

GOODS AND SERVICE TAX: A GAME CHANGER FOR INDIAN ECONOMY

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ABSTRACT

Goods and Service Tax or GST as it is known is all set to be a game changer for the Indian economy. It is one of the most crucial tax reforms in India. It was supposed to be implemented from April 2010, but due to some political issues and conflicting interests of various stakeholders it was pending. It is a comprehensive tax system that subsumes all indirect taxes of states and central government and unified economy into a seamless national market. It is expected to overcome the drawbacks of existing indirect tax system & play a vital role in growth of India. GST is expected to address the cascading effect of the existing tax structure and result in uniting the country economically. This paper highlights the background, objectives of GST and the impact of GST on Indian economy. The paper further explores various benefits & opportunities of GST. Finally, the paper examines & draws out a conclusion.

KEYWORDS: GST, VAT, OCB, CENVAT, Direct Tax, Indirect Tax, Impact, Tax, Economy.

Introduction

The word "tax" is derived from Latin word "taxare", which means to estimate. A tax is a compulsory contribution, exacted pursuant to legislative authority. The Indian Taxation System comprises of two parts Direct Tax and Indirect Tax. The approval of the GST will mark a benchmark in the development of the economy of the country but impact of GST on Indian economy may disrupt the economy for a short-term. Until now, the introduction of VAT (Value Added Tax) at the state level and CENVAT at central level were considered to be the largest indirect tax reforms in the country, but GST will be the next logical step towards making India a unified market. The GST is one of India's most significant and ambitious reforms ever attempted. Hence, the impact of GST on Indian Economy is supposed to be very significant.

Objective of the Study

- To study and understand the concept of GST.
- To learn about drawbacks of current taxation system in India.
- To study the benefits of GST over the current taxation system in India

Research Methodology

The study focuses on extensive study of Secondary data collected from various books, National and international Journals, government reports, publications from various websites which focused on various aspects of Goods and Service tax.

Concept of GST

Goods and Services Tax (GST) is the biggest tax reform since 1947. GST was founded on the notion of "one nation, one market, and one tax". Lok Sabha passed the GST Act on 29th March, 2017,

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which came into effect from 1st July, 2017. GST was applicable throughout India; it replaced multiple cascading taxes levied by the central and state governments. It was introduced as The Constitution (One Hundred and First Amendment) Act 2017, following the passage of Constitution 122nd Amendment Bill. The GST is governed by a GST Council and its Chairman is the Finance Minister of India. There are 3 applicable taxes under GST: CGST, SGST and IGST.

- **CGST:** It is collected by the Central Government on an intra-state sale.
- **SGST:** It is collected by the State Government on an intra-state sale.
- **IGST:** It is collected by the Central Government for inter-state sale.

Advantages of GST

- GST will give a major boost to the 'Make in India' initiative of the Government of India by making goods and services produced in India competitive in the National as well as International market. Also all imported goods will be charged integrated tax (IGST) which is equivalent to Central GST + State GST. This will bring equality with taxation on local products.
- In the GST system, when all the taxes are integrated, it would make possible the taxation burden to be split equitably between manufacturing and services.
- GST is largely technology driven. It will reduce the human interface to a great extent and this would lead to speedy decisions.
- By subsuming most of the Central and State taxes into a single tax and by allowing a set-off of prior-stage taxes for the transactions across the entire value chain, it would mitigate the ill effects of cascading, improve competitiveness and improve liquidity of the businesses.
- GST is a destination-based tax. It follows a multi-stage collection mechanism. In this, tax is collected at every stage and the credit of tax paid at the previous stage is available as a set off at the next stage of transaction. This shifts the tax incidence near to the consumer and benefits the industry through better cash flows and better working capital management.
- GST will also help to build a transparent and corruption free tax administration.
- GST is a win-win situation for the entire country. It brings benefits to all the stakeholders of industry, government and the consumer. It will lower the cost of goods and services, give a boost to the economy and make the products and services globally competitive.
- GST aims to make India a common market with common tax rates and procedures and remove the economic barriers, thus paving the way for an integrated economy at the national level.

Shortcomings of Current Tax System

- **Cascading:** Current system of multiple levies distributed between Center & States results into cascading (i.e. tax on tax) effect. For instance, no credit of State VAT is allowed against Central Tax. CST credit paid in the originating State is also not allowed in the receiving State. This results in the increase in the overall burden of tax in the hands of end customer and creates distortion in the market.
- **Exemptions & Concessions:** Under the current system, businesses enjoy many kinds of exemptions & concessions under different levies which break the chain of VAT and thus create distortion. Also these kinds of benefits do not create a level playing field especially when the same commodity is taxed at different rates in different jurisdictions.
- **Lack of Transparency:** Under excise & service tax law, currently there is no mechanism to cross verify the claim of CENVAT credit made by the manufacturer/service provider. Even under State VAT laws, all the States in India do not have the mechanism to cross verify the credits.
- **Lack of Uniformity in Provisions and Rates:** Present VAT structure across the States lacks uniformity which is not restricted only to the rates of tax but also the credit provisions as well as procedures.
- **Multiple Points of Taxation:** Under the current system there are multiple points of taxation. Excise is levied when goods manufactured are cleared from the factory premises irrespective of the fact that the clearance is on account of sale or otherwise. State VAT is levied on sale of goods. Entry tax is levied on entry of goods in a particular State.
- **Complexity in Determining the Nature of Transaction—Goods vs. Service:** The distinction between goods and services found in the Indian Constitution has become more complex. Today,

good and service are being packaged as composite bundles and offered for sale to customers under a variety of supply-chain arrangements.

- **Multiple Administrations:** Under the current system, businessmen are required to visit different tax offices according to the applicable laws to his business. These increases the compliance cost of businesses and breeds unnecessary complexity.

Impact of GST on Indian Economy

- The flow of Foreign Direct Investments may increase once GST is implemented as the present complicated/ multiple tax laws are one of the reasons foreign Companies are wary of coming to India in addition to widespread corruption.
- It is estimated that India could get revenue of \$15 billion per annum by implementing the Goods and Services Tax as it would promote exports, raise employment and boost growth. Over a period, the dilution of the principles may see that only part of this is accruing.
- Uniformity in tax laws will lead to single point taxation for supply of goods or services all over India. This increases the tax compliance and more assesses will come into tax net.
- This reduces litigation and waste of time of the judiciary and the assessee due to frivolous proceedings at various levels of adjudication and appellate authorities. Present law appears to be much worse and an amalgam of the bad parts of VAT/ ST/ CE.
- GST could also result in increased employment, promotion of exports and consequently a significant boost to overall economic growth and factors of production -land labour and capital.
- Reduce tax burden on producers and foster growth through more production. This double taxation prevents manufacturers from producing to their optimum capacity and retards growth. GST would take care of this problem by providing tax credit to the manufacturer.
- Various tax barriers such as check posts and toll plazas lead to a lot of wastage for perishable items being transported, a loss that translated into major costs through higher need of buffer stocks and warehousing costs as well. A single taxation system could eliminate this roadblock for them.
- A single taxation on producers would also translate into a lower final selling price for the consumer. Also, there will be more transparency in the system as the customers would know exactly how much taxes they are being charged and on what base.
- GST would add to government revenues by widening the tax base.
- GST provides credits for the taxes paid by producers earlier in the goods/services chain. This would encourage these producers to buy raw material from different registered dealers and would bring in more and more vendors and suppliers under the purview of taxation.
- GST also removes the custom duties applicable on exports. Our competitiveness in foreign markets would increase on account of lower cost of transaction.
- The proposed GST regime, which will subsume most central and state-level taxes, is expected to have a single unified list of concessions/exemptions as against the current mammoth exemptions and concessions available across goods and services

Conclusion

There are approximately 140 countries where Goods and Service Tax has already been implemented. Some of the popular countries being Australia, Canada, Germany, Japan, and Pakistan, to name a few. Implementation of GST impacts a nation both ways, positively and negatively, but ignoring the negative aspects and considering the positive aspects in order to improve the economy of the country is very important. In order to measure the Impact the GST we need to wait for the time and the Government needs to communicate more and more about the systems. It could be a good way to reduce the black money and good effort by the Government of India after the Demonetization of the money in 2016. At the end we can say no doubt it is the biggest ever change in tax structure of India. There will be fall in prices of some commodities but on the other hand price of some other goods and services will rise. There is threat of inflation too and states may face reduction in their financial resources. But overall it will be a great change.

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