Tax Regime under the Indian Constitution and the Conundrum of the Constitution 122nd Amendment (GST) Bill 2014

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Abstract

The GST regime, touted as the most important indirect tax reform since Independence, aims to integrate central excise, service tax and state value-added tax. Centre-State relations is the backbone of tax regime and most important facet of Indian Constitution The underlying principle governing the Financial Relations is that both the Union and States should have adequate financial resources to discharge their respective Constitutional responsibility. The Indian Constitution and Constitutions of many other countries around the world contain elaborate provisions, relating to the distribution of the taxes as well as non-tax revenues. **Goods and Services Tax (GST) bill** is facing strong opposition from Congress and other political parties. The Ruling party i.e. BJP is not able to get the bill passed due to lack of majority in Rajya Sabha (Upper House). The problem is further complicated as it requires **amendment to the Constitution** i.e. to the Concurrent List**.** GST is most common and popular and due to ease of implementation and several advantages, **more than 160 countries** **{List at Para 5}** across the world have implemented it. (Out of 193 UN Member States only **41** do not implement VAT/GST). This paper deals with the Indian and Global scenario of financial relations between Union and States, the working and administration and the pros and cons of Goods and Services Tax.

KEYWORDS: Constitution of India, Federalism, Financial Relations, GST, Parliament, Taxes and Revenues and Union Government.

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1. PROLOGUE:

1.1 Financial relations between the Central/Union Government and States/its constituent Units rest on the principle of federalism. This arrangement is very clearly delineated in Indian Constitution and constitutions of most of the countries around the world. ***The GST*** also is an integral part of federalism as it basically involves levying, collection and sharing of taxes/revenues. It is therefore most pertinent to understand the ***Federalism and Financial relations/separation of powers- scenario in Indian/major constitutions of the world:*** The term *federalism* is derived from the Latin root *foedus*, which means "formal agreement or covenant." It includes the interrelationships between the States as well as between the States and the Federal Government. In a federal system power is divided between Central Government and constituent States. The Central Government has certain exclusive federal powers, the constituent States also have certain rights, and some powers are shared by them known as concurrent powers but Central Government has the final say. So far ***India*** is concerned the legislative relations between the Centre and the States as enunciated in Article 246 of the Constitution are categorized in three lists namely Union List with 97 subjects, States List with 66 and Concurrent List with 47 subjects. Residuary legislative powers are vested in the Parliament. Moreover when there is state of emergency, Parliament can make laws on the subjects given under State List. **Montesquieu Doctrine of Separation of Powers-** Montesquieu, a French scholar, found that concentration of power in one person or a group of persons result in tyranny. Therefore for decentralization of power to check arbitrariness, he felt the need for vesting the governmental power in ***three different organs, the legislature, the executive, and the judiciary.*** The principle implies that each organ should be independent of the other and that no organ should perform functions that belong to the other.

1.2 *Global Scenario-*The principle of federalism is commonly found in most of the constitutions across the world. Position in the constitution of some prominent countries is stated below:-

- **Great Britain-** English Constitution which is partly written, based on Conventions, Flexible,

Evolutionary, Unitary in nature boasts of a blend of Monarchy, Aristocracy and democracy signifying Rule of Law, Parliamentary form of Government and separation of powers.

- **USA**- United States the third/fourth largest nation the most Developed country in the world is

a federal republic with50+ States. The doctrine of separation forms the basis of the American constitutional structure.

- **Switzerland-**The Constitution having 123 Articles is a written, lengthy and rigid with plural

Executive, Bicameral Legislature and secondary position of Judiciary Switzerland has a federal form and powers have been divided between the National and the Cantonal Governments.

- **France-** France has been described as a Laboratory of political experiments and in the field of

Constitution making French hold a world record of sorts since 1789 it had >12 regimes and >13 constitutions. The French parliament consist of two houses namely the National Assembly and the Senate and has system of separation of powers.

- **Australia**- Australia is a federation and the constitution has all the features of federalism i.e.

division of powers between the Executive, the Legislature and the Judiciary. The powers of the federal government have been specified with the residuary powers left to the states.

2. SHARING OF TAXES & REVENUES AND PASSING OF MONEY BILLS AND AMENDMENT TO THE INDIAN CONSTITUTION:

2.1 It will not be out of place to discuss the procedure adapted to pass the money bill and the Constitutional Amendment Bill in the parliament. India has a quasi-federal structure and laws are made separately at different levels, by the Union Government for the whole country and by the State Governments for their respective states as well as by municipal councils at local level. ***Money Bills***- Article 110 defines a Money Bill " which contains only provisions regarding taxes, borrowings, custody of the Consolidated and Contingency Funds, appropriation, declaring of any expenditure as charged on the

Consolidated Fund, receipt and custody of money on the Consolidated Fund audit of the accounts of their union (or of a state) or any other incidental matters". A Money Bill can be introduced only in the **Lok Sabha (LS)** and only on the recommendation of the President {**Vidhan Sabha (VS) in case of state}**. The the **Rajya Sabha (RS)** cannot make amendments to a Money Bill passed by the LS. The RS can, however, recommend amendments in a Money Bill, but must return all Money Bills to LS within fourteen days. The LS can choose to accept/reject any/all recommendations of RS to the Money Bill. If LS accepts any of the recommendations of RS, the Money Bill is deemed to have been passed by both Houses with amendments recommended by RS and accepted by LS. If LS does not accept any of the recommendations of RS, the Money Bill is deemed to have been passed by both Houses in the form in which it was passed by LS without any of the amendments by RS. If a Money Bill passed by LS and sent to RS for its recommendations is not returned within the 14 days, it is deemed to have been passed by both Houses at the expiration of the stipulated period in the form in which it was passed by LS. In passing an ***ordinary Bill, a simple majority of members present and voting is necessary.*** But in the case of a ***Bill to amend the Constitution, a majority of the total membership of the House and a majority of not less than two-thirds of the members present and voting is required in each House of Parliament.*** If votes in favour and against the bill get tied, then the Presiding officer of the concerned House has a Casting Vote. ***President's approval-*** When a bill has been passed, it is sent to the President for his approval who can either give or withhold his assent or return a bill, other than a money bill. In case of ***Constitutional Amendment Bill***, the President is bound to give his assent. In case of the State Governments, the assent of the Governor has to be obtained. ***Coming into force-*** Generally most Acts will come into force from the date of assent by the President or a specific date is mentioned in the Act itself as in case of Money Bills, or on a date as per the wish of the Central/State Government. In case the commencement of the Act is as made as per the wish of the government, a separate Gazette notification is made, which is mostly accompanied by the Rules or subordinate legislation.

2.2.1 Scheme of levying taxes and sharing the proceedings: As per the scheme of Indian constitution some taxes are levied and collected exclusively by central government while others are levied and collected only by states. There are also taxes levied by the centre but collected by states and others which are levied and collected by the centre and shared with the states.

The scheme of taxation as envisaged in the Indian constitution has been summarised below:-

- **Taxes belonging to the Union exclusively:** Customs, Corporation Tax, Taxes on assets of individuals and companies, Income Tax and surcharge, Service tax, Fees as per the Union List.
- **Taxes belonging to the States exclusively:** Land Revenue, Stamp duty except in documents included in the Union List, Income tax on agricultural land, taxes on vehicles, on advertisements, on consumption of electricity, VAT, entertainment tax, property tax etc.
- **Duties Levied by the Union but collected and appropriated by the States:** Stamp duties on bills of Exchange, Excise duties on medical and toilet preparations containing alcohol

etc,.

- **Taxes Levied as well as collected by the Union, but Assigned to the States within which**

they are Levi able: Duties on succession to property other than agricultural land- Estate duty in respect of property other than agricultural land, terminal taxes on goods or passengers carried by railway, air or sea, taxes on railway fares and freights and so on.

- **Taxes Levied and collected by the Union and distributed between Union and States:**

Certain taxes shall be levied as well as collected by the Union, but their proceeds shall be divided between the Union and the States in a certain proportion i.e. Taxes on income other than on agricultural income (Art 270), Duties of excise in the Union List excepting medicinal and toilet preparations may also be distributed (Art 272).

2.2.2 Non-Tax Revenue/Grants-in-Aid: The receipts from Railways, Posts and Telegraphs; Broadcasting; Opium; Currency and Mint; Industrial Commercial Undertakings of the Central Government relating to the subjects over which the union has the jurisdiction are important sources of Non-Tax revenues of the Union. Similarly sources of Non-Tax revenues of the States are: Forests, Irrigation and Commercial Enterprises and Industrial Undertakings such as soap, sandalwood, iron and steel, Paper, milk supply, deep sea fishing and silk etc,. Constitution provides that grants-in-aid shall be made in each year by the Union to such States in need of assistance as may be determined by the Parliament; particularly for the promotion of welfare of tribal areas, including special grants to Assam (Art 275).

2.3.1 The Gadgil Formula- The formula evolved in 1969 was named after the then deputy chairman of Planning Commission Dr. D. R. Gadgil; it was approved by the ***National Development Council (NDC).*** Special Category states like Assam, Jammu and Kashmir and Nagaland were given preference. The remaining balance of the Central assistance should be distributed among the remaining states on the basis of the following criteria: # 60 % on the basis of population; # 10 % on the basis of tax effort, determined on the basis of individual State's per capita tax receipts as percentage of the State's per capita income; # 10 % on the basis of per capita state income, assistance going only to States whose per capita incomes are below the national average; # 10 % on the basis of spill-over into the fourth plan of major continuing irrigation and power projects; # 10 % for special problems of individual states.

2.3.2 States with Special Category Status- The Constitution makes a provision for granting ***special status to certain States*** (SCS) and this decision lie with the NDC. Initially,3 states Assam, Nagaland and J& K were accorded SCS; later 8 others were added namely: Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Uttarakhand, Tripura, Himachal Pradesh, and Sikkim raising the number to 11. The SCS is given on certain parameters like-Low resource base, Hilly and difficult terrain, Low population density, Sizable share of tribal population, Hostile location. Such states are entitled for more benefit and financial assistance. The Planning Commission allocates funds to states through central assistance for state plans which can be broadly split into three components: Normal Central Assistance - 90% as grants and 10% loans for SCS, while 30:70 for other states. Additional Central Assistance, assistance for externally aided projects and other specific project. There is no fixed formula for Special Central Assistance and it depends on the basis of the state's plan size and previous plan expenditures.

2.4 Role of Finance Commission (FC): It is a body set up under Article 280 of the Constitution to recommend measures and methods on how revenues need to be distributed between the Centre and states. There is a FC at the State level also. ***Constitution of Finance Commission-***The President will constitute a FC within two years from the commencement of the Constitution and thereafter at the end of every fifth year or earlier, as the deemed necessary; which shall include a chairman and four other members. With the objective of giving a structured format to the FC of India and to bring it at par with world standards, *The Finance Commission (Miscellaneous Provisions) Act, 1951* was passed. The major functions of the Central FC as per the Act are-

- Distribution of net proceeds of taxes between Centre and States, as per their respective contributions to the taxes.
- Determine factors governing Grants-in Aid to the states and the magnitude of the same.
- Recommend to President the measures needed to augment the Consolidated Fund of a state to supplement the resources of the panchayats and municipalities on the basis of the recommendations made by State Finance Commission.
- Review the present Public Expenditure Management systems.
- Review the present arrangements as regards financing of Disaster Management with reference to the funds constituted under the Disaster Management Act, 2005(53 of 2005),
- ***So far 14 Finance Commissions have been appointed first being in 1951.*** The tenure of 14th FC

is from 2015 to 2020, Dr. Y.V. Reddy, Former Governor of the Reserve Bank of India is the Chairman. One of the major recommendations of 14th FC is both Union and States should conclude 'Grand Bargain' to implement the model GST Act.

3. THE CONSTITUTION (122nd AMENDMENT) GST BILL, 2014:

3.1 Introduction: The Goods and Services Tax Bill officially known as **The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014**, proposes a national VAT to be implemented from April 2016. GST would be a comprehensive indirect tax on manufacture, sale and consumption of goods and services throughout India, to replace existing taxes levied by Central and States. GST would be levied and collected at each stage of sale or purchase of goods or services based on the input tax credit method. This method will allow businesses to claim tax credit of the tax already paid on purchase of goods or services earlier. Goods and services are not distinguished and will be taxed at a single rate till the goods or services reach the consumer. Exports would be zero-rated and imports would be levied the same taxes as domestic goods and services adhering to the principle of final destination. The introduction of GST would be a significant step in the reform of indirect taxation in India; amalgamating several Central and State taxes into a single tax to mitigate cascading effect or double taxation, facilitating a common national market. The simplicity of the tax is expected to lead to effortless administration and enforcement. GST will benefit the consumer due to reduction in the overall tax burden on goods and services which is currently estimated at 25%-30%.

3.2.1 History of GST: GST system is targeted to be a simple, transparent and efficient system of indirect taxation as has been adopted by ***over 160 countries around the world.***

In 2000, ***Vajpayee Government***, set up a committee headed by Asim Dasgupta, (the then Finance Minister West Bengal Government) to design a model for GST and oversee its preparations. The In 2003, Kelkar Task Force on implementation of the Fiscal Responsibility and Budget Management Act, pointed out that although the indirect tax policy in India has been steadily progressing in the direction of the ***VAT*** since 1986, the existing system still suffered from many problems and had suggested a comprehensive GST based on the VAT principle. From 1st April
2005 onwards, number of states abandoned the sales tax and adopted a state-level VAT. An announcement was made by P. Chidambaram, the Union Finance Minister, during the central budget of 2006-07 that GST would be introduced from April 1, 2010 and that the ***Empowered Committee of State Finance Ministers***, ***(ECOSFM)*** on his request, would work with the Central Government to prepare a road map for introduction. After this announcement, the ECOSFM decided to set up a ***Joint Working Group (JWC)*** on 10th May, 2007. The JWC submitted its report to the ECOSFM on November 19, 2007 which was discussed in detail in the meeting on November 28, 2007. On the basis of this discussion and the written observations of the states, certain modifications were made and the report was sent to Centre, on April 30, 2008. The comments of the Government of India received on December 12, 2008 were duly considered by the ECOSFM on December16, 2008. Based on inputs from GOI and States, ECOSFM released its First Discussion Paper on GST with a ***dual*** module on 10th of November, 2009 with the objective of generating a debate and obtaining inputs from all stakeholders. This dual GST model has been accepted by centre; under which GST have two components viz. the Central GST to be levied and collected by the Centre and the State GST to be levied and collected by the respective States. In order to take the GST related work further, a Joint Working Group consisting of officers from Central as well as State Government was constituted. This was further trifurcated into three Sub-Working Groups to work separately on draft legislations required for GST, process/forms to be followed and IT infrastructure development needed for smooth functioning.

3.2.2 As per the **Model Suggested by 13th FC** the ***SGST*** portion would subsume the following
taxes: i) Value Added Tax ii) Central Sales Tax iii) Entry Tax, whether in lieu of octroi or otherwise iv) Luxury Tax v) Taxes on lottery, betting and gambling vi) Entertainment Tax vii) Purchase Tax viii)State Excise Duties ix) Stamp Duty x) Taxes on vehicles xi) Tax on goods and passengers xii) Taxes and duties on electricity xiii) All state cesses and surcharges The ***CGST*** portion would subsume the following taxes: i) Central excise duty and additional excise Duties ii) Service Tax iii) Additional Customs Duty (Countervailing Duty) iv) all surcharges and cesses. The Centre may levy an ***Integrated GST (IGST)*** on the ***interstate*** transactions and imports.

3.3 Highlights of GST Bill-

- The Constitution needs amendment to introduce a GST, the bill was introduced in LS on 19/12/2014 by Finance Minister Arun Jaitely.
- **GST** is essentially the same as **VAT** but, with a wider base. **VAT**, which replaced Sales Tax was *imposed only on goods* while, GST will be a VAT on Goods *and Services.*
- The Bill seeks to shift the restriction on States for taxing the sale purchase of goods and providing of services

- There will be a ***GST Council*** consisting of the Union Finance Minister (as Chairman), the Union Minister of State in charge of Revenue/Finance, and the Minister in charge of Finance/ Taxation or any other, nominated by each State government for optimizing tax collection by the States and Centre. It will decide which taxes levied by the Centre, States and local bodies will go into the GST; goods and services subjected to GST; and the basis/ rates at which GST will be applied/levied.
- Alcoholic liquor for human consumption is exempted and Council may decide when GST be levied on various categories of fuel, including crude oil and petrol.
- Centre is empowered to impose an additional tax of up to 1%, on the inter-state supply of goods for 2 years or more which will accrue to states from where the supply originates.
- Parliament may, by law, provide compensation to states for any loss of revenue from the introduction of GST, up to 5 years.
- The tax-rate under the proposed GST would fall, but the number of assesses would increase by 5-6 times resultantly tax collection would go up due to increased buoyancy.
- The government is working on a special IT platform for smooth implementation of the proposed GST. The IT Special Purpose Vehicle (SPV) nicknamed as ***GST N (Network)*** will be owned by three stakeholders-the centre, states and the technology partner NSDL as per the Ex Central Board of Excise and Customs Chairman S Dutt Majumdar.

3.4 GST LOGJAM: Since introduction in LS by BJP led Govt, the GST bill is facing lot of difficulties and resistance from opposition parties, some of them like congress have demanded certain amendments. The Government is unable to break the deadlock and every time government makes an effort to get the bill passed it draws flak. The major reason being Government has no majority in RS. ***The major challenge is the bill needs two-third majority of both houses and 50% of the state assemblies will have to ratify it.*** Three main concerns of the Congress party (As per erstwhile Finance Minister in UPA Mr. Chidambaram) over the bill are: scrap the 1% additional tax on interstate sales; put the constitutional cap of 18% and an independent dispute redressal mechanism but the government has been ignoring the concerns raised by them. As a last ditch effort a luncheon meeting between the government and the Congress was held with M Kharge, floor leader in the LS but it made no progress. The finance minister feels the Government will turn the tables on opposition parties in the ensuing budget session of Parliament as many members in RS belonging to opposition will vacate the seats.

4. THE WORKING/ADMINISTRATION, PROS AND CONS OF GST:

4.1 THE NEED FOR GST- The need has arisen mainly to contain cascading effect of taxes; generally found in business transactions as double taxation or "Taxes on Taxes". For instance say XYZ sells goods worth Rs100 to ABC after charging sales tax @, 10% (Total cost Rs110) and then ABC re-sells those goods to MNO again after charging sales tax. The purchase price of MNO is therefore Rs121/-(110+ 10%) while ABC was computing his sales tax liability, he also included the sales tax paid on previous purchase, which is how it becomes a tax on tax**. *This was the scenario in the sales tax regime few years ago***. *Later on **VAT*** was introduced whereby every next stage dealer used to get credit of the tax paid at earlier stage against his tax liability which helped to diminish inflationary impact on prices. **Duty on manufacture-** Central Excise Duty was to be paid before sales tax. The CENVAT credit scheme was also popular among trade and industry where credit of excise duty paid at the input stages was allowed to be set-off against the liability of excise on removal of goods. With effect from 2004, this system was extended to Service Tax also. Moreover, cross utilisation of credit between excise duty and service tax was also permitted. Although the problem of cascading effect of taxes was resolved to a great extent other problems persisted. The credit of VAT is not available against excise and vice versa. As VAT is computed on a value which includes excise duty, CENVAT credit is allowed only for the Excise duty paid on inputs, and not on the VAT paid on the input raw material leading to a situation of "Tax on Tax". One of the reasons why such a cross-utilisation of credits not allowed was Excise duty and Service tax are levied by the Central Government, while the VAT is levied by the State Governments.

The present scenario of Indirect tax system in India is summarised as below:

Sr No	Nature of Tax	Tax levied b Centre/State	Tax levied on (subject)	Set Off	Whether under GST
1	Central Excise	Central Govt	Manufacture	1,2	Yes
2	Service Tax	Central Govt	Providing Services	1,2	Yes
3	Customs	Central Govt	Import	-	No
4	# CVD Under Customs	Central Govt	Additional Import duty to compensate Excise	1,2	Yes
5	# SAD Under Customs	Central Govt	Additional Import duty to compensate the Sales Tax	1,2	Yes
6	CST	Central Govt	Inter-State Sales	-	Yes
7	VAT	State Govt	Within the State Sales	7	Yes

Fig -1 (* CVD – Countervailing Duty; *SAD – Special Additional Duty)

Nature of Transaction	New System #	Old System	Remarks
Sale within the State	SGST & CGST	VAT & EXCISE/ST	# SGST will be the revenue for State while CGST will be for the Central Govt
Sale outside the State	IGST	CST & EXCISE/ST	# Inter State Transaction will attract only IGST

Fig -2 (SGST-State GST-Collected by State Govt; CGST-Central GST and IGST-Integrated GST- Collected by Central Govt)

Cost of Raw Material	Processing/Manufacturing cost	Profit Margin	Total Cost
Rs500000/-	Rs100000/-	Rs60000/	Rs575000+100000+60000=735000/
(Assumed)tax @15%=Rs75000/-	Tax NIL	Tax NIL	Tax &15% Rs110250/-
Total Tax liability Rs110250 less 75000= Rs35250/-			

Fig -3 Example of ABC Private Ltd Company(showing Avoidance of Double Taxation)

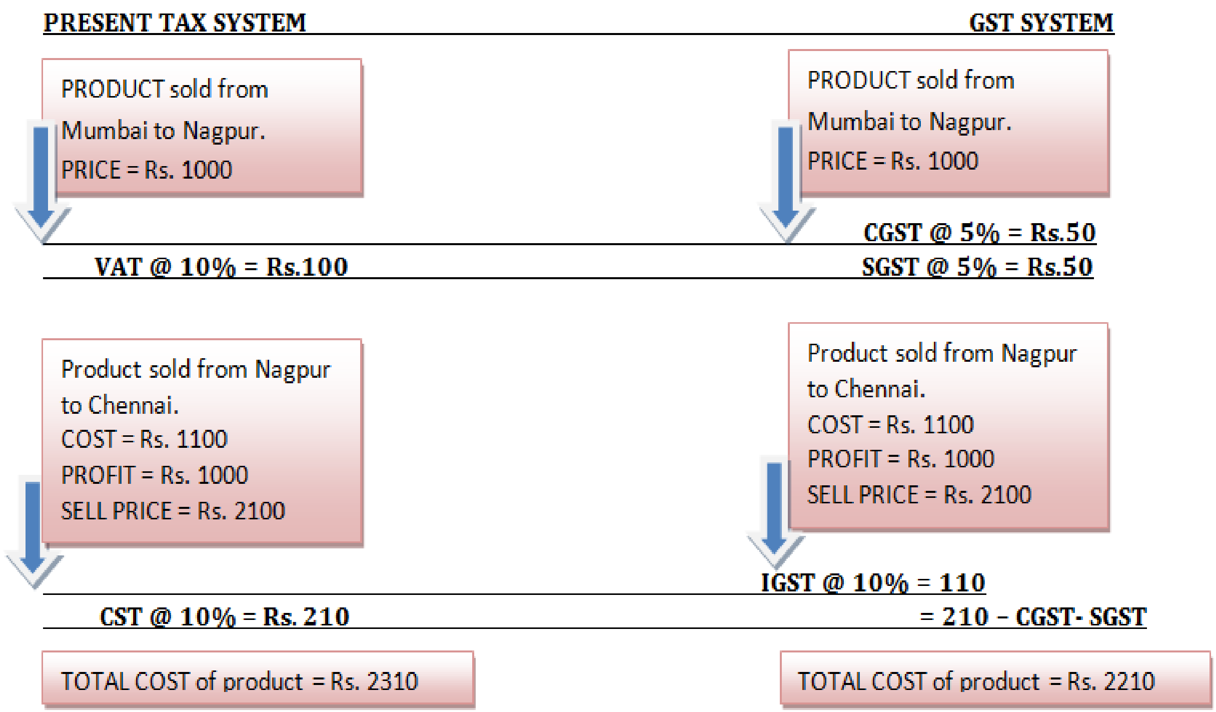

Fig -4 (Example showing Advantages of GST-source google)

4.2 ADVANTAGES OF GST: - In the words of the Finance Minister Arun Jaitley, "the GST bill will lead to the economic integration of India. The main function of the GST is to transform India into a uniform market by breaking the current fiscal barrier between states". Thus GST will facilitate a uniform tax levied on goods and services across the country. Major advantages of GST are as follows:-

- **Reduction in prices:** GST helps to avoid double taxation resultantly achieving the decline in

the prices. Due to total and flawless credit, manufacturers or traders do not have to include taxes as a part of their cost of production/manufacture; but if the government chooses to introduce GST with a higher rate, this benefit will be lost.

- **Augmentation of taxes in the exchequer:** Experts see the strong possibility of significant increase in the revenues of Government as happened by introduction of

VAT. The situation however entirely depends on the rate of taxes.

- **Ease of Implementation and Less cumbersome compliance:** Notwithstanding the fact that the assessees are required to keep records of CGST, SGST and IGST separately they will find the compliance less cumbersome and the related cost will be reduced.

- **A big leap towards Unified GST regime:** Worldwide, more than 160 countries have already implemented GST in a unified form (i.e. one single GST for the whole nation) with the exception of ***Brazil, Canada and few others*** who have adopted Dual GST. Although India will be adopting Dual GST considering its federal structure, yet it is seen as a big leap towards a Unified GST and the best method of Indirect Taxation.

4.2 CRITICISM OF GST:

The 13th Finance Commission suggested a model GST and had urged the States and Central Government to conclude a Grand Bargain to implement the model GST but the stalemate continues. ***The best GST systems across the world use a single GST, while India has opted for a dual GST model.*** The most common criticism is that CGST, SGST and IGST are nothing but ***old wine in new bottle*** and repackaging of Central Excise/Service Tax, VAT and CST. The states fear loss of fiscal powers, but the Constitutional amendment bill has promised for giving compensation packages for three years for revenue loss. The states also want the inclusion of petroleum products so that they will continue to levy VAT on these with the exception of imports and inter-state trade. 13th Finance Commission recommended a rate of 12% while the States want it at 15%. It is expected that government would settle between 14%-16%. According to Government there would be two Slabs: a lower rate for essential items and another effective rate for most items; some goods will be exempted, a lower rate by 1% for precious metals such as gold, platinum, and silver will be charged.

5. GLOBAL SCENARIO:

GST is most common and popular and due to ease of implementation and several advantages, ***more than 160 countries*** across the world have implemented it.(Number of UN Member States are **193** only **41** Member States do **not** implement VAT/GST). ***The list of the countries who have implemented VAT/GST is given below for the ready reference.***

- Currently, there are **160** countries in the world that have implement VAT/GST. Number of country based on region is as follows:- **(FIG-5)**

SR NO	REGION	NO OF COUNTRIES
1	ASEAN	07
2	ASIA	19
3	EUROPE	53
4	OCEANIA	07
5	AFRICA	44
6	SOUTH AMERICA	11
7	CARIBBEAN, CENTRAL & NORTH AMERICA	19
TOTAL		160

Out of the above **160** countries, **eight** countries are **not** Member States of United Nation (UN): i.e.- Azores; Taiwan; Faroe Islands; Isle of Man; Jersey; Kosovo; Madeira; and Niue.

- The 41 countries who do not implement VAT/GST are:- **(FIG-6)**

SR NO	REGION	NO OF COUNTRIES
1	ASEAN- -Malaysia - Brunei - Myanmar	03
2	ASIA- -Afghanistan - Bahrain- Bhutan- Iraq Kuwait -Maldives - North Korea - Oman - Qatar - Saudi Arabia - Syria - Timor Leste - United Arab Emirates - Yemen	14
3	EUROPE- -Andorra - San Marino	02
4	OCEANIA- - Kiribati - Marshall Islands - Micronesia - Nauru - Palau - Solomon Islands - Tuvalu	07
5	AFRICA- - Angola,- Comoros - Djibouti - Eritrea - Liberia - Libya - Sao Tome and Principe - Somalia - South Sudan - Swaziland	10
6	CARIBBEAN, SOUTH, CENTRAL & NORTH AMERICA- - Bahamas - Cuba - Saint Lucia - Suriname - United States of America	05
TOTAL		41

- **(FIG-7)**

LATEST COUNTRIES TO IMPLEMENT VAT/GST *(FOR THE LAST 5 YEARS)* ARE:	
LAOS- NIUE- SIERRA LEONE	2009
GRENADA - SAINT KITTS AND NEVIS	2010
CONGO - SEYCHELLES	2012
GAMBIA -	2013

- **(FIG-8)**

COUNTRIES WORKING TOWARDS A VAT/GST SYSTEM:-
GULF COOPERATION COUNCIL (BAHRAIN, KUWAIT, QATAR, SAUDI ARABIA, OMAN AND THE UNITED ARAB EMIRATES)
CHINA & INDIA
AFGHANISTAN, BAHAMAS, BHUTAN, KIRIBATI, MARSHALL ISLANDS, MICRONESIA, PALAU, SAO TOME AND PRINCIPE, SYRIA

6. SUMMARY AND CONCLUSIONS:

- The GST regime is intended to be functional from 1st April, 2016. The bill was taken up in 2009 by the previous UPA government; they were successful in introducing it but failed to get it passed. On 17th December 2014, the NDA government made slight changes and reintroduced it in LS. The bill got cleared on May 6th 2015 in LS but it is held up in RS. The Seventh Schedule of the Constitution vests the taxing powers both in the Union List and the State List and remaining in Concurrent List. In this scheme of resource distribution, the central government in India and indeed in every federation the centre has more money than it needs. On the other hand the state governments

always suffer from the paucity of funds as they are directly responsible for the maintenance of law and order and have to fulfill responsibilities of carrying on welfare activities which makes the states financially dependent on the centre. Looking into the political environment of India, it seems that a little more time will be required to ensure that all stakeholders are satisfied. The states are confused as to whether the GST will reduce their revenues though the Central Government has assured the compensation in case the revenue loss still a little mistrust exists. According to Finance Minister the GST will be instrumental in helping the GDP of India to grow by 2%. The GST also offers a solution to the multinationals as it breaks down the indirect tax structure into one single tax payable by the companies.**GST is clearly a long term strategy;** it would lead to a higher output, more employment opportunities, and economic inclusion though initially it is likely to cause high inflation, more administrative costs, and face stiff oppositions from states due to loss of autonomy. In India currently there are 4 major indirect tax laws except Customs law: (i) State VAT - for sales within the state (ii) Central Sales Tax (CST) for interstate sales (iii) Excise Duty on manufacture and (iv) Service tax on all services (except exempted services). There are three reasons for the introduction of GST:
A. States currently tax sale of goods and not services. B. Centre taxes manufacturing and services but not wholesale retail (except when it's interstate). C. The credits under GST will be adjusted as follows:

(FIG-9)

Credit of	To be adjusted with
IGST	IGST, CGST, SGST
CGST	CGST, IGST
SGST	SGST, IGST

The rates of GST vary too much among the countries across the world.

(FIG-10)

ASEAN-	Rate%	REMARKS
7 COUNTRIES	7- 12	THAILAND & SINGAPORE 7%
ASIA-		
19 COUNTRIES	5- 20	IRAN, JAPAN & TAIWAN 5%
EUROPEAN-		
53 COUNTRIES	15- 27	SWITZERLAND 8%; HUNGARY 27%
OCEANIA-		
7 COUNTRIES	10- 15	NIEU 5%
AFRICA-		
44 COUNTRIES	10- 40	NIGERIA 5%; GAMBIA 40%
SOUTH AMERICA-		
11 COUNTRIES	10- 22	PARAGUAY 10%; URUGUAY 22%
CARIBBEN, CENTRAL AND NORTH AMERICA-		
19 COUNTRIES	5- 17.5	CANADA 5%; BARBADOS 17.5%

The moot question therefore remains "If GST isn't good, why have 160 out of 193 countries in the world implemented it? In fact, India is very late in imposing the GST and this should be realised by all States and Union Government and all political parties should cut across the lines and ensure that GST is introduced in India by 01.04.2016 it is never too late.

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