GOODS AND SERVICES TAX SYSTEM: STRENGTHS AND WEAKNESSES

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Abstract: *The system that is operating at present is logically complex. It interferes with free play of market forces, entails high cost of compliance and administration, causes poor economic impact, results in harassment of traders, creates inter-jurisdictional conflict, and causes obstacles to the free flow of trade within the country and the growth of the common market. One of the best guiding principle in the direction of reform is neutrality. This attribute could only be achieved after estimating strengths (transparent) and weaknesses (not transparent) of current system of GST. The strengths and weaknesses demonstrate a solution to most of the ills of the present system of indirect taxing. This study has been purely based on survey data. A questionnaire-based survey has been carried out across the Ranchi commercial tax division in the State of Jharkhand among stakeholders. Binary logistic regression has been utilized to measure strengths and weaknesses of existing Indirect Taxation System and further it has also been utilizedin testing hypothesis.The verdict of the studymight also be fruitful at the time of implementing full-fledged Goods and Services Tax in near future in Jharkhand.*

Keywords: *Logistic Regression, Neutrality, Strengths, Weaknesses etc.*

INTRODUCTION

Domestic trade taxes do not follow logical pattern to improve existing system of taxing. The present system of sales taxes has failed on both fronts. It has not been able to harness potential implicit in the economy due to deficiencies some inherent and some time-induced, pervading tax structure (Aggarwal, Incidence of Major Indirect Taxes in India, 2003). It has also become source of frequent interference in the operations of the economic growth.

The potential revenue which has been raised from GST depends on number of factors such as the how broad the tax base is and the extent to which business complies with the tax on GST revenue modeling for tax reform is assumed to be a multistage consumption type based on destination principle. While imposing tax on imports are taxed in the same way as domestically produced items and exports

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are not subject to tax therefore tax essentially applies goods and services consumed domestically (Official Journal of the Europian Union, 2007).

If the domestic trade and industry have to survive the wave of liberalization and to put India on high growth trajectory, the reform of system of GST is necessary. Under GST, a significant share of total revenue is obtained from large and medium dealers and only small share is collected from small dealers at the end of the chain. Also the operations of GST leave a trial of invoices facilitating audit control. Given the limited administrative capacity, only feasible option available to Indian States in destination based consumption type GST(Chelliah, Aggarwal, Purohit, & Rao, 2003).

As per Supreme Court ruling costs of after sales service, advertisement and selling, organization expenses do not come under the bare manufacturing cost and profit which constitute the basis for taxable value (Union of India vs. Bombay Tyre International, 1983).

Indirect tax is levied on goods which are tangible and movable. Therefore, process of fabrication and erecting or any such activity that creates something immovable, are not liable to charge excise duty. This problem arose in the audit reports of the comptroller and Auditor General. (Government of India, 1993).

Tax Reform Committee (Government of India, 1993) further reforms were carried out in the system of excise taxation. It was the fact that every stage of manufacturing had not given rebate to excise paid and on the price inclusion of that excise a non-creditable sales tax was to be paid. Now excise is given rebate.

Sales tax comprises General Sales Tax and Central Sales Tax. General Sales Tax is applicable in Inter-State sales. CST is levied by the Centre, and collected and retained by the States on the basis of origin. General Sales Tax consists of two components- one additional tax and second basic sales tax (BST). BST is charged more than once during the process of production and distribution of items. It is levied on sale price inclusive of customs and CENVAT. Additional tax is levied in heading of SC and TOT(Aggarwal, A critical evaluation of the system of sales tax, 2002).

Exempted items vary from State to State. Such items include basic food unprocessed form, student exercise books, books and maps, bicycles etc. Orissa, Uttar Pradesh, Rajasthan, Punjab and Haryana apply tax to cereals and pulses while many other States exempt them. Andhra Pradesh exempts pulses but not wheat and rice. Tamil Nadu exempts cereals but not pulses. (National Institute of Public Finance and Policy, 2002)

The variability of Sales Tax rate is very wide within the State across commodities; the number of rates varies from six to twelve or more. In terms of percentages it varies from 0 and 1% to 150%. Basic necessities, non- luxury foods

etc. are taxed approximately 4% to 5% while other goods are taxed from 8 to 15%.(National Institute of Public Finance and Policy, 2001).

Rate of SC is uniform in Tamil Nadu for water supply scheme; Additional Surcharge is levied in the area of Greater Madras. Surcharge rates vary from 5 to 25 percent. SC rates are progressive as per size of turnover. (National Institute of Public Finance and policy, 1994).

The Surcharges are also levied on additional Sales Taxes in Andhra Pradesh and Bihar. Delhi, Madhya Pradesh, Manipur, Rajasthan and Tripura do not charge Additional Sales Tax (Bagchi & Purohit, 2002).

Tax cascades in a manner similar to a multistage turnover tax e.g. If a Jharkhand dealer imports paper from West Bengal and then resells it to a dealer in Uttar Pradesh, The CST applies twice for a total burden of 8%. Obviously, this becomes a handicap for the Jharkhand dealer compared with one who arranges a sale directly from West Bengal to Uttar Pradesh.

As per sales tax rule in Maharashtra, exporters and producers pay sales tax @4% on all materials, purchased and used by them while the products are exported or sold locally(Krishnan, 1993).If zero tax makes sense of exports to other Nations, it also makes equal sense for exporting to other States. It has been observed that exporting States export taxes ultimately harming their own economy.(Iyer, Gahrotra, & Narayana, 2002).

IMPLEMENTATION SCHEDULE OF VARIOUS STATES

States		Date of implementation	Number of states
I.	Haryana	01/04/2003	1
II.	Andhra Pradesh, West Bengal, Kerala, Karnataka, Orissa, NCT Delhi, Tripura,Bihar, Arunachal Pradesh, Sikkim, Punjab,Goa, Mizoram, Nagaland, Jammu and Kashmir, Manipur, Maharashtra, HimachalPradesh, Assam and Meghalaya.	01/04/2005	20
III.	Uttarakhand	01/10/2005	1
IV.	Rajasthan, Gujarat, Madhya Pradesh, Chhattisgarh, Jharkhand.	01/04/2006	5
V.	Tamil Nadu	01/01/2007*	1
VI.	Uttar Pradesh	01/01/2008*	1

*Source:*Compiled by CA. SudhirHalakhandi April 2007(An introductory study on GST)

Note: * Dates of implementation have been taken from Commercial Tax Departments of respective States.

In EU, VAT is fully harmonized. The VAT is levied at "state" level with no federal VAT. It is generally supervised by European Parliament. There is no border

tax during inter-member transactions. Thus the EU has a common market. EU maintains uniform VAT rates across member countries. It is minimum 5% and standard rate is 15%. The EU follows destination principle during intra-union transactions of goods and services. Benefits of zero-rated items have been given to only registered dealers. The zero rating system might be fully removed by suitable system. (Chelliah, Aggarwak, C, & Kavita Rao, 2005).

Consignment transfers between States do not constitute 'sale'. This is also one way to avoid CST. With large part of the inter-State trade is now flourishing in most of the States in the form of consignment transfers. This type of activities inhibits the growth of common market in the country while the trend all over the world is towards the growth of common market to promote competition and efficiency. But India is going opposite to this concept.

The misrepresentations are compounded by the complication of the laws and administration. However, modern system of information and administration is necessary to reduce tax evasion and avoidance. The damage caused by the distortions as discussed above remains to be quantified. Transparency in the domestic market is a prerequisite for external transparency in competitive world market.

The guiding principles in the direction of reform are neutrality, equity, simplicity and above all transparency. These attributes could only be achieved after estimating strengths and weaknesses of current system of GST in Jharkhand. The strengths and weaknesses demonstrate a solution to most of the ills of the present system of indirect taxing. When reformed GST levied on wider tax base including goods and services at uniform rate, this would help restore transparency, provide stable source of revenue and minimize litigation.

OBJECTIVES OF THE STUDY

The research work has been taken with the following main objectives:

1. To estimate Strength and Weaknesses of existing GST system for proposing an alternative theoretical frame work for tax reform in the State of Jharkhand.

RESEARCH METHODOLOGY

This study has been based on Survey data. A questionnaire-based Survey has been carried out across the State of Jharkhand among stakeholders – Government tax officials, manufactures, wholesalers, traders, retailers, professionals and students from higher studies. Before collection of primary data, secondary data was collected through different sources to get proper understanding of GST system.

To fulfill above objective, the proposed research has been carried out with the help of primary data that follows steps given below:

1. Identifying the variables of GST revenue model that constitute important role in developing proposed tax reform.
2. Identification of relative merits and demerits of existing Indirect Taxation based on the review of literature.
3. Developing the survey instrument i.e. questionnaire and subsequent administration of final questionnaire.
4. Reduction of collected data through factor analysis.
5. Application of binary logistic regression for the measurement of strengths and weaknesses of existing system of GST.
6. To outline the important factors for the tax reform of existing GST system based on logistic regression analysis and to propose a framework for reform of current GST System.

In this research work Factor analysis and confirmatory factor analysis using entirely new set of additional sample collected from additional respondents across same population and Binary Logistic Regression have been used for measuring the various aspects of the study. Original sample is divided into two equal halves and each half is used as an analysis sample and a holdout sample respectively for analysis and validation of results in logistic regression.(Hair, Black, Babin, Aderson, & Tathan, 2014) Both primary and secondary data have been used to arrive at necessary conclusions related to the research objectives. On the basis of the results a conceptual framework for tax reform in current GST system in Jharkhand has been established.

The study involves exploratory research design to fulfill the objectives of the research. Exploratory research design has been used to have acquaintance and create the inclinations in the GST system. It has been used to analyze the stakeholder's overall view of Indirect System of Taxation in Ranchi.

A sample size of 1500 stakeholders comprising professionals, manufacturers, wholesalers, traders, retailers, Government tax officials and students pursuing higher studies especially course of charted accountancy have been taken for collecting data from four tax circles of Ranchi tax division..

Primary and secondary data were used for the purpose of the study. A total of 2534 questionnaires were distributed to stakeholders for carrying out the survey in four circles of Ranchi. 1541 questionnaires were received back from the respondents out of which 41 questionnaires were rejected due to incompleteness.

Stratified sampling is really practicable when data are available that allow the ready credentials of members of the population in terms of the stratifying

criteria(Bryman & Bell, 2008). Stratified Sampling method is more efficient than either simple random sampling or systematic random sampling because it ensures representation of stakeholders across the entire population, which confirms a greater precision in the estimate of causal population parameters(Levin, Stephan, Krebhiel, & Berenson, 2006). Stratified random sampling is more efficient as compared to simple random sampling as dividing the population into various criteria increases the representativeness of the sampling (Chawla & Sondhi, 2011).

The collected data have been analyzed through SPSS 22 (Statistical Package for Social Sciences Version 22).

The hypothesis testing like overall Chi-Square Test, Omnibus Test, Wald Test, HOSMER & LEMSHOW Test and Press's Q Statistical test revealed overall 17-factor logistic regression model fit. The final examination of overall model fit assessed by the classification accuracy of the model using Hit ratios. The predictive accuracy of logistic regression function measured with comparing proportional chance and maximum chance criteria and classification plot. In model summary, -2log likelihood statistic, Cox & Snell R^2, Nagelkerke.R^2 and Pseudo R^2 values indicated good model fit and deemed acceptable in terms of both statistical and practical significance.
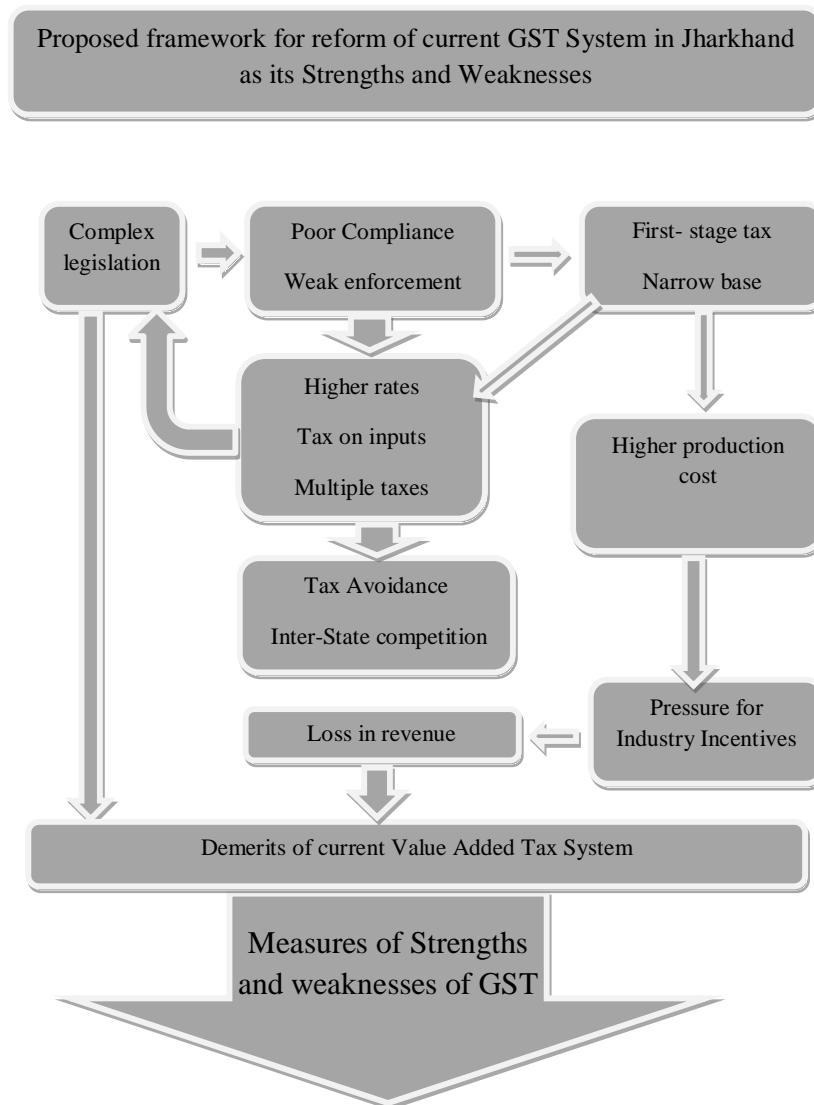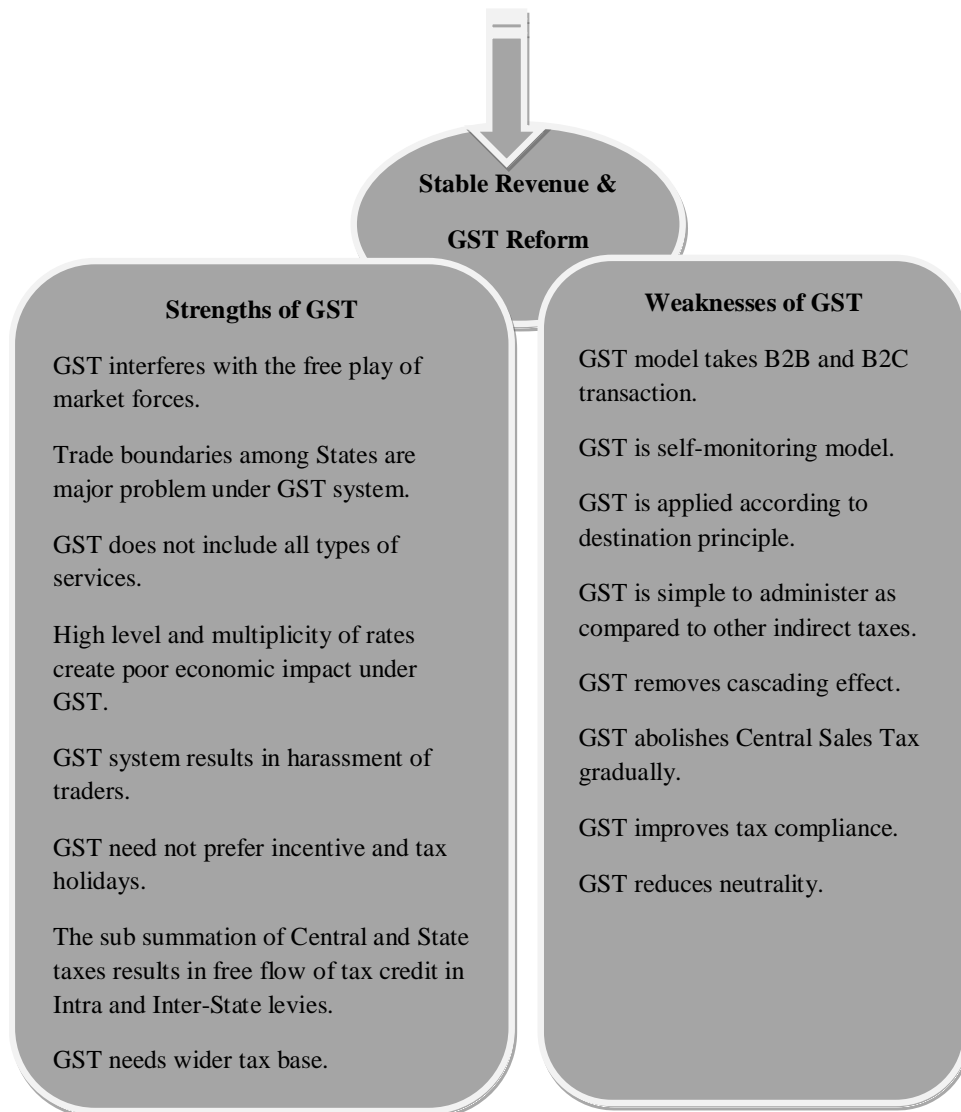
SCOPE OF THE STUDY

The focus of the study has been given on the rationale and reform of taxation of GST in Jharkhand to develop appropriate GST revenue model to facilitate the alternative tax options. Before choosing the variable, Sales taxes and GST have been reviewed thoroughly, and attempts have been made to estimate strength and weaknesses of existing GST model of Jharkhand State that assist decision makers in setting their tax policies that might be useful at the time of full-fledged implementation of Goods and Services Tax. The period of this study was February, 2016 to May, 2016.

Though the present study has covered the important facets of system of Indirect Taxation, the survey was limited to the Ranchi commercial tax division of Jharkhand only. Future study could be conducted on a more ample basis in larger perspective by taking a larger sample by covering other states of India to have a fair view towards the strengths and weaknesses of GST system for reform. The findings of this study might be useful to adopt more effective strategy that would ultimately reduce tax evasion and avoidance, improve tax compliance and more importantly increase revenue of the Jharkhand Government. The verdict of the study might also be fruitful at the time of implementing full-fledged Goods and Services tax in near future.

CONCLUSION

This study measures the strengths and weaknesses of current GST System in Jharkhand and also examines the reach and effectiveness of a Statewide GST on the basis of survey conducted with the aim of reforming current system of GST. The study revealed that the wisdom of the State Government Publicity Campaign on GST was undeniably poor. This puts a big question mark against overall efficacy of the Government Empowered Committee's Publicity Campaign. Our study revealed that, compared to other sources of information, newspapers were more effective in popularizing the concept of GST.

Proposed framework for reform of current GST System in Jharkhand as its Strengths and Weaknesses

Complex legislation

Poor Compliance

Weak enforcement

First- stage tax

Narrow base

Higher rates

Tax on inputs

Multiple taxes

Higher production cost

Tax Avoidance

Inter-State competition

Loss in revenue

Pressure for Industry Incentives

Demerits of current Value Added Tax System

Measures of Strengths and weaknesses of GST

Stable Revenue &

GST Reform

Strengths of GST

GST interferes with the free play of market forces.

Trade boundaries among States are major problem under GST system.

GST does not include all types of services.

High level and multiplicity of rates create poor economic impact under GST.

GST system results in harassment of traders.

GST need not prefer incentive and tax holidays.

The sub summation of Central and State taxes results in free flow of tax credit in Intra and Inter-State levies.

GST needs wider tax base.

Weaknesses of GST

GST model takes B2B and B2C transaction.

GST is self-monitoring model.

GST is applied according to destination principle.

GST is simple to administer as compared to other indirect taxes.

GST removes cascading effect.

GST abolishes Central Sales Tax gradually.

GST improves tax compliance.

GST reduces neutrality.

LIMITATIONS

Alike most other research studies the existing study also has few limitations as it cannot be perfect. However all efforts have been put down to ensure that the work is carried out in the right way and in the right direction but the chances of minor error cannot be ruled out. This is largely due to lack of degree of awareness of GST in the region across the population where survey has been conducted.

One of the important limitations of the study is the non-availability of certain data which is there in most of the cases. The rate of response was not up to 100

percent as there were certain stakeholders who were not ready to fill the questionnaire because they were afraid of listening name of tax. However to overcome this problem these type of stakeholders were visited personally to collect the completed questionnaire from them. This has enhanced the response rate to a reasonable extent. Response biasness is a normal phenomenon that sometimes affects the reliability and validity of a research. This study was confined only to four circles of Ranchi commercial tax divisions of Jharkhand State and hence no claim is made to the application of the conclusions of the study to whole country or other States. However, point to be noted here that, if the reach of the awareness programs and level of understanding were poor in well informed cities (Head Quarter of circle, Ranchi) of Jharkhand, it can easily be assumed that situation in semi-urban and rural areas of Jharkhand must have been worsen.

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