



## Study of implications of GST: An introduction on Indian economy

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### Abstract

GST is one of the most crucial tax reforms in India that is likely to change the whole scenario of present inefficient indirect tax system. Its implementation is delayed on account of political bottleneck in the present economic situation. To achieve the global competitiveness, India has to move forward by equipping itself with effective fiscal tools. The present research paper highlights the expectations of the tax payers, and professionals view on the benefits and challenges of implementing GST in India. Since GST is an effective tax ware in many countries, it can be suggested that the proposed GST need to be implemented early by sharpening out the legislative effectiveness, making it simpler, uniform, revenue neutral with minimum tax rate and enhanced tax base. The challenges in this direction shall be diligently knocked out to please the tax payers.

**Keywords:** GST, Indian economy, indirect tax

### Introduction

The present Indirect tax system in India empowers both central and state governments to levy taxes. Central government levies tax on manufacture of goods and supply of services like customs duties, central excise, service tax etc. on the other hand the state governments empowered to levy tax on goods at point of sale such as state VAT, entry tax, Octroi etc. There exist a multiplicity of taxes and tax base has been fragmented between centre and states. This resulted in a complex system of interconnected legislations leading to substantial distortions, cascading effect of taxes and adverse effect on the growth of GDP.

The present tax structure suffers from limitations. Firstly, CENVAT structure does not tax value addition after the production stage. CENVAT portion of input goods remains included in the value of goods to be taxed under state VAT. This may result cascading effect. There is no integration of VAT on input goods with service tax on services at the state level. This also leads to cascading effect of service tax. Indian economy is getting more globalised over the past two decades.

The Goods and Service Tax is a single rate tax levied on the manufacture, sale and consumption of goods as well as services at a national level. In this system the GST is implemented only on the value added at every stage of production. This will ensure there is no cascading effect of taxes (tax on tax paid) on inputs that are used in manufacturing goods. With the GST in place, the prices of goods are expected to fall, and in the long term we can expect the dealers to pass on these benefits to the end consumer as well. Currently, central government levies service tax for more than 100 services. No sales tax / VAT are levied by the states on services. However, once GST is in place, the service providers would need to pay the SGST to the states. Further, there will be a common tax rate and reduce tax avoidance & evasion, broadening the tax base, increase the transferenceetc.in all transaction of commodities and services. But implementation of GST in Indian economy is not so easy, because of social, political, administrative, general public and lots of other challenges

needs to be addressed.

Introduction of an Integrated Goods and Service Tax (GST) to replace the prevailing multiple tax structures of Centre and State taxes is very imperative in the changing economic environment. The proposed GST is expected to bring the changes in the whole scenario of current indirect tax system. Moving towards GST is the biggest tax reform in the post liberalized economy. The proposed GST is likely to unify the entire multiple and complex taxes under one umbrella and will create a smooth national market. GST is expected to help the economy to grow more efficiently by improving the tax collection by disrupting all the tax barriers between states and integrate country through a single tax rate.

GST was introduced for the first time by France in 1954 and now more than 160 countries have adopted GST. Most of the countries followed unified GST while some countries like Brazil, Canada follow a dual GST system where tax is imposed by central and state both. Being the consumption type of VAT, the Proposed GST would integrate tax on goods and services across all supply chain for availing set-off and capture value addition at each stage. By doing so, GST would eliminate the burden of all cascading effects from original producer up to the retailer level.

Despite all the various changes the overall taxation system continues to be complex and has various exemptions. The Report of the Task Force on implementation of the FRBMA, chaired by Dr. Vijay Kelkar, submitted its Report in July 2004. It has recommended introduction of a national VAT on goods and services (GST) which would help improve the revenue productivity of domestic indirect taxes and enhance welfare through efficient resource allocation.

The Joint Working Group of the Empowered Committee of the State Finance Ministers submitted its report on the proposed Goods and Services Tax (GST) to the Finance Minister in November 2007. A dual GST, one for the Centre and other for the states, would be implemented by 1 April 2010. The new system would replace the state VAT and the CENVAT.

Most of the indirect taxes would be subsumed under GST except for stamp duty, toll tax, passenger tax and road tax.

All goods and services would be taxed with some exceptions. There is a debate on the specific rate of the GST within a band varying from 12 to 20 per cent. Nevertheless the move to GST would be one of the most important indirect tax reforms in India.

“A well designed destination-based GST on all goods and services is the most elegant method of eliminating distortions and taxing consumption. Under this structure, all different stages of production and distribution can be interpreted as mere tax pass-through, and the tax essentially ‘sticks’ on final consumption within the taxing jurisdiction.” (Kelkar, 2009).

Given the passage of the Constitution (122nd) Amendment Bill, 2014 for Goods and Services Tax (GST) in the Lok Sabha on 6th May, 2015, the Government of India seems committed to replace all the indirect taxes levied on goods and services by the Centre and States and implement GST by 2016. With GST, it is anticipated that the tax base will be comprehensive, as virtually all goods and services will be taxable, with minimum exemptions.

GST will be a game changing reform for Indian economy by developing a common Indian market and reducing the cascading effect of tax on the cost of goods and services. It will impact the Tax Structure, Tax Incidence, Tax Computation, Tax Payment, Compliance, Credit Utilization and Reporting leading to a complete overhaul of the current indirect tax system. GST will have a far reaching impact on almost all the aspects of the business operations in the country, for instance, pricing of products and services; supply chain optimization; IT, accounting and tax compliance systems.

### Major Steps of Tax reforms

1. 1974 Report of LK Jha Committee suggested VAT
2. 1986 Introduction of a restricted VAT called MODVAT
3. 1991 Report of the Chellaiah Committee recommends VAT/GST and recommendations accepted by Government
4. 1994 Introduction of Service Tax
5. 1999 Formation of Empowered Committee on State VAT
6. 2000 Implementation of uniform floor Sales tax rates Abolition of tax related incentives granted by States
7. 2003 VAT implemented in Haryana in April 2003
8. 2004 Significant progress towards CENVAT
9. 2005-06 VAT implemented in 26 more states
10. 2007 First GST stuffy released By Mr. P. Shome in January
11. 2007 F.M. Announces for GST in budget Speech
12. 2007 CST phase out starts in April 2007
13. 2007 Joint Working Group formed and reports submitted
14. 2008 EC finalises the view on GST structure in April 2008

### Major Issues

1. Abolition of Multiple taxes.
2. Increases in Voluntary tax Compliances.
3. Removes distortion in economy.
4. Removes in cascading effects of taxation.
5. Enhances manufacturing and distribution efficiency
6. Widening the tax base.
7. It is destination based tax- determining the place of supply.

8. Centralized registration system in case of service tax compliances.
9. Increasing the production and distribution of goods and services.
10. In the GST system, when all taxes are integrated, it would make possible the taxation burden to be split equitably between manufacturing and services.
11. GST helps in removing economic distortion and brings about development of a common national market by levied tax only at the final destination of consumption based.
12. It also build a transparent and corruption –free tax administration.
13. Experts can predict that, by implementing the GST system, India will gain \$15 billion a year. This is because; it will promote more exports, create more employments and boost growth.
14. In GST system tax should be collected at the point of sale by state and central governments. Individuals are benefited with lower prices, more consumption resulted more production and employments.
15. Some commodities are excluded from the ambit of GST, i.e Alcohol, tobacco, petroleum products etc.

### Challenges

1. The GST Constitutional Amendment Bill was passed in Lok Sabha in May 2015, but failed to get it passed in Rajya Sabha due to tremendous political set-backs faced by the government.
2. Central Government must also look into that, the GST bill passed by the respective state governments.
3. Governments also put GST bill before the public domain and give sufficient time to all stakeholders to comprehend and give their views on the bills.
4. The success of GST depends on two important factors like RNS and threshold limit. RNS (revenue neutral rate) is the rate at which there will be no revenue loss to the governments after implementation of GST.
5. The threshold limit of turnover for dealers under GST is another bone of contention between the government and the empowered committee, aiming to broadening the tax base under GST.
6. For effective implementation of GST, tax administration staff – both at central and state levels, would require to be trained properly in terms of concept, legislation and procedure. The tax administration staff would also need to change their mindset, approach and attitude towards the tax payers.
7. The success of GST is depends on robust IT backbone connecting all state governments, trade and industry, banks and other stakeholders on a real time basis.
8. There is a confusion with regard to states would be allowed to levy an additional 1% non-vat tax on interstate supplies for initial two years.

Recently Empowered Committee recommended abolition of the same.

The dual GST proposed to be introduced is expected to expand the tax bases and simplify and harmonize the conception tax systems presently levied at both central and state levels. The central VAT (Cenvat) levied at present, has a narrow base and multiple rates. It is levied on goods at the production stage, and value added in subsequent stages is not included in the base. In the proposed Central GST, the

base will be expanded by merging the service tax with the Cenvat, extended to wholesale and retail levels and simplified to have only one or two rates. The merger of service tax in GST helps to ensure more comprehensive input tax credit and relieve the tax on exports. The State GST will expand the base of the prevailing VAT to include services. The tax will be simplified by merging a number of other taxes such as motor vehicles tax, goods and passengers' tax, entertainment tax, electricity duty and entry taxes including those levied in lieu of octroi—local taxes on the entry of goods into a municipal area for consumption, use or sale. Harmonization of tax rates and administration across states would bring about significant gain in minimizing distortions and reducing compliance cost for taxpayers.

### Conclusion

GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. GST is Available on all supply of goods and provision of services as well combination thereof. All sectors of economy whether the industry, business including Govt. departments and service sector shall have to bear impact of GST. All sections of economy viz., big, medium, small scale units, intermediaries, importers, exporters, traders, professionals and consumers shall be directly affected by GST... One of the biggest taxation reforms in India—the Goods and Service Tax (GST) — is all set to integrate State economies and boost overall growth. GST will create a single, unified Indian market to make the economy stronger. Experts say that GST 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. 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.

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