and services. GST will improve tax collections by removing barriers and other discrepancies involved in inter-state trade and will integrate the Indian market – all of which is expected to improve our economic growth.

Furthermore, the implementation of the GST would allow the Central as well as State Governments to avoid multiple layers of taxation that currently exists in India as it will lead to the creation of a single Indian market. The system will facilitate abolition of taxes such as octroi, central sales tax, state-level sales tax, entry tax, stamp duty, turnover tax, tax on consumption or sale of electricity, taxes on transportation of goods and services, etc.

After missing many deadlines, the plan is to operationalize GST by the next financial year. But as the Centre and States have not yet been able to arrive at a consensus on various issues, it is expected to take some more time for GST implementation. States fear that the implementation of GST might impinge on their financial autonomy as they would not be in a position to tax goods and services directly. While taking into consideration the current situation, fresh initiatives are required on the part of both the Centre and the States. States need to realize the importance of GST for the Indian economy as it will provide competitive edge to India in internal and international trade. It is highly recommended for States to come forward and support the proposed tax regime that will result into the creation of a single market.

NEED FOR GOVERNANCE

Governance is the act of governing. It relates to decisions that define expectations, grant power, or verify performance. It consists of either a separate process or part of decision making or leadership processes. The World Bank defines governance as: the manner in which power is exercised in the management of a country's economic and social resources for development. Today Governance is distinct from Government. Governance is a way to manage power and policy, while government is an instrument to do so, Governance is seen as an alternative to conventional top-down government control, yet issues of legitimacy and accountability abound in the literature on governance.

WHAT IS E-GOVERNANCE?

According to the World Bank: (World Bank, 2008) E-Government refers to the use by government agencies of information technologies – Wide Area Networks, the Internet, and mobile computing – that have the ability to transform relations with citizens, businesses, and other arms of government. These technologies can serve a variety of different ends: better delivery of government services to citizens, improved interactions with business and industry, citizen empowerment through access to information, or more efficient government management. The resulting benefits can be less corruption, increased transparency, greater convenience, revenue growth, and/or cost reductions.

However, E-governance is more than automating forms, cataloguing of information and providing a website for information dissemination and has its stages of evolution from basic computerization to online interactive services to end customers. It can be a powerful catalyst to fundamentally simplify processes and drive greater efficiency and effectiveness.



Broad interfaces that constitute e-governance are Government to Government, Government to Citizen, Government to Business services. Public private partnerships have also been instrumental to deliver some these services eg. Cover greater geographic area, deploy additional channel for citizen outreach etc. Managed service providers can help governments focus on core competencies while outsource non-core tasks to the private partner. Also, this marks a shift from disparate procurement of hardware, software and services and managing the mix which can prove to be difficult over a period of time to a more solutions and services based approach.

IMPACT OF E-GOVERNANCE IN PUBLIC SERVICE DELIVERY

- E-governance provides an opportunity to rethink processes, services and organization structure to delivery them. This can potentially lead to significant reduction in paperwork, turnaround times and streamline and standardize operations and undertake administrative reforms. Thus, there is interplay of people, process and technology in a successful e-governance implementation.
- A proactive and service oriented government facilitates more civic participation
- Greater transparency and accountability leading to a more cost-effective government
- Better record keeping and documentation helps ease of access, information search and retrieval
- Better knowledge management: Facilitate providing the right knowledge to the right people at the right time. This enhances policy and investment decisions.

E-Governance in India received an impetus with the introduction of the National e-Governance Plan in 2006. That India is being recognized as the leader in IT services implies that there are less supply side constraints.

E-governance has been widespread especially in the revenue departments in India such as the Income Tax department, State commercial tax departments, revenue departments of urban local bodies etc. E-Governance initiatives has helped establish “voluntary compliance” as the cornerstone of revenue administration by making it easy for taxpayers to comply and simultaneously helping the administration to detect revenue leakage and take immediate action against non-compliance.

NEED FOR SYSTEMIC CHALLENGES

Any successful foray into e-governance by the government requires much more than merely sprucing up the government machinery with network of computers and personnel It needs to be complemented with systemic shift in the case of all the stakeholders in terms of infrastructure, knowledge and receptivity. For the successful implementation of an e-governance system in a government department like Commercial Taxes, it is imperative that an information network that can gather, record and process data, is put in place. In order for such an information system to be effective and sustainable, hits coverage should extend from the most marginal of tax payers to the biggest, from the rural to the metropolitan centres and from the unit offices to the tax headquarters in the state. Such systemic shift has to be accompanied by a transformation in work culture and acceptance among the tax payer community.

GOVERNANCE ISSUES OF GST

For successful implementation of GST, it is an imperative that operational bottlenecks are ironed out. The most important task is to build adequate infrastructure (administrative as well as information technology enabled services) that will cater to requirements like collection of the GST. Without a well-designed infrastructure across the country, the benefits of the GST will remain elusive. The Central Government should arrive at a consensus with the States on developing such infrastructure within an earliest possible timeframe.

It is also important to provide technical assistance and capacity building at the state level so as to ensure the effective implementation of the GST. Technical assistance to States would help in developing and benchmarking good practices, which will help enhancing GST collections at the State level. Capacity building programmes for government officials and other relevant stakeholders on technicalities related to GST would help in increasing their efficiency.

The Central Government should highlight and disseminate information about good practices from other countries having the experience of successful implementation of GST-like indirect tax regime.

OBJECTIVES OF GST GOVERNANCE

The following are the objectives of GST Governance

- To ensure efficient & transparent tax administration
- To streamline & integrate department functions
- To promote voluntary compliance
- To expand the tax payer base
- To redefine the officials & dealer interface



- To enhance service quality

WORK-FLOWS OF GST GOVERNANCE

The following three processes constitute the most important workflows of the GST administration and would be covered in the first phase:

Registration: A unique ID is necessary to identify each taxpayer. The PAN based ID should be common to both the states and the centre. A common PAN-based taxpayer registration has several benefits including a unified view of the taxpayers for all tax authorities. A PAN based registration system has already been implemented in CBEC and several states are also capturing PAN data.

Returns: Both, the states and centre require taxpayers to file periodic returns to assess whether the taxpayers have computed, collected, and deposited their taxes correctly. ITC credit can also be verified on the basis of the returns filed and revenues reconciled against challan data from banks.

Challans: Challans are the payment instruments used by taxpayers to actually pay their taxes. Challans are deposited at collecting banks and are forwarded by them to the tax administrations.

IGST: Under GST, inter-state trade will be leviable to IGST. Under IGST, the tax paid by the selling dealer in the exporting state will be available as ITC to the purchasing dealer in the importing state. This requires verification of ITC claims and transfer of funds from one state to another. Further, in an interstate business to consumer transaction, tax collected in one state has to be transferred to another state as finalized by the business processes. Thus, periodic inter-state settlement is required.

In addition, there are several other workflows such as processing refunds, taxpayer audits, and appeals. It is reiterated that the **core services** envisaged through common portal are limited to registration, payments and returns in the first phase. Other value added services will be added subsequently based on the needs of the Stakeholders. The IT infrastructure should be designed taking into account all stakeholders.

IT INFRASTRUCTURE REQUIREMENTS FOR GST GOVERNANCE

Without a well-designed and well-functioning IT system, the benefits of GST will remain elusive. It is important that the design and implementation of the GST IT systems start without any further delay, and consensus is achieved on the unresolved policy issues in the earliest possible timeframe. The GST IT implementation requires various stakeholders to implement new IT systems, or modify existing systems. All these stakeholders are on the critical path for GST implementation readiness. Implementation plans for various stakeholders, and interfaces between stakeholders should be frozen, and agreed to by all before implementation can commence

STAKEHOLDERS OF GST GOVERNANCE

The design of an IT infrastructure should serve all stakeholders and their business processes. The various stakeholders in a GST IT implementation is as follows:

Small taxpayers: Much of the economic activity in India is concentrated among small taxpayers. They may not have the skill or the resources to effectively migrate to GST. Thus, adequate preparations must be done to ensure smooth migration for small taxpayers to GST. This includes extensive consultations, setting up of facilitation centres, education and training.

Corporate taxpayers: Corporate taxpayers may operate across various states and typically have sophisticated IT systems for accounting, e-filing returns, payments etc. Common file formats and message specifications should be released early to allow IT vendors that provide software to corporate taxpayers to modify and release updated versions with GST support.

State tax authorities: The state tax authorities would be responsible for collecting SGST. Common file formats, interfaces, and policy administration will enable accurate and timely assessment, and risk-based investigations resulting in enhanced productivity and revenues.

Central Board of Excise and Customs [CBEC]: CBEC would be responsible for collecting CGST and IGST. Common file formats, interfaces, and policy administration will increase the productivity of CBEC. It will allow for accurate and timely assessment, risk-based investigations and facilitate IGST settlement by Centre at agreed time intervals.



RBI: The Reserve Bank of India will facilitate the interface with various banks to facilitate movement of states' and center's funds. The processes of funds settlements and documentary compliance are independent.

Banks: Banks will accept GST remittance from the taxpayers and process the relevant challans. All tax collections (whether physical or electronic) will be at bank branches, or through the banks' IT systems. Banks will route the tax collected to the concerned authorities through the RBI channel.

Other Stakeholders include CAG, GSTN, TRPs and facilitation agencies.

NEED FOR COMMON GST PORTAL

A common GST portal, operated by Goods and Service Tax Network (GSTN), is the fastest and most cost-effective way to provide common PAN-based registration, common returns, and common challans for all stakeholders. It can manage the taxpayers' standard interface with the varied systems of the tax administrations. Each tax authority will have full flexibility in using this data for in-house automation, integration, and enforcement. The solution architecture should be designed to meet the design goals for GSTN, described in the previous section. For the purpose of simplicity for taxpayers, uniformity of tax administration, digitization of all documents, and automation of related processes, it is necessary to have:

- Common PAN-based registration
- Common standardized return for all taxes (with different account heads for CGST, SGST, IGST)
- Common standardized challan for all taxes (with different account heads for CGST, SGST, IGST)

DESIRABLE FEATURES OF COMMON GST PORTAL [OPERATED BY GST NETWORK (GSTN)]

Simplicity for taxpayers: The process of filing of tax returns and payment of tax should be simple and uniform and should be independent of taxpayer's location and size of business. In addition, the compliance process should not place any undue burden on the taxpayer and should be an integral part of his business process.

Respect autonomy of states: The design of the IT system should respect the constitutional autonomy of the states. Several business processes will be re-engineered as a new IT system for GST is put into place. There should be no dilution of the autonomy of states as a result of the IT system, or the re-engineering. On the contrary, it should strengthen the autonomy of states. This is a key factor in the design of the IT system presented in the rest of this document.

Uniformity of policy administration: The business processes surrounding GST need to be standardized. Uniformity of policy administration across states and centre will lead to a better taxpayer experience, and cut down costs of compliance as well as tax administration.

Enable digitization and automation of the whole chain: All the business processes surrounding GST should be automated to the extent possible, and all documents processed electronically. This will lead to faster processing and reconciliation of tax information and enable risk based scrutiny by tax authorities. For small taxpayers, facilitation centres can be set up to ease the migration.

Reduce leakages: A fully electronic GST can dramatically increase tax collections by reducing leakages. Tools such as matching the input tax credit, data mining and pattern detection will deter tax evasion and thus increase collections.

Leverage existing investments: Existing IT investments of states should be leveraged. The Mission Mode Project on Commercial Tax should be aligned with the GST implementation going forward.

Mandatory requirements for GST Governance

Considering the above factors, the following are the mandatory requirements for a hassle free GST Governance.

- Common PAN-based registration
- Common standardized return for all taxes (with different account heads for CGST, SGST, IGST)
- Common standardized challan for all taxes (with different account heads for CGST, SGST, IGST)
- Taxpayer files through a standardized taxpayer interface.
- States and CBEC implement tax administration systems for assessments, audits, and enforcement within their domain. This is desirable but not a pre-condition since the GSTN can provide support for states that do not have the necessary IT systems in place.
- The taxpayer and tax authority systems are connected with a Common GST Portal, operated by GSTN.



- Policy decisions are captured in GST Business Rules Engine that defines the tax rates, revenue sharing rules, and exceptions for all parties.

IMPLEMENTATION GUIDELINES FOR GOOD GST GOVERNANCE

For the successful implementation of GST, the administration and procedures for the dual GST should be designed in the following manner for ensuring good Governance

1. The Central Board of Excise & Customs (CBEC) shall be responsible for implementing the CGST and the State Tax administrations will be separately responsible for implementing the SGST¹. The various tax administrative functions such as assessment, enforcement, scrutiny and audit should be undertaken by the CBEC in respect of the CGST and by the State tax administration in respect of the SGST subject to our recommendation on small-scale industries.
2. All procedures under CGST and SGST should be uniform
3. Each taxpayer should be allotted a PAN based taxpayer identification number as recommended above
4. The unit of taxation for the purposes of GST should be persons as defined under the Income Tax Act. Consequently, for the purposes of CGST, all production units/branches of a person located anywhere in the country will be treated as a single taxable entity eligible for CGST input credit across units/branches. Similarly, for the purposes of SGST, all production units/branches of a person located anywhere within the State will be treated as a single taxable entity eligible for SGST input credit across units/branches in that State.
5. The Central Government shall establish a common IT infrastructure which will serve the needs of both CGST and SGST.
6. The Central Government will be responsible for establishing a taxpayers information network (TIN) keeping in view the information requirement of CBEC and the State tax administration. The TIN will be shared between the Centre and the States.
7. The payment of tax and the transaction reporting should be made through a combined payment and transaction reporting statement in a prescribed form. This statement should detail all business to business transactions relating to sales. This statement should be common for both CGST and SGST compliance and it should be mandatory to file this statement electronically on a monthly basis while making payment of taxes.
8. Taxpayers opting for the compounded levy may be required to pay their taxes and file their returns on a quarterly basis.
9. Electronic filing of all other returns, if any, should also be mandatory. Therefore, the return forms should be common for CGST and SGST compliance.
10. The information furnished shall be stored in a common database to which both the CBEC and the State tax administration will have access
11. For the purposes of audit, both CBEC and the State tax administration can design an independent risk management strategy. However, both must co-ordinate to ensure that the same taxpayer is not subject to simultaneous audit under CGST and SGST.
12. The administration of this levy should be based on audited accounts and not on the basis of any form of physical controls.
13. Since the tax base will be common, there should be a common appellate authority. Similarly, the Authority for Advance Ruling will also be common.
14. Best international practices should be embedded in the Central-GST, particularly in respect of laws relating to levy of penalties, and circumstances and method of prosecution.
15. Procedures for collection of both the CGST and SGST should be uniform.

E-services to be ensured under GST Governance

The following are the e-services to be ensured under GST Governance:

- Online Registration
- Online Filing of periodic returns
- Online uploading of Invoices
- Online Payment of net tax due
- Online Reconciliation
- Online Uploading audit report
- Online Uploading Stock Inventory
- Auto calculation of SGST, CGST, IGST
- Integration of GST-Central Integrated Portal with Banks
- Automated routing of all tax payments through Bank's portal
- Immediate credit to government accounts
- No missing credits to dealers



- Simplified and electronic reconciliation process
- On line downloading of statutory Forms
- Instant capture of form utilization details
- Real time verification through website
- Automated tabulation of tax Payable
- Automated uploading of trade invoices
- Automatic tracking of Inter-state trade transactions

ACCOMPLISHMENT OF GST GOVERNANCE

The following are the achievements of GST Governance:

- Tracking GST trail at all levels of value addition
- Tracking GST from production stage to ultimate consumption
- Cross verification of dealer-to-dealer transactions
- Tracking of invoice level interstate transactions
- Automated determination of Net tax dues
- Cross verification with check post consignments
- Automated reconciliation of e-payment with treasury
- Instant tax credit to Government account
- Tracking of invoice level interstate transactions
- Certified and secured site
- Data migration any time anywhere possible
- Citizen service centre / 'digital divide'
- E-Filing charges re-imbursed by the Government
- Improved accessibility of services

SUCCESS PARAMETERS FOR GST GOVERNANCE

The following are the success parameters for GST Governance:

- Political will
- Long term vision of the Government
- Strategic roadmap
- User friendly software
- Training and Infrastructure Inputs
- Committed officials
- Stakeholder consensus
- Media support
- Citizen Service Centre (C.S.C.)

CHALLENGES IN COMMUNICATING TRANSITION

GST is going to bring about a lot of changes at the legal, administrative, and so procedural level. With the merger of the tax base, GST will transform the hitherto insular tax structures of the Centre and the States. Various hitherto distinct taxes administered by distinct authorities at different levels are going to be streamlined in GST with those administered by the states.

So, this convergence of the tax system has to be converted into an opportunity to address the tax community as a whole across the nation, as the same set of tax laws, rules and procedures will apply across the states.

STAKEHOLDER LANDSCAPE

The communication strategy needs to address and be addressed by all the stakeholders, viz

- Government of India
- State governments
- Tax Administration at the Central and State levels
- Trade, Business and Industry bodies
- Intermediaries like Tax Lawyers, Consultants, Practitioners etc
- Legal experts
- Academicians
- Political parties/legislators



- Taxpaying public /Civil Society

Obviously, no tax policy can satisfy all the stakeholders equally. And, in a democratic polity, what is more important than short term negative fallouts and frictions, is the common social good which will be beneficial to all in the long run. A well thought out and designed policy should be able to communicate the larger and long term benefits that will eventually accrue from a tax policy.

Such promises can gain credibility only if the process of transition is transparent and open to public scrutiny at all points of time. The task of ensuring and maintaining transparency is also vitally linked to the communication plan that is inbuilt into the tax reform programme.

COMMUNICATION PLAN

The communication plan should also keep in mind the diversity of interests of each group. The ultimate aim is to bring about a consensual atmosphere of trust and understanding.

STAKEHOLDER	EXPECTATIONS	APPREHENSIONS
Governments	Revenue – Sustained Increase Public support Political Consensus	Fall in Revenue Public Resistance Political Resistance
State Governments	More Avenues for Taxation Increase in Revenue	Limitations on Fiscal freedom Loss of Revenue Hurdles in Implementation
Tax Administration	Increased Efficiency Ensure Compliance Better Surveillance >Deterrent Effect Smooth switch over Less Complaints Career Prospects	Procedural Complexity Multiplicity of Agencies New Methods of Evasion More Workload Skill gaps
Trading/ Industrial Community	Procedural Simplicity Less Tax burden Assessee-friendly tax system Uniformity across the country	Too many agencies at work More Tax Liability Each State ‘customising’ procedures
Tax Paying Public	Less tax burden Transparency	Increase in Prices More Tax Burden

The conflicting interests of Revenue Mobilisation, Administrative Efficiency, Procedural Simplicity, Lesser Tax Burden, Political Consensus etc have to be addressed and the need for transition and the resultant payoffs communicated to each level in a targeted manner.

At each level, the content of communication, format, focus and packaging has to be worked out in detail taking into account the expectations and apprehensions.

THE GSTN INITIATIVE

The Goods & Service Tax Network (GSTN) is an IT infrastructure launched by Government of India can be taken as an example of its communication approach.

GSTN aims at

- Simplicity for tax payers
- Respect the autonomy of states
- Uniformity of policy administration
- Enable digitization and automation of the whole chain
- Reduce leakages
- Leverage existing investments

The major stakeholders of GSTN include Small and Corporate Taxpayers, State Tax Authorities, CBEC, RBI and the Banks apart from CAG, GSTN, TRPs and facilitation agencies



GSTN - COMMUNICATION PATTERN

The communication pattern envisaged by GSTN is very much 'governmental' rather than one with a process approach that will involve not only information, but also dialogue, feedback and correction. GSTN promises to be a very informative platform as far as the implementing agencies involved in various aspects of tax administration are concerned.

The information flow envisaged by GSTN is also one way: one that flows from the bottom to top, i.e., from the tax payer at the bottom/margins to the authority at the top/centre.

But apart from being informative, GSTN is not interactive or dialogic, where it would invite, engage and confront with all kinds of opinions and views, rather than be a platform to voice and place official viewpoints and developments.

CONCLUSION

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 ser-vice sector shall have to bear impact of GST. All sections of economy viz., big, medium, small scale units, intermediaries, importers, exporters, traders, professionals and consumers shall be directly affected by GST. One of the biggest taxation reforms in India, the Goods and Service Tax (GST) is all set to integrate State economies and boost overall growth. GST will create a single, unified Indian market to make the economy stronger. Experts say that GST is likely to improve tax collections and boost India's economic development by breaking tax barriers between States and integrating India through a uniform tax rate. Under GST, the taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions.