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# GST IN INDIA: AS A TOOL TO EMPOWER ECONOMIC GROWTH

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**ABSTRACT**

*New Goods and services Tax (GST) in India a ambitious and game changing tax reform for the India's economy, is now a reality. After 10 year effort a comprehensive dual Goods and Services Tax (GST) has replaced the complex multiple indirect tax structure to take effect on1 July 2017. It was introduced as (The constitution one hundred and first Amendment) Act 2017. The tax reform will bring about a transformation in the tax-structure as multi-incident levy would be replaced by single-incidence levy, mitigating tax distortions besides reducing the cost of goods and services in the hands of the last consumer. The GST will be the most significant tax reform in the fiscal history of India. The GST is governed by a GST Council and its chairman is the Finance Minister of India. It will have an impact on prices, business operation, investments and profitability in all sector of the economy. It will also entail a fundamental shift in the way tax policies are made in the country. It is important for businesses to understand the impact of the proposed change, work collaboratively and be heard. The implementation of GST is to elevate India's status with respect to economic growth at a global level. Stable and predictable tax regime will encourage local and foreign investment in India and creating significant job opportunities. In India GST is a new topic of discussion. In this aspect, this paper describes a brief introduction and concept of GST and its impact on Indian economy. The paper further explores various benefits and opportunities of GST in India. The study will also discuss the possible challenges and problem with the implementation of GST in Indian scenario. Finally, draws out a conclusion.*

***KEYWORDS**: Goods and Service Tax (GST), Tax Structure, Economic Growth, Taxation System.*

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**Introduction**

The word "Tax" originates from the Latin word "Taxo" meaning to Estimate. A tax is a involuntary payment or donation that pursuant to is an enforced contribution and exacted pursuant to legislative authority. India offers a well-structured tax system for its population. Mainly, there are two types of taxes Direct and Indirect taxes. In India Taxes are levied by the Central Government and the State Governments. Some minor taxes are also levied by the local authorities like Municipality or Local bodies. The authority to levy tax is originated from the Constitution of India which allocates power to levy different taxes between Centre and states. Taxes are biggest source of revenue for the government. This income is deployed for various purposes and projects for the growth and development of country. To understand GST, it is important that understand the present taxation system. Direct Tax such as income tax, corporate tax are borne by person liable to pay the tax that means the direct tax is a kind of duty, it cannot be shifted to anyone else. Which is charged directly on the taxpayer and paid directly to the Government? Direct Taxes levied in India are follows:

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- Income Tax
- Corporate Tax
- Property Tax
- Gift tax
- Estate Tax

An Indirect tax is imposed on goods and services. The liability of an indirect tax can be shifted to another person and it is not levied directly. The person liable to pay tax can collect from someone else. Tax is basically collected from intermediary sources such as company, dealer and retailer while the mediator collect Tax from the last user (consumer) than pay it to the Government and shifting tax burden. There are some Indirect Taxes are as follows:

- Custom Duty
- Central Excise Duty
- Service Tax
- VAT
- Entertainment Tax
- Octroi Tax
- Sale Tax
- Luxury Tax

The current Indirect Tax has a main problem –the cascading effect. When you purchase something, you pay a tax on tax itself so many experts have suggested that a resolve the issues of different types of taxes. There is a need to streamline all Indirect Taxes and implement a 'single taxation' system. This system is entitled as Good and Service Tax (GST). Good and Service Tax as the name implies, it is an indirect tax applied both on goods and service at a uniform rate.

**GST In Global Scenario**

GST was first introduced by France in 1954 and now it is in existence more than 165 countries of the world. There are different models of GST currently in force, each with its own peculiarities. While some countries such as Singapore and New Zealand tax virtually everything at a single rate, Indonesia has five positive rates (a zero rate and over 30 categories of exemptions.) GST in China is applicable only to goods and the provision of repairs, replacement and processing services .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. In India also dual system of GST is proposed including CGST and SGST. The standard GST rates in most of the countries ranges between 15-20%.

**GST Rates of Some Countries are given below**

| Country | Rate of GST |
|---|---|
| Australia | 10% |
| France | 19.6% |
| Canada | 5% |
| Germany | 19% |
| Japan | 8% |
| Singapur | 7% |
| Sweden | 25% |
| New Zealand | 15% |

**GST & Its Current Status in India**

After ten year effort, India's new Good and Service Tax (GST) seem set to take effect on 1July 2017, ushering in one of the most significant reforms in the country's history. The concept of GST was visualized for the first time in 1999. during a meeting between then Prime Minister Atal Bihari Vajpayee and his economic advisory panel, to design a GST model. In 2003, the Kellar Task Force on indirect tax had suggested a comprehensive Goods and Services Tax base on VAT principle. GST was first time introduced on 28th February, 2006 in the Budget Speech of the year 2006-07 by Finance Minister P. Chidambaram announced that the GST will be introduced with effect from 1st April 2010. Central and

State Governments will be work together to prepare a roadmap for the introduction of GST in India. But some of the States were not ready to implement the GST. After making slight changes in GST Bill was introduced the 122nd Constitution Amendment Bill in the Loksabha by Finance Minister Arun Jaitley on 19 December, 2014, and passed by the House on 6 May2015. The bill was passed by the Rajyasabha on 3 August 2016, passed by the LokSabha on 8 August 2016. The bill, after ratification by the States, received assent from President Pranab Mukherjee on 8 September 2016, and was notified in The Gazette of India on the same date.

The Goods and Services Tax (GST) was finally launched on the midnight of 30 June 2017, though the process of forming the legislation took 17 years (since 2000 when it was first proposed). The launch was marked by a historic midnight (30 June - 1 July 2017) session of both the houses of parliament convened at the Central Hall of the Parliament.

GST is a destination-based tax that replaces the earlier Central taxes and duties such as Excise Duty, Service Tax, Counter Veiling Duty (CVD), Special Additional Duty of Customs (SAD), central charges and cesses and local state taxes, i.e., Value Added Tax (VAT), Central Sales Tax (CST), Octroi, Entry Tax, Purchase Tax, Luxury Tax, state cesses and surcharges and Entertainment tax (other than the tax levied by the local bodies).

**Review of Literature**

Amol Agerwal (2011) studied ' The Impact of GST on the Indian economy" In his study he pointed that Dr. Vijay Kelkar, Chairman of the 13th Finance Commission cited the work of renowned Tax economist Prof. Charles McLure, who identified 6 characteristics of a well designed GST in a federal system as given below:

- Uniformity rate of taxation,
- Sales would be taxed under the destination principle.
- Low cost of compliance and administration.
- Each level of Government to set its own Tax rate
- A common Tax base for central and state Governments.
- Co-operation in tax administration between all levels of Governments

Keller added that first two are important for economic reasons; the third for the administrative reason and fourth is for political reason. Last two operate system for multilevel finance that we have in our country. These principle should be adopted while designing GST in India as well.

Nitin Kumar (2014) inferred from his study 'Goods and Service Tax- A Way Forward' that, the implementation of GST in India would help in removing economic distortion by current indirect tax system and this would encourage an unbiased tax structure which is indifferent to geographical locations.

Pradeep Chaurasia (2016) studied out that, in India, the unified tax will take the form of a Dual GST, to be levied concurrently by both the Centre and States. They concluded that, GST will be helpful for Indian economy as well it will be very much helpful in improving 2 percent GDP of our country.

**Objectives of the Study**

- To study the concept and salient features of Goods and Services Tax (GST)
- To know the rate structure of GST
- To study the impact of GST on Indian Economy
- To highlighted the benefits and challenges of GST.

**Research Methodology**

The present study is based on secondary data, which are taken from various websites, journals, articles, magazines and government reports, has been published and focused on various aspects of GST. Considering the objective of study a descriptive type of research design is adopted to have more accuracy and rigorous analysis for research study.

**Introduction and Concept of GST**

- GST is not going to be an additional new tax but will replace other taxes.
- GST is a simple, transparent, and efficient system of indirect taxation.

- The system facilitates taxation of goods and services in an integrated manner.
- It is a comprehensive value added tax on the supply and consumption of goods and services in an economy way.
- GST is basically a tax on final consumption.

**Models of GST:** There are five prime model of GST

- **State GST**: In this model tax is charged by respective states of the nation, it is applicable in USA.
- **National GST:** In this system Central government collects the taxes and distributes it among the states with certain provisions. It is followed by China and Australia.
- **Non concurrent Dual GST:** in this model states collect GST on goods where as GST on the services would be charged by Central Government.
- **Concurrent Dual GST:** Tax in this model is levied by central and state government on both goods and services.
- **Quebec Model**: In this system different provisions prevail for States and central government for collecting tax.

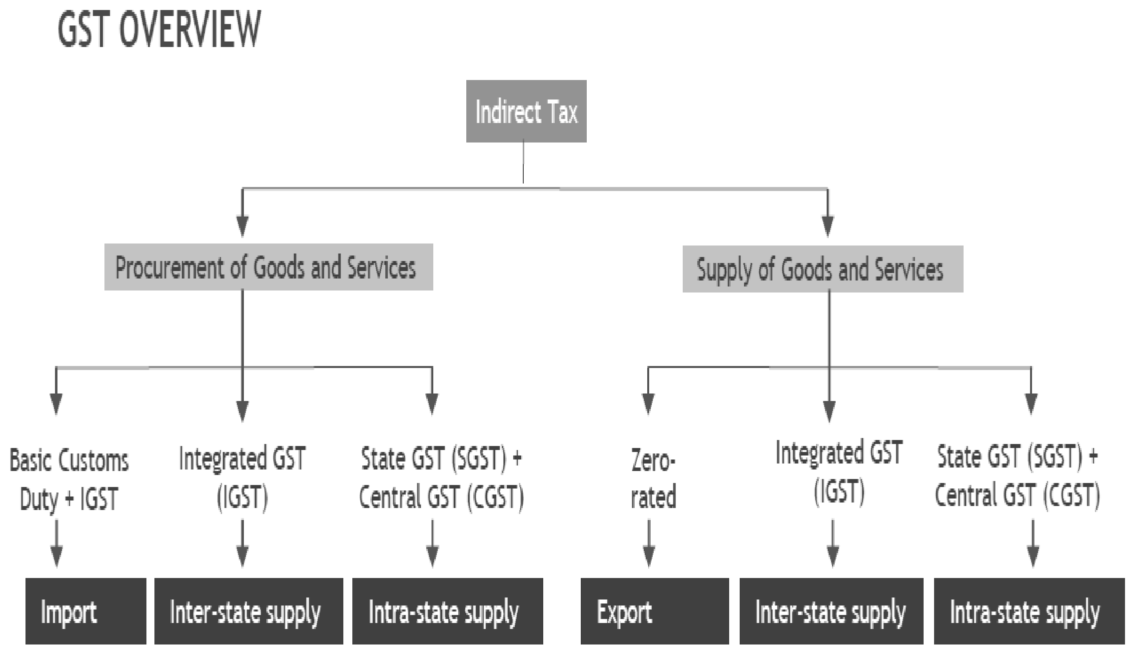
**Major Feature of GST in India**

GST in India the basic features of its structure and implementation aspect. Of course, some of the details are already known to us and a few others will help to clarify some details of the GST. Some of the important features of the GST reform are:

- This dual GST model would be implemented through a certain number of legal provisions.

  **Concurrent Dual GST Model** comprises three terms which are:
  - CGST: Central Goods and Services Tax
  - SGST: State Goods and Services Tax
  - IGST: Integrated Goods and Services Tax

CGST is going to be charged by Central Government for the transactions related to intra state which will be paid to the account of central government. SGST is proposed to be collected by state government, IGST is going to be collected by Central government on interstate transactions which Is an additional tax to be levied.



**Taxes to be Subsumed**

The following indirect taxes are to being subsumed:

| Central Taxes | State Taxes |
|---|---|
| • Central Excise Duty (including additional excise duties)<br>• Service tax<br>• Additional Customs Duty (CVD)<br>• Special Additional Duty of Customs (SAD)<br>• Central Sales Tax ( levied by the Centre and collected by the States).<br>• Central surcharges and cesses ( relating to supply of goods and services) | • Value Added Tax<br>• Octroi and Entry Tax<br>• Purchase Tax<br>• Luxury Tax<br>• Taxes on lottery, betting & gambling<br>• State cesses and surcharges<br>• Entertainment tax (other than the tax levied by the local bodies).<br>• Central Sales Tax ( levied by the Centre and collected by the States). |

The GST shall subsume all the above taxes except Customs Duty that will continue to be charged even after the introduction of GST .

- All the states (excluding Jammu and Kashmir) approved their State GST (SGST) laws. Union territories with legislature, i.e., Delhi & Puducherry, have adopted SGST Act and the balance 5 Union territories without legislatures have adopted UTGST Act.
- Every Taxpayer would be allotted a PAN-linked Taxpayer identification number (TIN) it will be 12-15 digits.
- For the implementation of GST in the country, the central and state Governments have jointly registered Goods and services Tax Network (GSTN) as a not-for profit, non Government, company to provide shared IT infrastructure and services to central and state Government, tax payers and other stakeholders. The key objectives of GSTN are to provide a standard and uniform interface to the taxpayers, and shared infrastructure Central and State Governments, tax payers and other stakeholders.
- GSTN is working on developing a state-of-the-art comprehensive IT infrastructure including the common GST portal providing frontend services of registration, returns and payments to all taxpayers, as well as the backend IT modules for certain States that include processing of returns, registrations, audits, assessments, appeals, etc. All States, accounting authorities, RBI and banks, are also preparing their IT infrastructure for the administration of GST.
- There would no manual filing of returns. All taxes can also be paid online. All mis-matched returns would be auto-generated, and there would be no need for manual interventions. Most returns would be self-assessed.
- Return filing procedure for the first two months of GST implementation is relaxed. Tax would be payable for the first two months based on a simple return Form GSTR – 3B containing a summary of outward and inward supplies. This form is required to be submitted before the 20th of the succeeding month. However, invoice details in regular GSTR-1 would also have to be filed for the month of July and August 2017, as per the timelines given below:

| **Return for Month** | **GSTR – 1** | | **GSTR – 2 (auto populated from GSTR-1)** | | **GSTR – 3B** |
|---|---|---|---|---|---|
| | **Due date** | **Extended date** | **Due date** | **Extended date** | |
| July 2017 | 10 August | 1-5 September | 11-15 August | 6-10 September | 20 August |
| August 2017 | 10 September | 16-20 September | 11-15 September | 21-25 September | 20 September |

- The registration procedures under GST are as follows:
  - NSDL has been appointed to incubate the GST Portal and develop its functionality. NSDL has created a pilot portal known as “GST Pilot Portal”

- Existing dealers: Existing VAT/central excise duty/service Tax Payers will not have to apply afresh for registration under GST.
- New dealers: Single application to be filled online for registrations under GST.
- Every tax payer will be issued a 15 digit common identification number which will be called as “Goods & Service Tax Identification Number” ID GSTIN a PAN base number.
- The registration number will serve the purpose for central and state.Unified application to both tax Authorities.
- Online application form for dealers will be available to provide their details and upload documents
- Registration includes basic steps like register themselves on the Enrolment page, and then Login using the given “User ID” and “password”, filling the application form by uploading the requisite documents related to excise, Service Tax, IEC, CIN, Professional Tax number, Shops & Establishment Number and any other state specific registration numbers, contact numbers, postal address & E-mail address of business entity, bank account details including MICR code, place of business, details of goods & services, scanned signed photographs.
- Deemed approval within three days.
- Post registration verification in risk based cases only.

• The returns filing procedures under GST are as follows:
  - Common return would serve the purpose of both central and state Government.
  - There are eight form provide for in the GST business processes for filing for returns. Most of the average tax payers would be using only four form for filing their returns. These are return for supplies, return for purchases, monthly returns and annual return.
  - Small taxpayers who have opted composition scheme shall have to file return on quartly basis.
  - Filing of return shall be completely online. All taxes can also paid online.

• Payment procedures under GST are as follows:
  - Electronic payment process no generation of paper at any stage
  - Single point interface for challan generation –GSTN
  - Ease of payment can be made through online banking/credit card/debit card/NEFT/RTGS and through cheque/cash at the bank.
  - Common challan form with auto population features
  - Use single challan and single payment instrument
  - Common set of authorized bank
  - Common Accounting codes

**Rate Structure of GST in India**

GST Council has declared four tier tax structures: 0% 5%, 12%, 18% and 28%. Lower rates are kept for essential items and higher ones for luxury goods. For controlling the inflation food items will be taxed at zero rates.

**Rate Classification for Goods**

| **Exempt 0%** | **Low Rate 5%** | **Standard Rate 12%** | **Standard Rate 18%** | **High Rate 28%** | **High Rate 28% + Cess** |
|---|---|---|---|---|---|
| Food grains<br>Cereals<br>Milk Jaggery<br>Common Salt | Coal<br>Sugar<br>Tea & Coffee<br>Drugs & Medicine<br>Edible Oil | Fruit Juices<br>Vegetable Juices<br>Beverages containing milk Jams | Kitchenware<br>Hair Oil Soap<br>Toothpaste<br>Glass fibre | Air conditioner<br>Refrigerators | Small cars (1% / 3% cess)<br>Luxury cars (15% cess) |

**Rate Classification for Services**

| Exempt | 5% | 12%-18% | 28% |
|---|---|---|---|
| • Education<br>• Healthcare<br>• Residential accommodation<br>• Hotel/ Lodges with tariff below INR 1000 | • Goods transport<br>• Rail tickets (other than sleeper class)<br>• Economy class air tickets<br>• Cab aggregators<br>• Selling space for advertisements in print media | • Works contract<br>• Business Class air travel<br>• Telecom services<br>• Financial services<br>• Restaurant services<br>• Hotel/ Lodges with tariff between INR 1000 and 7500 | • Cinema tickets<br>• Betting<br>• Gambling<br>• Hotel/ Lodges with tariff above INR 7500 |

Only rates of select goods and services have been mentioned here

- GST rate on pearls, precious or semi-precious stones, diamonds (other than rough diamonds), precious metals (like gold and silver), imitation jewellery, coins – 3%.
- GST rate on rough diamonds – 0.25%.

**Petroleum Products**, i.e., petroleum crude, high speed diesel, motor spirit, aviation turbine fuel, **and natural gas** will be brought under the ambit of GST from such date as may be notified by the Government on recommendation of the Council. **Alcohol** for human consumption has been kept outside the purview of GST.

**Destination Principle** The GST structure would follow the destination principle. Accordingly, imports would be subject to GST, while exports would be zero-rated. In the case of inter-State transactions within India, the State tax would apply in the State of destination as opposed to that of origin.

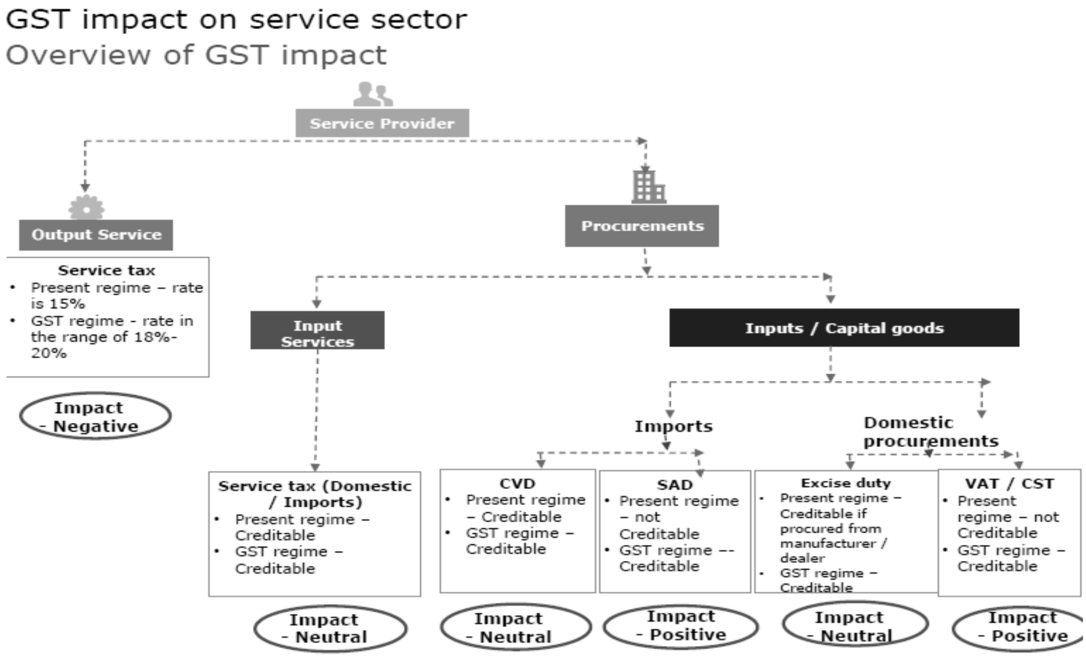
**Rules for Calculation of Tax Liability and Tax Credit**

- In case of Intra-state Sale, CGST and SGST will be charged and no IGST will be charged .
- In case of Inter-state sales, only IGST will be charged and CGST/SGST will not be charged.
- Output CGST will be adjusted only with Input CGST and thereafter for IGST.
- Output SGST will be adjusted only with Input SGST and thereafter for IGST.
- Cross adjustment of CGST with SGST and SGST with CGST is not allowed.
- Output IGST will be adjusted first with Input IGST, then with CGST last with SGST

**GST Impact on Various Sectors**

GST 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 eliminate the scope of double taxation in certain sectors due to tax dispute on whether a particular transaction is for supply of goods or provision of service such as licensing of intellectual properties like patents and copyrights, software, e-commerce and leasing. GST will have 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 .Below are few sectors at a glance:

| Sectors | Change | Impact |
|---|---|---|
| Telecom | Current Tax 15%.after GST 18%.may see marginal dip in consumption as tax rise from 15%to 18 % | Negative |
| Consumer Staples | Current Tax 22% now after GST 18% | Positive |
| Consumer Discretionary | Current Tax 15% After GST 18% | Negative |
| Bank | Current service tax 15% now after GST 18% | Negative |
| Media | Current Tax 15% service tax and entertainment Tax 7% by States, now after GST it will be 18 % | Positive |
| Real Estate | Current duty approx.7%,Rise in stamp duty from 15% to 16% | Negative |
| Cement | Current Tax 27% after GST it will be 18% | Positive |
| Auto Industries | Current Tax27% after GST it will be 18% | Positive |




A well-designed GST in India is expected to simplify and rationalize the current indirect tax regime, eliminate tax cascading and put the Indian economy on high-growth trajectory. The GST levy may potentially impact both manufacturing and services sector for the entire value chain of operations, namely procurement, manufacturing, distribution, warehousing, sales, and pricing.

**Benefits and Opportunities of GST**

GST will benefit to many parties including Government, Customers and Producers. GST will create various opportunities on various stakeholders like business, industry, government and consumers of GST. The various benefits expected are as under:

- Transparency in taxation system is increase employment opportunities.
- The major benefit of GST is that it reduces the cost of product and services. So customers will be getting the products and services at lower cost compared to the price they need to pay in current tax structure under VAT. It increases purchasing power and saving capacity.
- Currently because of multiple taxes in VAT there are some complexities which increases the cost of product, GST, Overcoming all the shortcomings of present tax structure will reduce the cost of product. Producers will be able sale the products at lower cost which directly increases their amount of sales and profit.
- The cost of manufactured goods and services will decrease with the comprehensive reduction of input cost of major Central and State Taxes in GST. This will create a competitive environment of goods and services of India, in the international market
- GST will also have impact on cash flow and working capital, cash flow and working capital of business organizations which maintain high inventory of goods indifferent states will be adversely affected as they will have to pay GST at full rate on stock transfer from one state to another. Currently CST/VAT is payable on sale and not stock transfers.
- GST is easy to understand and implement. A unified common national market to boost Foreign Investment and boost to export /manufacture activity, generation of more employment, leading to reduced poverty and increased GDP growth. Improve the overall investment climate in the country.
- GST will also bringing down the inflation and the fiscal deficit due to the reduction of prices. Control of black money circulation as the system normally followed by traders and shopkeepers will be put to a mandatory check. It would create business-friendly environment, thus by increase tax-GDP ratio.

**Challenges**

- GST is imperative to have a robust country- wide IT network and infrastructure to make the implementation seamless. Although, a large number of officers are being trained and systematic IT software is being developed for the successful implementation of GST, it will take some time for the people including the manufacturers, the wholesalers, the retailers or the final consumers to understand the whole process and apply it correctly. The IT network work is still in progress.
- The most important issue on which consensus eludes states and the Centre is regarding the states. States also fear that they will suffer heavy revenue losses. As octroi or Local Body Tax is abolished, its monetary compensation for Urban Local Bodies should be done properly from the concern State Government. But, experience in our country is not satisfactory because even after 73rd and 74th constitutional amendments States are supposed to appoint State Finance Commissions. Nevertheless, all states have not appointed State Finance Commissions regularly. The Corporations will loss the strong source of revenue.
- GST is not friendly with banking sector. Because the cost of goods become cheaper after GST and it will promote export. Presently, 14% service tax is being levied on baking transactions. GST will make these transactions more costly. Over and above, in most of countries banking sector is excluded from GST.
- There are certain state specific issues. For example, Maharashtra, earns more than 13,000 crore annually from octroi. Gujarat earns about 5,000 crore from the CST. Punjab and Haryana earn more than 2,000 crore from purchase tax. Each of these states fears that they will lose these revenues once these levies get subsumed under GST.
- 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

**Conclusion**

It is found that in countries where GST has been implemented had positive impact on their economies. GST is a long-term strategy planned by the Government and its positive impact shall be seen in the long run only. Let us hope this 'One Nation - One Tax' proves to be a game changer in a positive way and proves to be beneficial not only to the common man but to the country as a whole. we find the GST is expected to raise overall Indian welfare and is projected to be an inclusive policy in that it would be welfare improving for industry, trade, agriculture and all Indian states. Now Indian consumer need to have professionalism to acknowledge the GST. If GST committee would deal successfully with probable loopholes, GSTN (Goods and Service Tax Network Company) will make reliable, efficient and robust information technology backbone, tax payers will accept rigorously new changes and will be ready to be familiar with new techniques, GST It is sure that India will join the international standards of taxation.

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