

Chapter - III

Methodology

and

Approach

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Several benefits are envisaged for the GST: that growth will increase; that investment will increase by making it easier to take advantage of input tax credits for capital goods; and that cascading effect will reduce. While these are important, three benefits stand out in today's context: governance/institutional reform and "Make in India by Making one India," which are two key pillars of the government's reform efforts. The investment, and hence growth, benefits could also be substantial.

The government has placed a great deal of emphasis on curbing black money reflected in the Black Money Bill. These measures can be very significantly complemented by a GST, which, especially if it is extended to as many goods and services as possible (especially alcohol, real estate and precious metals), can be a less intrusive, more self-policing, and hence more effective way of reducing corruption and rent-seeking.

Under the GST, this can happen in two ways. The first relates to the self-policing incentive inherent to a valued added tax. To claim input tax credit, each dealer has an incentive to request documentation from the dealer behind him in the value-added/tax chain. Provided, the chain is not broken through wide ranging exemptions, especially on intermediate goods, this self-policing feature can work very powerfully in the GST.

According to Pomeranz (2013), "The Value Added Tax (VAT) is a stark example of a tax believed to facilitate enforcement through a built-in incentive structure that generates a third party reported paper trail on transactions between firms, which makes it harder to hide the transaction from the government (e.g. Tait, 1972; Burgess and Stern, 1993; Agha and Haughton,

1996; Kopczuk and Slemrod, 2006). This belief has contributed to one of the most significant developments in tax policy of recent decades (Keen and Lockwood, 2010): a striking increase in VAT adoption from 47 countries in 1990 to over 140 today (Bird and Gendron, 2007).

The best evidence of the impact of the paper trail on evasion comes from an experiment in Chile which shows that firms that are part of the VAT chain are less responsive (in terms of evasion) to announcements of an increase in audit, suggesting that being part of the VAT itself performs the self-auditing function (Pomeranz, 2013). Moreover, the study finds that increasing the audit probability of firms suspected of evasion generates spillovers up the VAT paper trail that lead to an increase of their suppliers' tax payments. In a sense, the supplier, because of the paper trail left by the VAT, knows that his evasion will be more likely to be detected once his client is audited((Source: Report on the Revenue Neutral Rate and Structure of GST).

Second, the GST will in effect have a dual control and monitoring structure—one by the States and one by the Centre. Hence, there will be a greater probability that evasion will be detected. If one set of tax authorities overlooks and/or fails to detect evasion, there is the possibility that the other overseeing authority may not.

The current tax structure unmakes India, by fragmenting Indian markets along state lines. This has the collateral consequence of also undermining Make in India, by favouring imports and disfavours domestic production. The GST would rectify it not by increasing protection but by eliminating the negative protection favouring imports and disfavours domestic manufacturing.

These distortions are caused by three features of the current system: the central sales tax (CST) on inter-state sales of goods; other numerous inter-state taxes that will be replaced by the (one) GST; and the extensive nature of countervailing duty (CVD) exemptions.

The 2 per cent CST on inter-state sales of goods leads to inefficiencies in supply chain of goods. Goods produced locally within the jurisdiction of consumption attract lower tax than

those produced outside. This tax encourages geographic fragmentation of production. The tax can be avoided partially through branch/stock transfers by manufacturers. However, the tax savings from branch transfers get substantially offset by the incremental costs of logistics and warehousing of goods in multiple locations.

Consider a simple example, where intermediate goods produced in Maharashtra go to Andhra Pradesh for production of a final good which in turn is sold in Tamil Nadu. Effectively, the goods will face an additional tax of 4 per cent, which will reduce the competitiveness of the goods produced in Andhra Pradesh compared with goods that can be imported directly to say Chennai from South and East Asian sources.

How quantitatively significant is the impact of the CST? Data of six States: Maharashtra, Andhra Pradesh, Karnataka, Gujarat, Tamil Nadu and Kerala shows that stock transfers, on average, account for as much of inter-state trade as the trade subject to the CST (in the case of Gujarat and Andhra Pradesh, stock transfers are more than twice as much. In other words, the distortion affects fifty per cent of the total trade that flows between States.

OBJECTIVES:

The objectives of this research are as follows:-

- 1. To study the available IT and human resources with State Government and central government**
- 2. To study the effect of GST on them**
- 3. To suggest the optimal use**

RESEARCH QUESTIONS:

- i. What are the relevancy of various resources in the GST regime?
- ii. How they can be made optimally used?

DATA COLLECTION

- A) **Review of Policy Documents:** important related documents were studied such as annual Report of Ministry of Finance.
- B) **Government Reports/Websites/Databases:** Data has also been collected from agencies such as World bank and Planning commission.
- C) **Academic Literature:** Review of published literature in Journals, Books, conferences, presentations and existing surveys formed the primary source of secondary data.
- D) **Other sources:** Newspaper items and presentation and presentation analysis of official statistics has been widely resorted to.

Scope/Limitations:

The scope of this study shall be Descriptive Research and limited to collection of relevant secondary data. The secondary data used in the study is based on the data and qualitative information collected from existing documents and websites. Since the sources of these are established one like government website and publications, the data have not been verified. Every effort has been made to explain the subject in the light of set objectives and materials available for the comprehension.

Moreover, due to logistic constraints including the paucity of time and resources, data regarding efficacy of VAT could not be verified. Within the limited framework, the study bridges the literature gap within the subject area and advocates for more empirical works to be carried out.

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