

Chapter 8

Conclusions and Recommendations

The experience gained in several federal countries, whether developed or developing, has indicated undesirability of GST at two levels at federal and state level. However, the political, economical and constitutional compulsions in India may not provide any alternative but to go for dual GST system, whereby both Centre and State can discharge their duties and responsibilities while maintaining the integrity and sovereignty of the country. In many developed federal countries, implementation of dual GST system has been cause of continuous problem between the federal and the provincial governments despite homogeneity due to language, religion, social, cultural, natural resources, employment, education etc. In contrast, queues diversity and disparity exist in India. Regional political parties advocating interest at the regional level had been able to capture power in many states, which sometimes may not in line with the national interest. If the major revenue collection power and its enforcement are given in the hands of the states, as suggested by the Empowered Committee, it is likely that revenue mobilization efforts of Central government may come under serious threat, affecting the vital function including defense. The Union Government may not be able to exercise much of its power for the overall development of a special category states and BIMARU states in view of limited resources available with them.

Further, the success of the GST model is critically dependent upon availability of reliable IT infrastructure in the banking, state and the centre level. The experience of the past does not inspire confidence especially in many small and non- industrial states, which are grossly lacking in IT infrastructure, banking facilities, trained manpower and absence of best practices. A large number of States in the country is still industrially backwards with low level of literacy

including IT and it is very unlikely that they would be discharging the responsibilities cast upon them under the recommendations of Empowered Committee. Likelihood of massive evasion and avoidance of taxes cannot be ruled out under such scenario. All the issues have not been adequately addressed by the Empowered Committee and there is need to critically examine all the recommendations rather than to rush for its implementation from 2010. Implementing these recommendations without addressing issues discussed in this dissertation will have far-reaching consequences seriously affecting interest of the country.

Recommendations:

a. The most important aspect of GST implication lies in clear-cut demarcation of jurisdiction of Centre and State Governments and agencies earmarked for their levy and collection of goods and services. This should be done in a manner that the revenue availability with the respective governments do not affect and remain buoyant in future so that they are able to discharge their obligatory roles and responsibilities. A committee of senior representatives from the central and state governments should sit together and sort out this issue before implementing GST.

b. The credit mechanism in the central indirect taxation system has been in operation for more than 20 years and has been found to be working satisfactorily. The recommendations of Empowered Committee on the credit mechanism place great reliance upon the banking system, which would entail delay and also require an effective IT networking between banks, Central and State Governments and its departments. Until and unless, this network is put in place and has been tried for its usefulness, GST implementation should be put on hold.

c. There appeared to be a need for multi-party Centre-State Tax Collection Agreement to be signed between the Central and all State/

Union Territories governments on the delegation or outsourcing the collection of all or part of the Central GST to the states, and vice versa; and enforceability of tax laws, auditing, search, seizures, etc. This agreement would also bind the Centre and the States to a common tax base, laws and administrative procedures. An important part of this agreement would be delegation of responsibility for the design of harmonization elements and modifications thereof to an institution, which could be the Centre, or a newly created Centre-State body funded by and accountable to both levels of government. This body would be responsible for only the design and policy aspects of GST administration. Actual operations and delivery would be the responsibility of each government in their respective jurisdictions.

d. SGST will require balance between the fiscal autonomy of the states and the need for harmonization across thirty five states and union territories. The harmonization should ensure flourishing common market of India without any tax hindrance. The dual VAT in Canada works on a practically harmonized base. In the EU too, the VAT base of member countries follows a standard pattern laid down in the Sixth Directive of the European Commission. It is therefore very important that all states sit together and work out harmonization agreement which is acceptable to all before the GST could be implemented.

e. Harmonization of rules and procedures should be simple and uniform in all the states. The areas for full harmonization should include taxpayer registration system, taxpayer identification numbers, tax forms, tax reporting periods and procedures, invoice requirements, cross border trade information system and IT system. This would result in significant savings in the costs of implementing VAT by avoiding duplication of efforts in each state as well as in recurring compliance costs. The sharing of information among governments which is essential for effective monitoring of cross-

border transactions. This would allow development of an effective Risk Management System. Without an effective Risk Management System, the likelihood of evasion of taxes could be very significant.

f. An agreement on place-of-supply rules may have to be enacted which will define the origin and destination of inter-state goods and services (e.g., telecommunication, transportation, and Pan-India advisory services), and which states will have the right to tax them. The rules for defining the place of origin/destination of inter-state supplies of goods/ services could be adapted for the GST from CST Act.

g. A new mechanism for reporting and monitoring of inter-state transactions and for collection of tax on them will have to be developed. The Trade Information Exchange System (TINXSYS), already developed for the Empowered Committee can be modified for the monitoring of such transactions. There is an immediate need to find out number of dealers/ traders manufacturers, etc, which would be required to be registered throughout the country to enable design of an appropriate IT network. This exercise has to look into consideration expected number of such traders and manufacturers, who would be working under GST in next 20 -30 years. An integrated Management Information System (MIS) will have to be designed which shall comprise of master file maintenance, payment of tax and processing of VAT returns, selection of the dealers for audit, cross verification of documents, etc. This MIS system would enable evaluation of tax policies, appraisal, enforcement of tax laws, faster decision-making.

h. There is a need to make stringent law against evaders of taxes and at the same time separate dedicated courts need to be established at the level of High Courts and the Supreme Court. It will expedite disposal of tax related disputes. The law should be made in such a manner which takes away the discretionary powers on

officers. Mechanism of auto penalty of violation of specified laws and procedures should be put in place. certain serious economy offences need to be defined, of which the penalty could be imprisonment for 10 years and also prohibiting individuals from carrying out business in future.

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