



## GST in India: Not the end but start of the journey

Dr. Rhytheema Dulloo<sup>1</sup>, G Naveen<sup>2</sup>, Y Sai Namitha<sup>2</sup>, Mignot Jeff Trowbridge<sup>2</sup>

<sup>1</sup> Assistant Professor (S.G), School of Management, Hindustan Institute of Technology and Science, Chennai, India

<sup>2</sup> BBA Scholar, School of Management, Hindustan Institute of Technology and Science, Chennai, India

### Abstract

This Introduction of GST is a significant step in the field of indirect tax reforms in India. It transforms the country into one unified common market. In GST all the indirect taxes are subsumed under a single regime. The GST taxation law has put an end to multiple taxes which are levied on different products starting from the source of manufacturing to reaching the end consumer. GST works on the principle of 'ONE COUNTRY ONE TAX'. It brings transparency in the taxation system. The introduction of GST in India will go a long way in elimination of economic distortion, promoting of an impartial tax structure which will result in commercial benefits that remained untouched by the VAT system and will ultimately lead to economic development. The ongoing 'Make in India' project is also greatly stimulated by Goods and Services Tax (GST).

This paper throws an insight into the journey of Indian indirect taxation system. It highlights in-depth understanding of the concept of Goods and Services Tax in India, its features, difference between current and old taxation system, working mechanism of GST and its benefits. This study also investigates the impact of GST on Indian Economy.

**Keywords:** consumer, economic development, GST, India, indirect tax, transparency, unified

### Introduction

*"THE KING SHOULD TAKE WEALTH FROM HIS SUBJECTS AT THE PROPER TIME. LIKE AN INTELLIGENT MAN MILKING HIS COW EVERY DAY, THE KING SHOULD MILK HIS KINGDOM EVERY DAY. AS THE BEE COLLECTS HONEY FROM FLOWERS GRADUALLY, THE KING SHOULD DRAW WEALTH GRADUALLY FROM HIS KINGDOM FOR STORING IT."*

– Bhishma to Yudhishtira Taxation is rooted in India from the Manu Smriti and Arthashastra ages. The new Indian tax system follows the ancient tax structure that was based on optimum social welfare philosophy. Tax is a mandatory responsibility for every citizen in the country. In India the idea to introduce GST came in 2000. On 29th March 2017 Goods and Service Tax Act was passed in the Indian Parliament and the Act came into effect on 1st July 2017. GST is an Indirect Tax for whole India. It is an absolute, multi-stage, destination-based tax which is levied on each added value and works on the principle of 'ONE COUNTRY ONE TAX'. GST has replaced many Indirect Taxes which were levied earlier on various products from the point of production to the final consumer thus making India one unified common market.

This paper has been titled as "GST IN INDIA: NOT THE END BUT START OF THE JOURNEY," as GST is a start of a journey where India will awake to endless opportunities to extend its economic horizons. GST system in India seeks to provide a streamlined, single tax regime that is compatible with the tax structure in several major economies worldwide. This single tax will help rationalize disparate indirect taxes and will bring in more efficiency in business. GST is an important step forward in Indian indirect tax reform. It brings transparency in the taxation system. The introduction of GST will go a long way in elimination of economic distortion, promoting of an impartial tax structure which will result in commercial benefits that remained

untouched by the VAT system and ultimately lead to economic development.

### Review of Literature

Chadha <sup>[1]</sup> opined that the implementation of a robust GST system in India is projected to result in effective redistribution of production factors resulting in GDP growth and exports. Ahmed and Poddar <sup>[2]</sup> stated that the implementation of GST system will provide a simple and transparent tax system that will improve India's economy's production and productivity. Rao <sup>[3]</sup> detailed that there is need for a system in India that goes beyond standardized tax rates and allows states to differ across the floor, with a set classification of goods and services, so that they can select the correct rate to ensure that their revenue requirements are met.

Vasanthagopal <sup>[4]</sup> in his study opined that transitioning to smooth GST will be a positive step towards a boom in the Indian economy from a complex indirect tax structure in India. Sarma and Bhaskar <sup>[5]</sup> investigated the provisions of the 115th Constitutional Amendment Bill and the 2012 Finance Act on service tax and stated the need for reform in order to achieve the GST's policy objectives. It also recommended steps to be taken to enforce GST swiftly. Mukherjee and Rao <sup>[6]</sup> suggested some changes to the proposed design of the Goods and Services Tax and evaluated the consequences for cascading and prices. Desai and Patel <sup>[7]</sup> discussed rising opportunities and challenges ahead of the state government in connection with GST in India. Khurana and Sharma <sup>[8]</sup> opined that GST will impact positively on various markets and business. Dulloo <sup>[9]</sup> established that the advancement of digital technologies has led to a number of technical issues, which have been brought about by an increasing number of technology alliances. Nayyar and Singh <sup>[10]</sup> said following the adoption of the GST, a new need for sophisticated technology-based

infrastructure, such as GSTNET, has emerged for the proper monitoring of the taxing system.

Priya [11] stated that GST has the ability to raise GDP, increase the tax base and attain international investment and pave the way to promote Make in India by facilitating the ultimate creation of jobs in India. Barhate [12] concluded that GST will bring monetary benefits to the businesses.

**Research Methodology**

This study is based on exploratory research and focuses on extensive study of secondary data collected from government websites Finance Ministry (finmin.gov.in), GST Council (gstcouncil.gov.in), various national and international journals and articles, publications, conference papers, Government reports, newspapers, magazines which focused on various aspects of tax structure and GST.

**Objectives of the study**

This paper throws an insight into the journey of Indian indirect taxation system. It highlights in-depth understanding of the concept of Goods and Services Tax in India, its features, difference between current and old taxation system, working mechanism of GST and its benefits. This study also investigates the impact of GST on Indian Economy.

**Results and Discussion**

**A. Concept of Goods and Services Tax (GST)**

Definition: ‘Goods and services tax’ means any tax on supply of goods, or services or both except taxes on supply of the alcoholic liquor for human consumption as per Article 366 (12A).

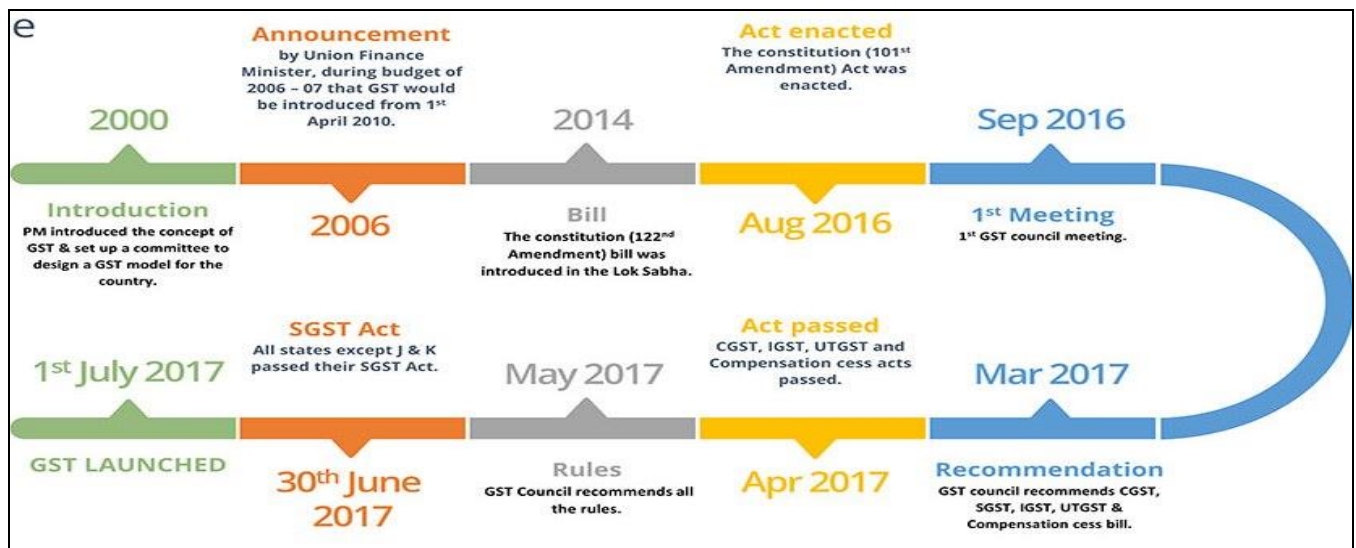
**Table 1:** GST Law from a Constitutional Perspective

No.	Term	Article	Definition
1	Goods	366 (12)	Includes all materials, commodities, and articles [Pre Existing Definition]
2	Services	366 (26A)	Anything other than goods [Introduced vide 101st Constitutional Amendment Act]
3	State	366 (26B)	With reference to articles 246A, 268, 269,269A and Article 279A includes a Union territory with Legislature. [Introduced vide 101st Constitutional Amendment Act]

**B. Journey of Indian Indirect Taxation System**

In 2000 the GST journey started with the setting up of a committee for the drafting of legislation. It took 17 years from then for the Law to evolve. In the Lok Sabha and Rajya Sabha, the GST Bill was passed in 2017. On 1st July

2017 the GST Law came into force. Amendments to CGST, IGST, UTGST and State Payment Acts were enforced on 1 February 2019 and the voyage continues. Brief history of Indian Indirect Taxation system is shown in Fig 1.



**Fig 1:** A Journey of Indian Indirect taxation System

**C. Salient Features of GST**

- GST refers to the ‘supply’ of products or services as opposed to the present definition of the manufacture of products or the selling of goods or service provision.
- GST is based on the concept of taxation of destination-based consumption as opposed to the present concept of taxation on origin.
- It is a dual GST with the Centre and the States simultaneously levying tax on a common base. GST to be levied by the Centre is called Central GST (CGST) and that to be levied by States is called State GST (SGST).

- An integrated GST (IGST) will be paid for the supply of goods or services between States including stock transfers. The Government of India shall collect this tax and distribute it between the Union and the States in such a manner as Parliament may provide by law on the GST Council recommendation.
- In addition to applicable customs duty, imports of goods or services are regarded as inter-state supplies and subject to IGST.
- At mutually agreed rates between the Center and the States, the CGST, SGST & IGST will be paid. The

rates will be reported on the GST Council recommendation.

- The following taxes that Center is presently levying and collecting are replaced by GST: ‘Central Excise Duty, Duties of Excise (Medicinal and Toilet Preparations), Additional Duties of Excise (Goods of Special Importance), Additional Duties of Excise (Textiles and Textile Products), Additional Duties of Customs (commonly known as CVD), Special Additional Duty of Customs (SAD) AND Service Tax, Cesses and surcharge in so far as they relate to supply of goods and services’.
- State taxes subsumed under the GST are:-‘State VAT, Central Sales Tax, Purchase Tax, Luxury Tax, Entry Tax (All forms), Entertainment Tax and Amusement Tax (except those levied by the local bodies), Taxes on advertisements, Taxes on lotteries, betting and gambling, State cesses and surcharges in so far as they relate to supply of goods and services’.
- All products and services excluding alcohol for human consumption will be subject to GST.
- Applicable from the date approved by the GSTC, GST will apply to the five stated petroleum products ‘Crude, Petrol, Diesel, ATF & Natural Gas’.
- GST will also cover Tobacco and Tobacco products. The Center will also have the power to charge Central Excise Duty on such goods.

A reliable IT infrastructure will sustain the entire GST Program. The Government has set up a Goods and Services Tax Network in this regard. This will provide front end services and build back end IT solutions for those states that have opted for the same.

**D. Difference between Old and New Taxation System in India**

**1. Pre-GST Indirect Tax Structure in India**

Before the implementation of GST, taxation laws between the Centre and states were clearly demarcated. There were no overlaps between the fiscal powers, whatsoever. The Centre would levy tax on goods manufactured, except alcohol for consumption, narcotics, opium, etc. The states had the power to charge tax on the sale of goods. The Centre would levy the Central Sales Tax that was collected by the originating states. The Centre was also levying service tax on all types of services. Additionally, the Centre was charging and collecting additional duties of customs on

goods that were imported into or exported from India. This tax was levied in addition to the Basic Customs Duty. This additional duty of customs referred to as Countervailing Duty (CVD) and Special Additional Duty (SAD) counter balances excise duties, state VAT, sales tax, and other such taxes.

The introduction of the GST regime made amendments to the Constitution so that the Centre and states are empowered at the same time to levy and collect GST. Table 2 below shows Pre-GST indirect tax structure in India.

**Table 2: Pre-GST Tax Structure in India**

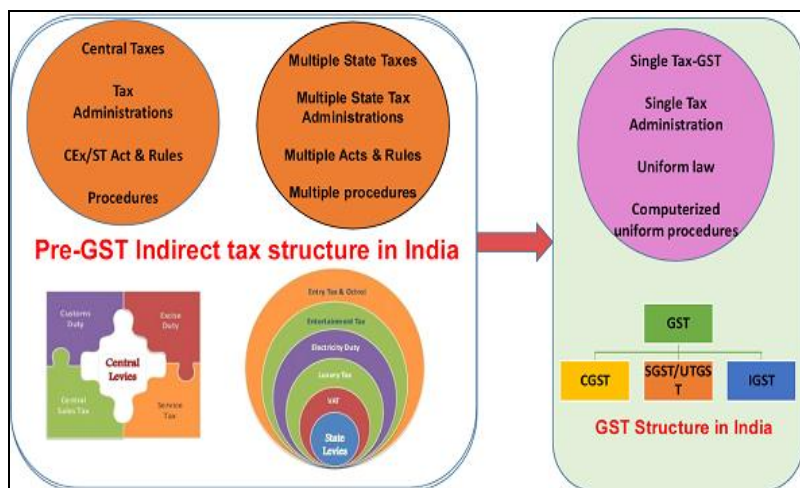
Central Taxes	State Taxes
Central Excise Duty	State VAT/ Sales tax
Additional duties of Excise	Central Sales Tax
Excise duty levied under Medicinal & Toilet preparation Act	Purchase Tax
Additional duties of customs (CVD & SAD)	Entertainment Tax
Service Tax	Luxury Tax
Surcharges & Cesses	Entry Tax (All forms)
	Taxes on lottery, betting and gambling
	Surcharges & Cesses



Source: GST Council, 2019

**GST Tax Structure in India – Launched On 1<sup>st</sup> July 2017**

In GST, all the indirect taxes are subsumed under a single regime (Refer Fig 2 and Table 3). The GST taxation laws has put an end to multiple taxes which are levied on different products, starting from the source of manufacturing to reaching the end consumer. GST works on the fundamental Principle of “One Country One Tax”. It has Dual-GST model including central goods and service tax (CGST) and states goods and service tax (SGST). CGST has subsumed central indirect taxes like central excise duty, central sales tax, service tax, special additional duty on customs; counter veiling duties whereas indirect taxes of state governments like state vat, purchase tax, luxury tax, octroi, tax on lottery and gambling are replaced by SGST. Integrated goods and service tax (IGST) also called interstate goods and service tax is also a component of GST which examines the interstate transactions of goods and services and further assures that the tax is received by the importer state as GST is a destination based tax.



**Fig 2: Transition from Pre-GST Indirect tax Structure to GST Tax Structure Launched on 1<sup>st</sup> July 2017 in India**

**E. Working mechanism of GST**

GST for transactions within a State - For all transactions within a state (goods or services), there are 2 components of GST:

- CGST (Central GST) levied by the Central Government and
- SGST (State GST) levied by the State Government
- The central GST and the State GST is paid for each exchange of the procurement of products and services at the same time, except for excluded goods and services,

goods outside the scope of GST and transactions below the threshold limits prescribed. In addition, both are charged at the same price contrasting State VAT which was imposed on the value of the goods including Central Excise.

- Fig. 3 below displays a diagrammatic illustration of dual GST model operating within a State. It also explains how input tax credit is available from one stage to the next.

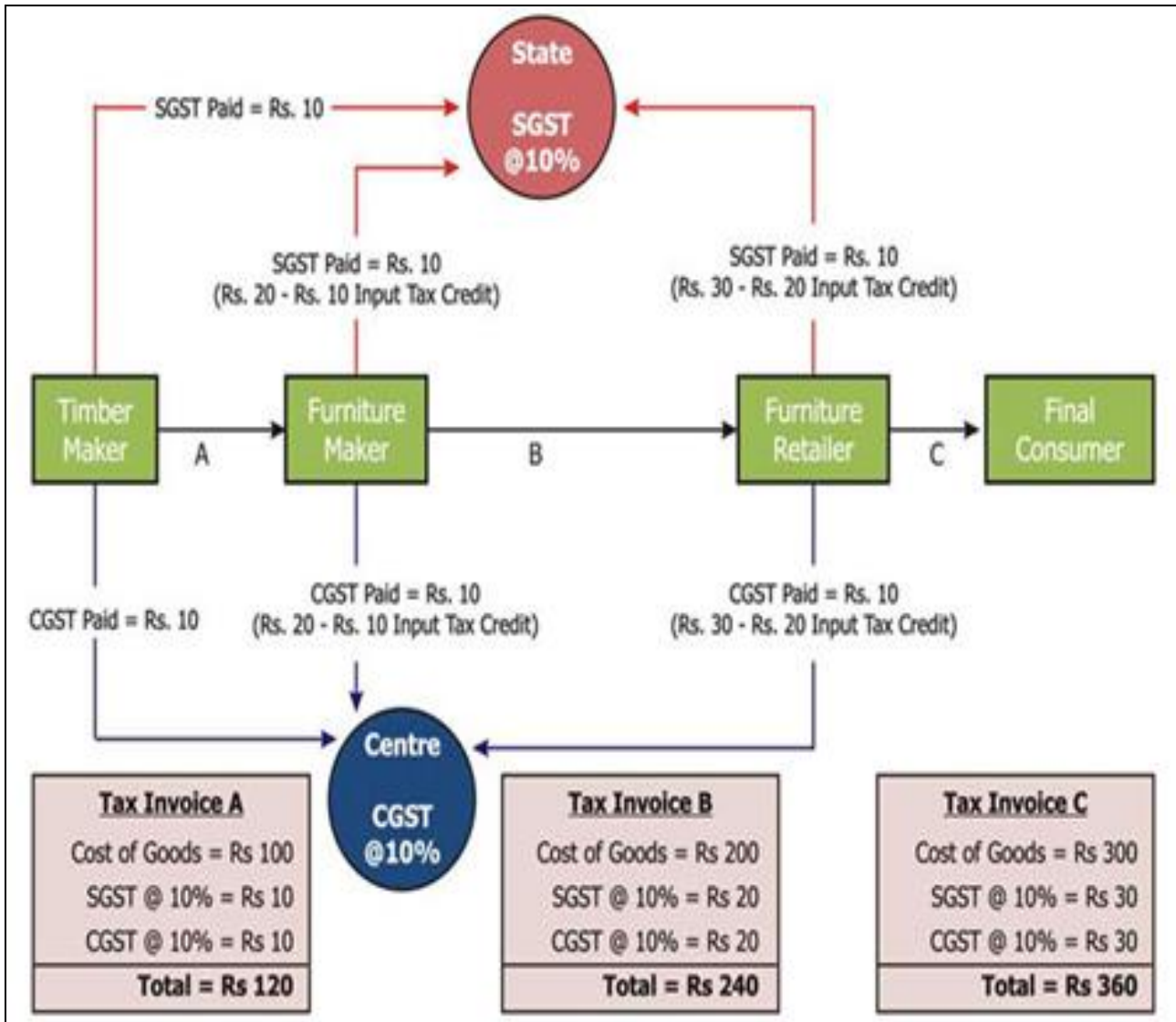


Fig 3: Dual GST Model within State

**GST for Inter-State transactions - The Integrated GST (IGST) is implemented in the following manner**

- The Centre imposes and collects the Integrated Goods and Services Tax (IGST) on all inter-State sales of goods and services in compliance with Article 269A(1) of the Constitution in the case of inter-State transactions.
- CGST + SGST is approximately equivalent to the IGST.
- IGST system is built to ensure that input tax credit flows seamlessly from one state to another.
- Upon adjusting IGST, CGST and SGST credit for sales (in that order), the inter-State seller pays IGST on the sale of products to the Central Government.

- The exporting State passes the SGST credit used for the payment of IGST to the Centre.
- The importer claims IGST credit while discharging its output tax liability (CGST and SGST) in its own State.
- The Center transfers IGST credit used in payment of SGST to the importing State.
- GST is a destination-based levy, all SGST on the finished product is typically imposed on the consuming state.

Fig.4 below displays a diagrammatic illustration of IGST model for inter-State transactions.

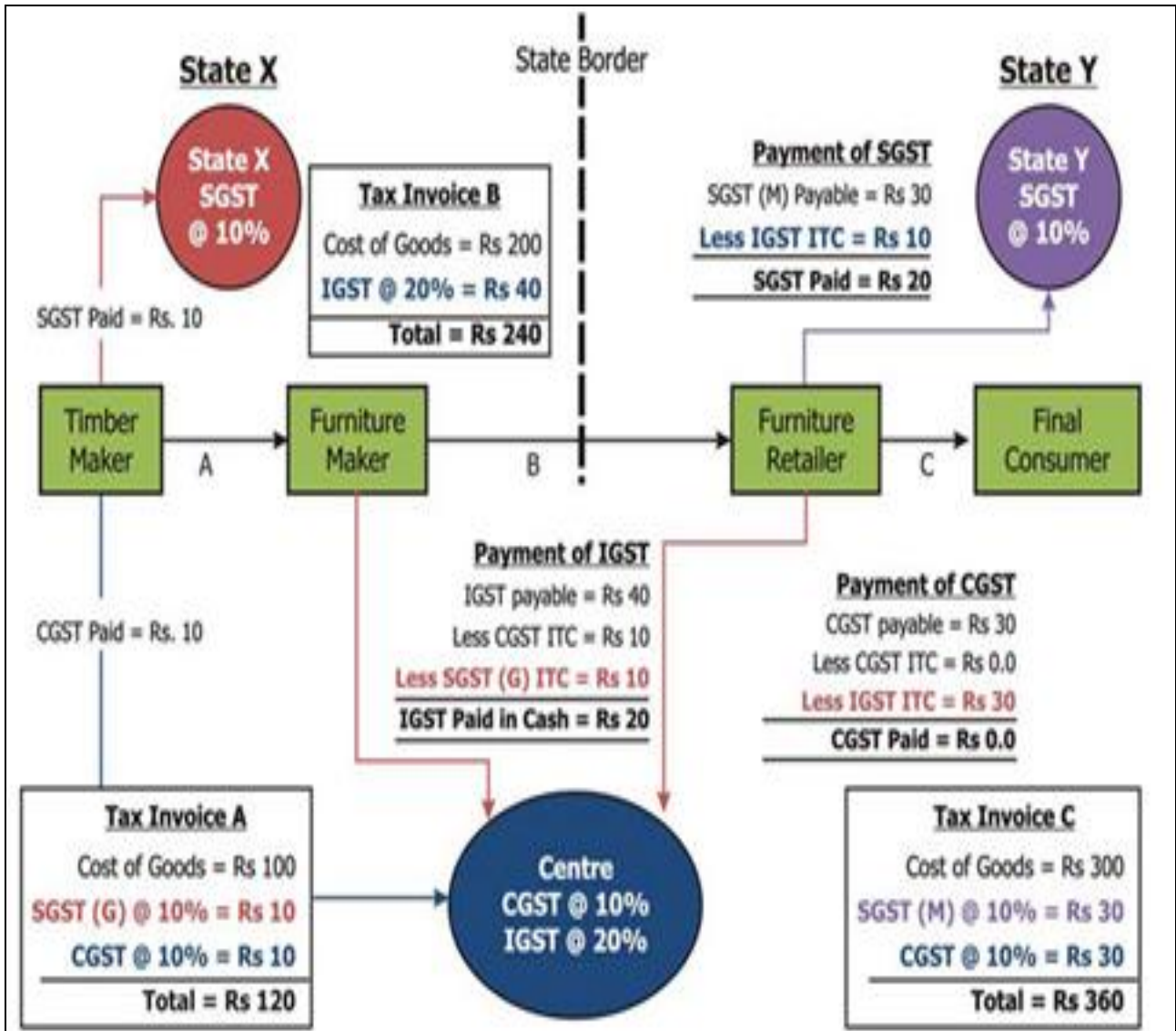


Fig 4: IGST Model for inter-State transactions

**F. Benefits of GST**

The Cascading impact on the selling of goods and services was mainly removed by GST. Elimination of cascading effect has affected product prices. The cost of goods is reduced as the GST regime removes the tax on tax. Table 3 lists benefits of GST.

Table 3: Benefits of GST

1.	Reduction in Cascading of Taxes	Decrease In Inflation
2.	Overall Reduction in Prices	
3.	Common National Market	Ease Of Doing Business
4.	Benefits to Small-Taxpayers	
5.	Self-Regulating Tax System	Decrease In "Black" Transactions
6.	Non-Intrusive Electronic Tax System	
7.	Simplified Tax Regime	More Informed Customers
8.	Reduction in Multiplicity of Taxes	
9.	Consumption Based Tax	Poorer States To Gain
10.	Abolition of CST	
11.	Exports to be Zero Rated	Make In India
12.	Protection of Domestic Ind. – IGST	

**G. Impact of GST on India Economy**

The implementation of GST has significantly impacted the Indian economy in following ways:

- **Tax structure Simplification:** The tax system of the country has been simplified by the GST. GST is a single tax and it has become easier to measure taxes at different levels of the supply chain. This gives both consumers and manufacturers a good picture of the taxes they pay and the basis on which they are based. In addition, difficulties in handling tax authorities and regulators can also be avoided.
- **Fostering production:** The total tax portion, according to Indian retail industry, is about 30% of the cost of the products. Taxes have dropped because of the effects of GST. Therefore, fewer taxes are charged by the final buyer. The reduced tax burden has increased retail and other industries ' production and development.
- **Small and medium enterprises support:** In compliance with the Composition Scheme presented by GST, small and medium-sized companies will now register. They pay taxes through their annual turnover through this system. Companies with annual revenue of Rs. 1.5 crores thus have to pay just 1% of GST. Therefore, other firms with a turnover of Rs. 50 lakh will pay a GST of 6%.
- **Pan India operations improvement:** Firms can avoid roadblocks for taxes such as tolls and check posts now. These caused problems earlier, including damage to

goods that were not protected as they were transported. To compensate for the loss, manufacturers had to hold buffer stock. Those overhead storage and warehousing costs hindered their income. Those issues are eliminated by a single taxation scheme. Now they can easily transport their goods via India. It has resulted in enhancing their activities on pan India.

- **Exports increase:** Customs tariffs on the sale of goods have been decreased by GST. Production costs have also been reduced in local markets due to the GST. All this has improved the country's export rate. When it comes to expanding markets internationally, businesses are becoming more competitive.

GST implementation has led to the convergence of state and central government taxes. The cascading impact of many taxes has thus been removed. To businesses and consumers, the tax burden has now reduced. Not only this but also the number of taxpayers and thus the tax collections have greatly increased. Small and medium-sized companies are also able to improve their businesses. GST is expected to help more Indian organizations become rooted on the international markets. Further GST is an impetus that will enable Indian companies to move on to the global markets.

### Conclusion

In Indian history 2017 will be eternally graven as the year that saw the adoption of biggest and largest economic reform since Independence – The Goods and Services Tax (GST). Rightly said, “No power on earth can stop an idea whose time has come.” The GST idea was mainly introduced and suggested in India a few years ago, but implementation was undertaken by the BJP government under Prime Minister Shri Narendra Modi’s capable leadership on 1st July 2017. The introduction of GST has not only strengthened tax collections, expanded the overall tax base by increasing accountability and enforcement but it has also promoted India’s economic growth. In World Bank’s Doing Business 2020 report India has jumped 14 places and attained 63rd rank in 2019 out of 190 countries from 142<sup>nd</sup> rank in 2014 on Ease of Doing Business Index. Five years of radical economic reforms and the introduction of a new indirect tax system, GST have witnessed India steadily climbing up and has put India on par with foreign nations who have a more structured tax system. No doubt, India has come a long way since introduction of GST. It is indeed start of a journey where India will awake to endless opportunities to extend its economic horizons.

### References

1. Chadha R. Moving to goods and services tax in India: impact on India’s growth and international trade. National Council of Applied Economic Research, 2009.
2. Desai RR, Patel AD. Goods and services tax in India: an opportunities and challenges. *Int. J. Curr. Res*, 2015, 7(11).
3. Dulloo R. Microfinance: Fostering inclusive growth in India. *Pacific Business Review International*, 2021, 13(11).
4. Khurana A, Sharma A. Goods and Services Tax in India-A positive reform for indirect tax system. *Int. J. Adv. Res*, 2016, 4(3).
5. Mukherjee S, Rao RK. Policy options for including petroleum, natural gas and electricity in the Goods and Services Tax. *Econ. Polit. Wkly*, 2015.
6. Nayyar A, Singh I. A comprehensive analysis of Goods and Services Tax (GST) in India. *Indian Journal of Finance*, 2018, 12(2).
7. Poddar S, Ahmad E. GST reforms and intergovernmental considerations in India. Gov. India Minist. Finance Dep. Econ. Aff. Work, 2009.
8. Priya BM. GST–A Game Changer. *Int. J. Manag. Res. Soc. Sci*, 2017, 4(1).
9. Rao RK. Goods and services tax: The 13th finance commission and the way forward. *Econ. Polit. Wkly*, 2010.
10. Sarma J, Bhaskar V. A road map for implementing the goods and services tax. *Econ. Polit. Wkly*, 2012.
11. Vasanthagopal R. GST in India: A big leap in the indirect taxation system. *Int. J. Trade Econ. Finance*, 2011, 2(2)
12. Barhate G. An analytical study of Awareness and perception Towards GST amongst Traders in Rural Areas. *Partnership*, 2017, 4(5).
13. URL:<http://www.gstcouncil.gov.in>
14. URL:<http://www.cbic.gov.in/htdocs-cbec/gst/index>
15. URL:<http://www.economicstimes.indiatimes.com/gst>