

## Chapter 1

### **Introduction: The importance and impact of the Goods and Service Tax(GST)**

1        *"Tis impossible to be sure of anything but Death and Taxes,"*, so goes the inescapable idiom on taxation from the play, *The Cobbler of Preston* . The Oxford Dictionary defines Tax as '*a compulsory contribution to state revenue, levied by the government on workers' income and business profits, or added to the cost of some goods, services, and transactions*'. Taxes are principally of two types, Direct and Indirect. A Direct tax, for example Income-Tax or Property-Tax , is a levy whose burden or incidence cannot be shifted on another. An Indirect-Tax such as the Goods and Service Tax (GST) is a levy whose burden or incidence can be shifted to another. The announcement for a GST in India was made in the Union Budget for 2006-2007 to the effect that GST would be introduced from April 1, 2010, and that an Empowered Committee of State Finance Ministers would work with the Central Government to prepare a road map for introduction of the GST. After a long series of discussions and deliberations between the Centre and the States , the 122<sup>nd</sup> Amendment Constitution Amendment Bill to introduce GST was passed by the Lok Sabha in May, 2015. The Bill with certain amendments was finally passed in the Rajya Sabha on 3 August 2016, and the amended bill was passed subsequently by the Lok Sabha on 8 August 2016. After ratification by required number of States and receiving assent of the President on 8<sup>th</sup> September, 2016 the bill was enacted as Constitution (101<sup>st</sup> Amendment) Act, 2016 w.e.f. 16<sup>th</sup> September, 2016<sup>1</sup> for introducing a National Goods and Service Tax in India.

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<sup>1</sup> 2009, First Discussion Paper On Goods and Services Tax In India,

1.2 The introduction of Goods and Services Tax on the 1<sup>st</sup> of July 2017 was 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, the aim was to mitigate 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 would be in terms of a reduction in the overall tax burden on goods. Introduction of GST would also make Indian products competitive in the domestic and international markets. The transparent and self-policing character, was expected to make it easier to administer<sup>2</sup>. The impact and consequences by the introduction of a single indirect tax, levied both by the Centre and State across the nation, could only be expected to be manifold. In particular the powers to levy, collect and administer GST was fundamentally different from the earlier system of Central Excise Duties and Sales Tax (*the principal indirect taxes prior to GST*). Some of these changes are stated below.

a) The GST is fundamentally different in 'Concept and Administration' to the previous tax systems being administered by the Central-Government and States. Prior to introduction of the GST, the Central Government and respective state/s had their separate domains and systems for the collection of indirect –taxes in terms of the separate items, legislative powers granted under the respective 'Union and State Lists' under Article 246 of the Constitution. Under the GST, there would now be a concurrent jurisdiction on the power to levy and collect taxes on Goods and Services by both the centre and the states<sup>2</sup>.

b) The introduction of GST leads to a fundamental change in the taxable event/incidence of tax. Prior to GST, the Centre under the Central Excise and Service

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<sup>2</sup> <http://www.cbec.gov.in/>– Concept & Status

Tax Act/s collected a tax on the '*manufacture of goods and provision of services*'. For the states, the main source of Taxation was the '*Sales-Tax*' i.e. a Tax on the Sales of goods. With introduction of the GST, the taxable event/incidence of the tax would now undergo a complete change. In the case on the Centre, imposing the Central GST (CGST) , the tax would now be levied on the '*Intra-State supply of Goods and Services*'<sup>3</sup> and in case of Integrated- GST( IGST) the taxable event would be the '*Inter-State supply of Goods and Services*'<sup>4</sup>. The State/s would be imposing the State GST (SGST) which would be would be levied on '*Intra-State supply of Goods and Services*' within their distributed jurisdiction<sup>5</sup>.

c) Unlike the earlier system of indirect taxation at the Centre and the States, the administration of the Tax system under GST would be based on an Information-Technology (IT) system i.e. it would be online for both the Tax-administration as well as the Tax-payers in all its aspects. For this purpose, the Goods and Service Tax Network (GSTN) has been setup as a private entity under Section 25 of erstwhile Companies Act ; to provide frontend services for registration, payment and returns to tax payers as well as back-office IT modules for states having opted to get the same from the GSTN<sup>2</sup>.

d) As a consequence of the far reaching changes referred above, the introduction of the GST entailed amendments to the Constitutional provisions relating to the powers of taxation available to Centre and the States hitherto. The existing structures of the Tax Administration in the Centre and all the states required to be administratively and procedurally aligned to a nationwide single system of indirect taxes. This necessitated the reorganization of the indirect-tax administration at the Centre i.e. under the Central

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<sup>3</sup> Preamble, The Central Goods and Services Tax Act,2017

<sup>4</sup> The Integrated Goods and Service Act, 2017

<sup>5</sup> <http://www.gstcouncil.gov.in/sgst-act>

Board of Indirect Taxes (CBEC) as well the respective Tax Administration functioning in all the states . As a consequence, several changes were required to be made in the location of offices, their jurisdictions the re- deployment of officers/staff , raising of the associated infrastructure and imparting fresh training to the staff.

### 1.3 **The statement of the Problem:**

As referred in para 1.2 above, the changeover and its consequences has led to several changes relating to the legislative, procedural, technical aspects and the physical infrastructure in Tax Administrations and their related organizations at both the Central and State levels. However , in the subject dissertation the challenges being faced in particular by the administrative personnel in the Tax -Administration system of the Centre i.e a formation under the CBEC will be focused upon. Some of the challenges being faced are:

a) There is a major change in the administrative context and environment : Introduction of GST entails introduction of new legislation, statutory provisions and procedures which are completely different from the system/s the personnel were used hitherto. The tax base of assesses required to pay taxes has been reorganised and undergone substantive changes. There has been extensive changes in the system of accounting, record-keeping and required compliances under GST both for Administrative staff as well as the Tax payers.

b) There was the need for an extensive requirement for new capacity building of all the officers/staff implementing the GST system to meet the emergent changes and challenges posed in the implementation of a new and radically changed taxation system. In particular , all officers/staff in the administrative setup of the GST , would

require intense technical and professional training to implement the changed concepts and laws brought about by the introduction of GST.

c) Since the GST is fundamentally different in concept and administration to the previous tax systems being administered hitherto there has been a drastic change in the jurisdiction and scope of statutory power of the Officers and staff. This has led to some apprehensions by the Officers/staff cadres regarding their future career prospects in the Central Cadre .

d) The reorganisation of the Administrative structures under GST would require redeployment of officers /staff to newer jurisdictions and organizations. There would thus be emergent challenges in implementing GST due to lack of infrastructure , required systems and capabilities particularly in the newer jurisdictions. Such displacement could also lead to impacts of a personal and domestic nature being faced by the Officers and staff in the Tax-Administration/s .

#### **1.4 Purpose and Objectives:**

The purpose and objective of this dissertation is to look closely and focus on the challenges being faced in particular by the administrative personnel in the Tax-formations under the CBEC. These challenges are integrally linked to the changeover process to GST and a smooth transition would depend on how these challenges are being resolved. An indirect tax has the advantage of being broad based i.e. reaching to all sections that consumer goods and use services tax, has a stable revenue pattern when imposed on goods having inelastic demand and being easier to collect being part of the price of goods and services, its imposition is unavoidable to any government <sup>6</sup>. Thus , an indirect tax like the GST has a significant impact on the lives of all members of society as well as an intricate , inextricable effect on the economy of the

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<sup>6</sup> <https://tax-taxes.knoji.com/advantages-and-disadvantages-of-indirect-taxes/>

nation. However unlike a direct tax, the burden of indirect taxes can be shifted to another , in most cases the ultimate consumer. Since the tax is to be borne by a person regardless of their individual incomes i.e by rich and poor alike , the tax is seen as regressive<sup>7</sup>. Considering the broad based impact brought about by GST in a developing nation such as India; it would apt and justified to study the changeover to GST and examine the transition process and those the factors that having a bearing on facilitating a smooth changeover or otherwise to GST.

1.5 In light of the above discussion and points, the following Research Questions being put forth in this subject dissertation:

a) *Whether the administrative personnel are aware of the extent of change they face; and whether the supervisory administration has successfully communicated this to the personnel?*

b) *What are the human factors impeding a smooth transition to the GST regime; and what corrective measures can be taken thereof?*

#### 1.6 **The Research Method:**

a) The Research method followed is Qualitative with a descriptive study .

b) The method and tools used would include, exploratory research from examination of available secondary literature sources , information obtained from departmental internet site/s, related internet sites, various published reports on the subject, departmental document/s, media reports and feedback elicited from the administrative personnel concerned. The Primary and secondary data thus obtained has been analyzed for drawing of the requisite findings and conclusions.

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<sup>7</sup> <https://financial-dictionary.thefreedictionary.com/Regressive+Taxes>

### 1.7 **Limitations/Delimitations :**

a) Considering practicality and the constraints of the time at hand, the research would be limited to the Bhubaneswar Goods and Service Tax Commissionerate headquartered in Bhubaneswar , Odisha . Consequently the scope and applicability of the research would be accordingly constrained to its jurisdiction .

b) The policies , provisions and frameworks relating to GST are being subjected to constant revision. It may not be possible to predict or consider their impact fully during the duration the research conducted for this subject dissertation . The procedures and provisions related to GST are still undergoing rapid changes and it may be that some information may be outdated or superseded by the submission of this subject dissertation.

c) The GST Commissionerate chosen in the subject dissertation, like their counterparts elsewhere across the nation, were under extreme pressure and preoccupied with the task of implementing and administering the change brought about by GST. This has constrained the amount of feedback received due to reasons beyond the control of the officers/staff . However, there was no lack in co-operation otherwise.

1.8 Chapterisation of the Dissertation : There are Seven Chapters to this Dissertation. Chapter 1 contains the introduction to subject issue , concerns , changes caused by the introduction of GST, the objectives of the study and the research questions raised. Chapter 2 discusses the literature review conducted on the subject issue and the research gaps identified. Chapter 3 discusses the indirect system existing prior to the introduction of GST while Chapter 4 studies the need felt for change to the system of GST and the movements made towards such a change. Chapter 5 of the dissertation discusses the steps taken by the Central Board of Excise and Customs to