

GST in Indian Economy : An Overview

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ABSTRACT :

GST also known as the Goods and Services Tax is defined as the giant indirect tax structure designed to support and enhances the economic growth of a country. More than 150 countries have implemented GST so far. However, the idea of GST in India was mooted by Vajpayee government in 2000 and the constitutional amendment for the same was passed by the Lok sabha on 6th May 2015 but is yet to be ratified by the Rajya sabha. However, there is a huge hue and cry against its implementation. It would be interesting to understand why this proposed GST regime may hamper the growth and development of the country. GST is one of the most crucial tax reforms in India which has been long pending. It was supposed to be implemented from April 2010. It is a comprehensive tax system that will subsume all indirect taxes of States and Central Government and unify economy into a one national market. GST put away the old indirect taxing system in India. It is expected to iron out wrinkles of existing indirect tax system and play a vital role in growth of India. This paper presents an overview of GST concept, explains its features along with its timeline of implementation in India. The paper is more focused on advantages of GST and challenges faced by India in execution.

Keywords : Tax, Indirect tax, Goods and Service Tax (GST), India.

INTRODUCTION :

Taxation plays a very important in economic development of country. Because taxes are only means for financing the public goods as they cannot be properly priced in the market and government is only the source of funding using the taxation methods. As taxes are the drivers of the economy. Tax regimes should be designed in such a manner that is does not become the source of distortion in the market or result in failure of market. Raising a sufficient amount of revenue is main aim of tax law in efficient, effective and equitable manner. Tax policies are important contributor to the economy in both the cases

efficiency and equity. Good tax system should keep in view the issues of income distribution and also focused on strategies to generate tax revenues to support government expenditures on public services and infrastructural development. GST stands for Goods and Service Tax. Domestic trade tax will be levied in the form of a value added tax on all goods and services, in practice with some exemptions. VAT exempts all inputs including capital goods. Moreover it is general tax is on domestic consumption. Basically there is need to change the taxation pattern, as double taxation system de-motivates the consumer from consumption of products. It also impacts spending pattern of public. Development of the economy depends on the purchasing power of the country. GST is convenient and economically efficient way of taxing the consumption. Basically there are very few exemptions because it has single rate and it becomes a proportional tax on consumption. One level of tax is efficient way of collection, because it either goes to the state or central level. Multiple level of tax is distortion in case of destination of tax collection. Tax should go to the state in which the concerned consumer lives. This will automatically take place if tax is levied at the central level or state is in unitary level with the one and only level of tax collection. If GST has to be implemented at central level i.e. in one level, it has to face many challenges at central level.

NEED FOR GST :

India's recent progress towards economic growth stems from reforms undertaken after the 1991 fiscal crisis, which lifted India from decades of slow growth under socialist rule and offered an opportunity to improve living conditions in the immense, poor country. At the same time much had changed in India after the balance of payments crisis of 1991. Indian policies became more positive about promoting export and allowing foreign capital to participate in the process of India's growth. Globalization and liberalization have become order of the day. The interdependence of economies in their move for development compelled the Governments of all the countries to follow the globalization policies adopted by the major economies of the world. To survive and grow in this economic order rational and competitive tax policies are being adopted by every country. India has also fallen in line with the requirement and has been initiating modifications in direct and indirect taxes. The recent proposals of Direct Taxes Code (DTC) and Goods and Services Tax (GST) are considered as path breaking in the economic restructuring in general and in the taxation area in particular.

REVIEW OF LITERATURE :

- ❖ Poirson (2006) assesses the effects of India's tax system on growth through the level and productivity of private investment during 1974-75 to 2004-05. She discovers that the overall tax burden, as measured by the Average Effective Tax Rates (AETR),

is low in India as compared to advanced economies and higher income emerging markets in the region. She views that the proposed introduction of GST with few exceptions should enhance indirect tax productivity and improve economic efficiency by harmonizing tax rates across states.

- ❖ Srinivasan Pagalthivarthi (2015) in this paper author addresses important issues in detail relating to the proposed Goods and Service Tax in India. The issue he has raised pertains to remaining gaps in the proposed structure as well as the consequences that could be expected from the anomalies. Importantly he points towards possible disputes over the event of taxation, classification, value, place of supply and applicable rates that would continue under GST.
- ❖ G. Raghuram (2015) here the scholar brought out the perspectives of different stakeholders and the contentious issues and subsume a variety of taxes and simplify the indirect tax regime.
- ❖ Girish Garg, (2014) - "Basic Concepts and Features of Good and Service Tax in India", it is found that GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. GST will create a single, integrated Indian market to make the economy stronger. Under GST, the taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions. Through this it is likely to improve tax collections and Boost India's economic development by breaking tax barriers between States and integrating India through a uniform tax rate.
- ❖ Pinki, Supriya Kamna & Richa Verma (2014) Goods and Service Tax -Panacea for Indirect Tax System in India" it is found that the GST is India's most ambitious indirect tax reform plan, which aims at removing the cascading effect of tax. The movement of GST was declared in 2008 and supposed to be in force by 2010. Due to various reasons it could not be in force. GST has been implemented in more than 150 countries which will leads to economic growth of the country.
- ❖ Syed Mohd Ali Taqvi (2013) "Challenges and Opportunities of Goods and Service Tax in India" the researcher explains the GST is only indirect tax that directly affect all sectors and sections of our country. It is aiming at creating a single, unified market that will benefit both co-operates and economy. He also explains the proposed GST model will be implemented parallel by the central and state governments as Central GST and State GST respectively.

- ❖ Jana V. M., Sarma and V Bhaskar (2012) “A Road Map for implementation of Goods and Service Tax”, from the study it is found that the steps to be undertaken to implement the comprehensive tax system i.e., GST. The authors have thrown light on the constitutional amendment required for the implementation of GST in India.

International Journal of Research –GRANTHAALAYA (2015): This paper presents an overview of GST concept, explains its features along with its timeline of implementation in India. The paper is more focused on advantages of GST and challenges faced by India in execution.

JUSTIFICATION OF GST :

Despite the success of VAT, there are still certain shortcomings in the structure of VAT, both at the Centre and at the State level.

A. Justification at the Central Level

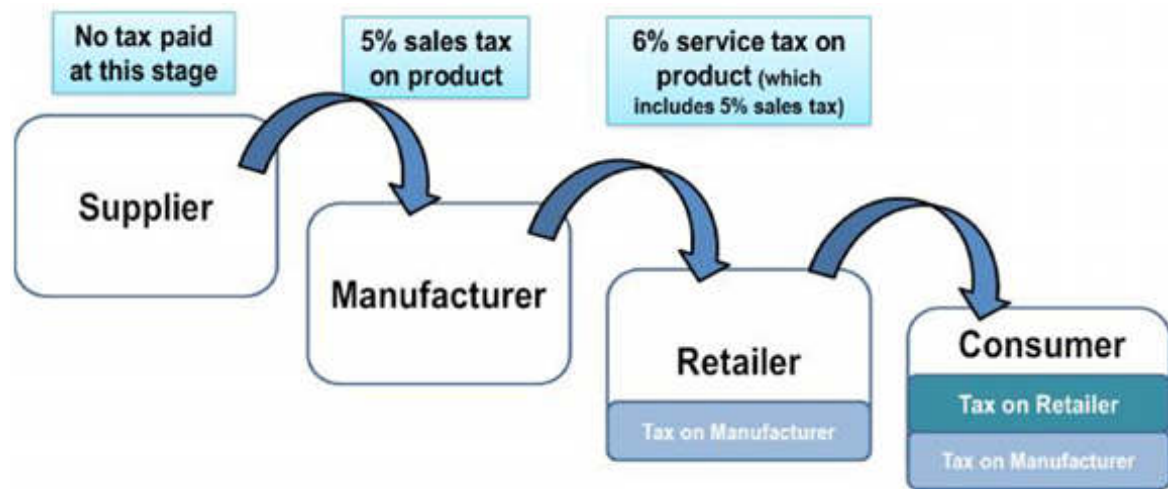
- i. At present excise duty paid on the raw material consumed is being allowed as input credit only. For other taxes and duties paid for post-manufacturing expenses, there is no mechanism for input credit under the Central Excise Duty Act.
- ii. Credit for service tax paid is being allowed manufacturer/ service provider to a limited extent. In order to give the credit of service tax paid in respect of services consumed, it is necessary that there should be a comprehensive system under which both the goods and services are covered.
- iii. At present, the service tax is levied on restricted items only. Much other large number of services could not be taxed. It is to reduce the effect of cascading of taxes, which means levying tax on taxes.

B. Justification at the State Level

- i. A major defect under the State VAT is that the State is charging VAT on the excise duty paid to the Central Government, which goes against the principle of not levying tax on taxes.
- ii. In the present State level VAT scheme, Cenvat allowed on the goods remains included in the value of goods to be taxed which is a cascading effect on account of Cenvat element.
- iii. Many of the States are still continuing with various types of indirect taxes, such as luxury tax, entertainment tax, etc. iv. As tax is being levied on inter-state transfer of goods, there is no provision for taking input credit on CST leading to additional burden on the dealers.

CASCADING EFFECT :

A cascade tax is a type of **turnover** tax with each successive transfer being taxed inclusive of any previous cascade taxes being levied. Because each successive turnover includes the taxes of all previous turnovers, the end tax amount will be greater than the cascade tax rate.



OBJECTIVES OF THE STUDY :

1. To study the concept of Goods and Services Tax (GST).
2. To study the impact of GST on Indian Economy.
3. To understand how GST will work in India.

RESEARCH METHODOLOGY :

The study focuses on study of Secondary data collected from various books, national and international journals, government reports, publications from various websites which has been published and focused on various aspects of Goods and Service tax.

CONCEPT OF GOODS AND SERVICE TAX :

GST or Goods and Services Tax is applicable on supply of goods and services. It will replace the current taxes of excise, VAT and service tax. Currently there are different VAT laws in different states. This creates problems, especially when businesses sell to different states. Also, most businesses have to pay and comply with 3 different taxes –

excise, VAT, and service tax. GST will bring uniform taxation across the country and allow full tax credit from the procurement of inputs and capital goods which can later be set off against GST output liability. This reform gives equal footing to the big enterprises as well as SMEs. The aim of GST is thus to simplify tax hurdles for the entire economy. GST will be paid by all manufacturers and sellers. It will also be paid by service providers such as telecom providers, consultants, chartered accountants etc. However, being an indirect tax, GST will be ultimately borne by the end consumers, just like in the current process. What kind of GST will be implemented in India? India will implement the Canadian model of Dual GST, i.e., both the Centre and State will collect GST. GST is a destination based tax system. Supply of goods and services are base for charging tax. GST is very comprehensive indirect taxation system on manufactured product and services, sale and consumptions of goods and services at national level. GST is going to be one of the biggest tax reforms after independence till the date. GST is very comprehensive indirect taxation system on goods manufactured and services provided. It is one of the biggest tax reforms in country. Clause 366(12A) of the Constitution Bill defines GST as "goods and services tax" means any tax on supply of goods, or services or both except taxes on the supply of the alcoholic liquor for human consumption. Further the clause 366(26A) of the Bill defines "Services" means anything other than Goods. Thus it can be said that GST is a comprehensive tax levy on a national level. The proposed tax will be levied on all transactions involving supply of goods and services, except those which are kept out of its purview.

PROCESS AND FRAMEWORK OF GST :

To implement comprehensive indirect tax reform in the country the then Union Finance Minister Mr. P. Chidambaram while presenting Union Budget for the year 2007-08 announced to the effect that GST would be introduced from 01/04/2010 and an Empowered Committee of State Finance Ministers was constituted. The Finance Minister said that the Committee would work with the Central Government to prepare a road map for introduction of GST in India. After this announcement the Empowered Committee of State Finance Ministers decided to setup a joint working group on May 10, 2007. The Joint working group after intensive internal discussion and interaction with experts and representatives of Chambers of Commerce and Industry submitted its report to the Empowered Committee in Nov. 2007. After-wards a spate of deliberations and discussions were held from among different interest groups including trade and industry bodies in the last seven-eight years. In the budget speech during July 2014, the Finance Minister Mr. Arun Jaitley announced that the GST would be rolled-out by the beginning of financial year 2015-16. However, it did not materialize and the Finance Minister then hoped to implement it from 01/04/2016 and the Government tried its best to get the GST Bill passed in parliament. But it was struck in Upper-House after getting passed in Lower-House. Now,

the Bill awaits its passing in Upper House. In principle, GST is the same as the VAT already adopted by the states but with a wider base. While the VAT - which replaced the sales tax - was imposed only on goods, the GST will be a VAT on goods and services². In the current tax regime, states tax sale of goods but not services. The Centre taxes manufacturing and services but not wholesale/retail trade. The GST is expected to usher in a uniform tax regime across India through an expansion of the base of each into the other's territory. This is why a constitutional amendment was necessary³. As per the GST bill the Centre will administer Central GST (CGST) and the States administer State GST (SGST). Compliance will be monitored independently at the two levels. The rates of both CGST and SGST will be fixed by the GST Council, whose members will be State Finance/Revenue Ministers and the Chairman will be the Union Finance Minister. Once the rates are set by the GST Council, individual states will lose their right to tax commodities at the rates they want

GST - HOW IT WORKS IN INDIA ?

GST is based on the grounds of VAT. Same set-off system is also available in the respect of the taxes paid in the previous level against GST charged at time of sale. Following are some of the module of GST.

COMPONENTS :

GST will be basically divided into two components i.e namely, *Central Goods and Service Tax and also State Goods and Service Applicability*: GST will be also applicable to all the Goods and Services sold and provided in India, only except from the list of exempted goods which fall outside its purview.

Payment : At central and State level GST will be paid separately.

Credit : The facility of Input Tax Credit at Central level will only be available in respect of Central Goods and Service tax.

GST MODELS :

Goods & Services Tax (GST) or Value Added Tax is implemented by about 160 countries in the world. France was being the first country to implement GST in 1954. There are various models of GST followed across the World, Which are different from one to another based on the economic and market conditions. Following are popular GST models and their features:

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GST model	Main Feature	Applicable to Country
National GST	Tax levied by Centre	Australia, China
State GST non concurrent dual GST	Tax levied by states, On goods levied by state and on Services levied by Centre	USA
Concurrent dual GST	Tax levied by both centre and state on both goods and services	Brazil India Canada

India is opting Concurrent Dual GST model. The need for a Dual-GST model is based on the following premise :

- ♦ At existing framework, both levels of Government i.e. Centre and State, as per Constitution holds concurrent powers to levy tax domestic goods and services;
- ♦ The proposed Concurrent Dual-GST model would be a dual levy imposed concurrently but independently by the Centre and the States;
- ♦ Both the Centre and State will operate over a common base, i.e. the base for levy and imposition of duty/ tax liability would be identical. To understand the operating procedure of Concurrent Dual GST Model we have to consider the tax/taxes which shall be levied as per place of supply of goods and services. They are as follows:
- ♦ CGST – Central Goods and Service Tax
- ♦ SGST – State Goods and Service Tax
- ♦ IGST – Integrated Goods and Service Tax Additional Tax (up to 1%) to be levied in case of inter-state supply of goods.

Nature of levy	To be levied by	Collecting authority
CGST	Central Government on Intra- State Supply of Goods and/ or Services	Central Government
SGST	State Government Intra State Supply of Goods and/ or Services	State Government
IGST	Central Government on Inter- State Supply of Goods and/or Services	Central Government
Additional Tax	Central Government on Inter- state supply of goods, but the net proceeds to be assigned to the States from where supply originates	Central Government

IMPACT OF GST ON INDIAN ECONOMY :

Expect reduction in prices of
FMCG goods such as shampoos, chocolates

- ◆ Eating out
- ◆ Small cars
- ◆ DTH

Increase in prices of:

- ◆ Luxury cars
- ◆ Tobacco
- ◆ Aerated beverages
- ◆ Textiles

Advantages of GST

- ◆ For Citizen
- ◆ Simpler tax system
- ◆ Reduction in prices of goods and services due to elimination of cascading.
- ◆ Uniform prices throughout the country.
- ◆ Transparency in taxation system.
- ◆ Increase in employment opportunities

For Trade/Industry

Reduction in multiplicity of Taxes

Mitigation of cascading / double taxation

More efficient neutralization of taxes especially for exports

FOR CENTRAL/ STATE GOVERNMENTS :

A unified common national market to boost Foreign Investment and “Make In India” campaign Boost to export / manufacture activity, generation of more employment, leading to reduced poverty and increased GDP growth. Improving the overall investment climate in the country which will benefit the development of the states. Uniform SGST and IGST rates to reduce the incentives for tax evasion.

Reduction in compliance costs as no requirement of multiple records keeping.
Challenges of GST in Indian Context GST will be the biggest reform in Indian taxation since 1947, but there are many challenges for its successful implementation. These are as under **Consent of States**

For implementing it is critical that GST bill is passed by the respective state Governments in state assemblies so as to bring majority. This is a herculean task.

Revenue Neutral Rate (RNR) :

- ♦ It is one of Prominent Factor for its success. We know that in GST regime, the government revenue would not be the same as compared to the current system. Hence, through RNR Government is to ensure that its revenue remains the same despite of giving tax credits.

Threshold Limit in GST :

- ♦ While achieving broad based tax structure under GST, Both empowered committee and Central Government must ensure that lowering of threshold limit should not be a “taxing” burden on small businessmen in the country.

Robust IT Network :

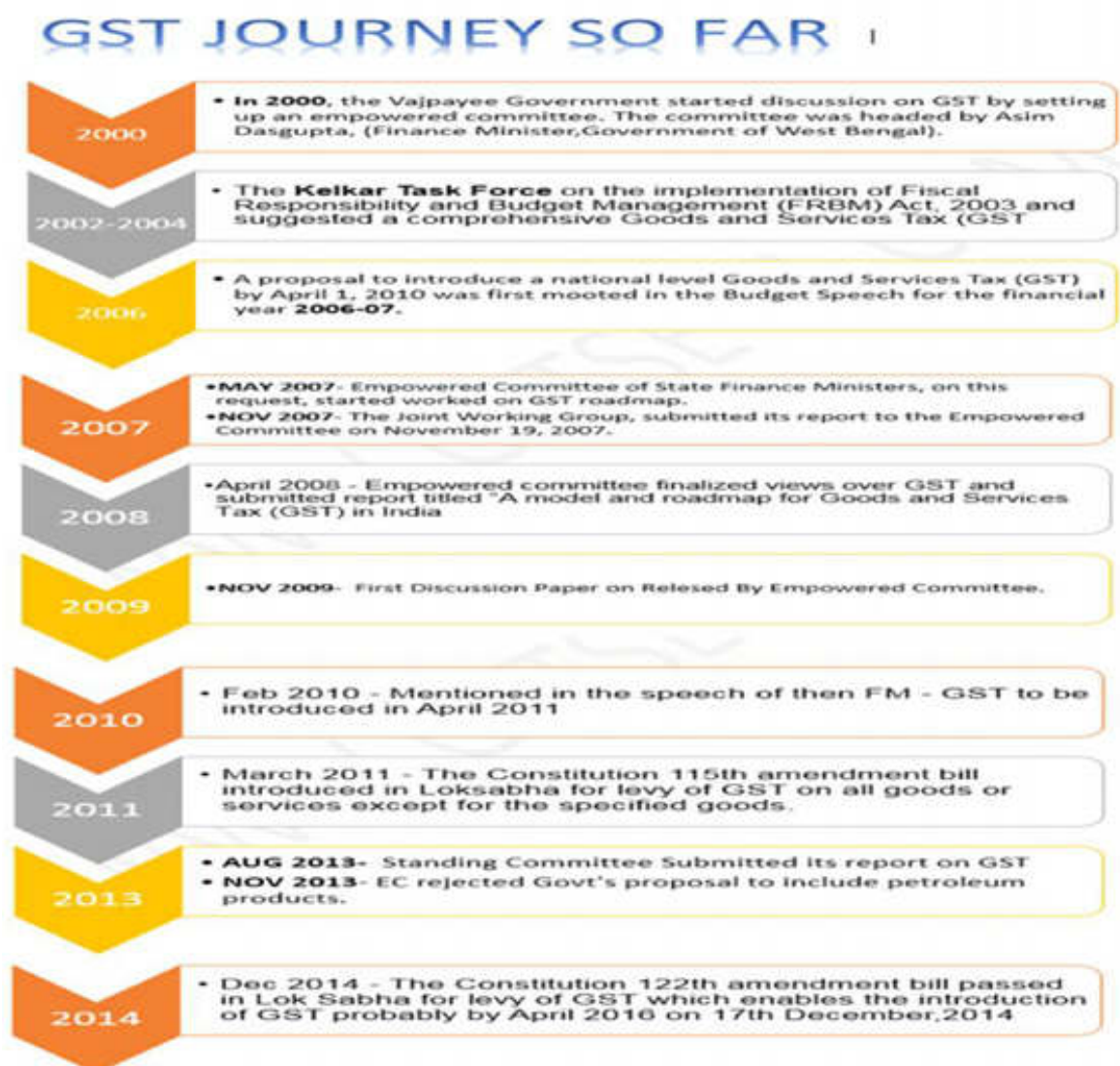
- ♦ Government has already incorporated Goods and service tax network (GSTN). GSTN has to develop GST portal which ensure technology support for GST Registration, GST return filing, tax payments, IGST settlements etc. Thus there should be a robust IT backbone.

Extensive Training to Tax Administration Staff :

- ♦ GST is absolutely different from existing system. It, therefore, requires that tax administration staff at both Centre and state to be trained properly in terms of concept, legislation and Procedure.

There are following negative aspects of Goods and Services Tax (GST)

1. Majority of dealers are not covered with the central excise but are only paying VAT in the state. Now all the VAT dealers will be required to pay Central Goods and Services Tax (CGST).
2. GST is referred as single taxation system in India but in reality it is a dual tax in which both state and centre collects separate tax on single transaction of sale & service. However GST has some negative aspect but at the end it will boost economy.
3. GST would impact negatively on the real estate market. It would add up to 8 percent to the cost of new homes and reduce demand by about 12 percent.
4. Service tax litigations have risen substantially in recent years and that may be because of the absence of a pan-India Goods and Services Tax (GST) regime that can potentially remove several ambiguities around indirect taxation, experts maintain.



Updated New GST Rates as on 19 January 2018 :

Items	OLD Tax Rate	NEW Tax Rate
Second-hand medium and large cars and SUVs	28%	18%
LPG supply for household domestic consumers by private LPG distributers	18%	5%

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Bio Fuels Powered buses	28%	18%
Sugar boiled confectionery	18%	12%
Drinking water packed in 20 litre bottle	18%	12%
Drip irrigation system	18%	12%
Cigarette filter rods	12%	18%
Tailoring Service	18%	5%
The admission to Theme parks, water parks etc.	28%	18%
Mangoes sliced dried	12%	5%
Khakra& plain chapati / roti	12%	5%
Packaged Food	18%	5%
Namkeens	12%	5%
Ayurvedic, Unani, Siddha, Homeopathy medicines	12%	5%
Poster Color	28%	18%
Modelling Paste for children amusement	28%	18%
Plastic Waste, Pairing & Scraps	18%	5%
Rubber Waste, Paring & Scrap	18%	5%
Hard Rubber Waste	28%	5%
Paper Waste & Scrap	12%	5%
Duty Credit scrips	5%	Nil
Sewing thread of manmade filaments	18%	12%
All synthetic filament yarn, such as nylon, polyester, acrylic	18%	12%
All artificial filament yarn, such as viscose rayon,	18%	12%
cup ammonium		
Sewing thread for manmade staple fibres	18%	12%
Yarn of manmade staple fibres	18%	12%
Real Zari	12%	5%
Floor Tiles	28%	18%
Cullet or other waste of glass	18%	5%
Fittings for loose leaf binders, or files, letter clips, letter corners, paper clips, staple in strips,	28%	18%
Plain shaft bearing 8483	28%	18%
parts suitable for use solely or principally with fixed speed diesel engine of power not exceeding 15HP	28%	18%
parts for Pumps	28%	18%
E-waste	28% /	5%
	18%	
Biomass briquettes	18%	5%

CONCLUSION :

Taxation plays a significant role in the development of the economy as it impacts the efficiency and equity. It is expected that a good system should control income distribution and at the same time it will also endeavour to generate tax revenue which will support government expenditure on public services and development of infrastructure. GST will have positive impact on Indian economy. GST has faced a lot of controversy and opposition in terms of its implementation. Finally the GST bill has been passed and it ready to roll out in market. Time will only decide whether it will have positive impact or negative impact. International trade, firms and consumer will have new system of tax which is single level and more transparent. The new system of taxation is considered to be more improved system over the pre-existing central excise duty at the national level and sales tax system at state level. The new tax will be significant breakthrough and a logical step towards a comprehensive indirect tax reforms in the country. GST is not only Vat plus service tax but it is major improvement over previous VAT system. A single of tax will help maintain simplicity and transparency by treating all goods and services equal without giving a special treatment to some types of goods and services. It will reduce the litigation on classification of issues. It is also said that implementation of GST in Indian framework will lead to commercial benefits which VAT has not given and hence it would essentially lead to economic development. GST may assure the possibility of overall gain for industry, trade, agriculture and also to central and state government. Now Indian consumer need to have professionalism to acknowledge the GST. It is sure that India will join the international standards of taxation, corporate laws and managerial practices and also be among the world leaders.

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