

IMPORTANCE OF GST IN STATE REVENUE: A QUALITATIVE STUDY

Dr. Naina Hasija*

ABSTRACT

For removing the cascading impact of taxes and for offering a nationwide marketplace for commodities, India is slowly moving towards the introduction of GST. In terms of the proposed tax reform, the State and the Central Governments would have a concurrent tax power for levying the taxes on the supply of commodities. It's being expected that this proposed regime would help in improving the collection of tax and minimising leakage. This is because the State and the Central Tax Administration would monitor as well as assess the similar taxpayers. There are a number of challenges before the introduction of "Goods and Services Tax." They may be classified into 2 broad headings i.e. Design of GST and the related structure, and GST administration and institution. On the designing related challenges, a broad consensus regarding the choice of neutral rates of revenue, harmonisation of the rate of GST across different states, harmonisation of the exempted list and excluded commodities and threshold for the compulsory GST registration across states still need to be reached.

Keywords: GST, VAT, GST for Businesses, GST for State and Central Revenue.

Introduction

In Indian history, "GST (Goods and Service Tax)" is a land mark tax reform in which multiple and indirect taxes were levied and collected by "Centre" and the "States" as only tax that is GST. This tax is on the supply of "goods" and on the "services" as well and also on the value addition at all the stages of "production" and "distribution chain" with appropriate "set offs" in place of all the taxes that were paid at the earlier phases. Basically, GST is applied on the "final consumption" and since the consumers comes last in the supply chain, bears the burden of the tax of all the goods and services. Because of the implementation of "GST (Goods and Service Tax)," India has been focused by the world and now becoming a common market for a population of nearly 125 crore. Goods and Service Tax was introduced and implemented in the year 2017 with the key slabs of "0%, 0.25%, 3%, 5%, 12%, 18%, and 28%" in which almost all the indirect taxes were merged into a single tax that was applied on the "goods" and the "services" as well. This GST is for all the manufacturers, distributors, retailers and the consumers.

The cascading effects of the taxes were all removed by Goods and Service Tax GST and it is very helpful in reducing the cost of raw materials and the cost of the production in suitable manner. "GST" is considered to "One Nation one Tax" in which the traders and the manufactures had got the freedom of choosing their vendors, and the suppliers at the best and genuine process that does not depend on the location because the "GST" is same all over the country and also it requires very minimum paper work. GST is beneficial for the business and financial sector as it had increased the efficiency and the supply and since GST has removed multiple check points and permits at the check points at the borders, it has saved nearly 50% of the efforts and time of the logistics. This in turn has increased the road hours and decreased the delivery time which at the end has increased the efficiency of the labours. Due to GST the competitive pricing and economies of large scale came into focus because GST had made the process easy also had reduced the cost price.

* Associate Professor, Department of Commerce, Delhi University, Delhi, India.

The competition between the manufacturers and the traders has been increased and this had increases their profitability. It was stated by Mahesh (2017) in his study that there are number of companies of different sectors and fields comes under un-organized category and after the implementation of GST majority of them will definitely come under the "tax regime" that will help them leading to reduce their competitiveness as compared to the organized companies.

There are a number of challenges which are involved in administration of tax between the State and the Central tax administration and even across State Taxes Administration. This has still not been solved. Taking cognizance of the discussion available in public domain, several attempts have been made for providing a broader control of proposed regime of GST. It highlights some of the major issues that demand immediate attention of the government (Bhattacharya and Choudhury, Majumdar,2018).

Indian GST or "Goods and Service Tax" regime has come half way for the transitional period of July, 2017 to June, 2022 in Dec, 2019. By the evaluation of performance of GST has covered just the overall collection of GST in the country. There are several aspects of the Goods and Services Tax that still need to be considered with a greater availability of the data of GST in public domains. Until recently there was absolutely no information from the state about GST availability in public domains for undertaking the assessment of performance. With a clearer understanding of different components of the collection of "GST" and "ITC(Input Tax Credit)" mechanism of adjustments, especially related to IGST or "Integrated Goods and Services Tax."Several papers have been written for undertaking the detailed evaluation of GST both at the state and the union level and estimated observance gap of the Goods and Services Tax.

The assessment of performance between the states that need to comply and the collection of GST is important in order to understand the economic autonomy between states. The base of tax for states included under the regime of GST and is used for contributing a prominent share in the mobilisation of OTR or the Own Tax Revenue. Thus, the significance of revenue of GST in the state finance is quite high. Unlike union government, the states have a very limited power of taxation for coping with the shortfall in the collection of GST. Since the continuation of "Goods and Services Tax" beyond period of transition is not certain, it would always be significant for the states to safeguard their taxation base. It is also very important to explore different possibilities for extra mobilisation of revenue from current sources of taxation and non-taxation revenues for fulfilling the ever increasing demand for public expenditure. The specific objectives of these studies understand the state- level collection as well as compliance of GST and for estimating the gap in compliance.

The exclusion of the services from VAT base is considered to be one of the major weaknesses of current VAT regime. The exclusion of the services from base, even when the states have been empowered for the services related to tax on the standalone basis, may help in eliminating the issue of cascading from taxation system (Madhavi and Panganti, 2018).There are so many advantages of Integrated Goods and Service Tax (IGST) model such as it is helpful in maintaining the un-interrupted ITC chains on interstate transactions, and due to IGST, there will be no up-front payment of taxes or substantial blockages of fund for interstate sellers and the buyers. Now due to IGST, no one can claim for the refund in exporting state because ITC has been used to pay the taxes.

There are self monitoring models and also the "Integrated Goods and Service Tax (IGST) model" also gives guarantee of the neutrality of the tax as has simplified the tax regimes. It has also simplified the accounting in which there is no extra compliance burden in the tax payers. It is also helping in ensuring high level of compliance and therefore increasing the efficiency of collection of the tax. Integrated Goods and Service Tax (IGST) model also addresses "Business to business" and "business to consumers" both the transactions.

Review of Literature

GST or the "Goods and Services Tax" system is a very vast perception that simplifies the massive structure of taxation. It supports and enhances the monetary development of the country. "GST" was introduced for ending multiple taxes such as "VAT, CST, sales tax, service tax, centre sales tax, etc." These taxes are implied on various products ranging from the manufacturing source till it goes to end consumers. This makes movement of commodities very difficult (Mahender, 2017). Currently, the commodities are differently taxed. Also, they are taxed at different levels. However, after the introduction of GST, the commodities would be treated on an equal basis and multiple taxations would prominently reduce it and cause less corruption.

GST is the comprehensive tax which is charged on sale, consumption of commodities, manufacturing of commodities, etc. at the national level. The GST bill which is also called The Constitution Bill of 2014, proposes that the "Value Added Tax" should be implemented at the national level in the

country. "GST" is an indirect taxation system which is levied at all stages of manufacturing. It helps in bringing uniformity in taxation system. On bringing "Goods and Services Tax" in practice, there will be an amalgamation of the State and Central taxes in one single payment of tax (Goswami & Agrawal, (2017).

GST is the comprehensive tax which is applied on sale, manufacture, as well as consumption of commodities at the national level. The "GST taxation bill" or the "GST bill" is also called the "Constitution Bill." It initiates VAT for being implemented at the national level. "GST" is an indirect tax which is levied at all stages of manufacture for bringing uniformity in a system (Kaur, 2016). For bringing "GST" in practice, there will be an union of State and Central taxes in one single payment system. It might also help in improving the status of India in the domestic and the international market. At the level of consumers, GST will be reducing the overall burden of tax and international market as well (Dash, 2017).

Taxation is considered to be very important and one of the major sources of revenue for economic growth and development. For most of the countries, revenue comes from taxation which comprises of indirect as well as direct taxes. The contribution towards the national fiscal tax through implementation of VAT in the developing nations like China is a lot more than developed nations. Also, VAT has proved to be one of the major sources for tax revenue in China. In Malaysia, implementation of the "Goods and Services Tax" aims at improving the collection of revenue and reducing growing deficit of budget of the nation. This ultimately increases standard of life amongst the Malaysian citizens (Savithri and Harini, 2018).

Right from 1960 to 1970, just a couple of nations adopted GST. Most of these countries depended on direct taxes like personal tax and corporate tax. A high rate of tax was fixed in early 1970 like in UK it was 75%, South Korea it was 70% and in Taiwan it was 60%. Consequently, high corporate tax discourages the initiatives by the foreign investors. They conduct international transactions within these countries (Dixit, 2018).

One of the main advantages for implying GST is its efficiency in raising national income. On the contrary, amongst the different reasons for implying of GST is sustaining low corporate taxes in a nation. Thus, it needs to inculcate spirit of the entrepreneurial processes amongst the citizens of Singapore. This in turn adds value to the business environment and attracting the foreign investors. Apart from this, implementation of the "Goods and Services Tax" may even help in reducing the reliance on the direct tax as the primary source for revenue (Bodnar, 2018). Clearly, GST may prove to be quite even source for revenues, helping the governing bodies in channelling back advantages to people. Thus, the program of tax reforms which was adopted by Malaysian Government intends to have a constant income as well as improve the standard of life amongst the Malaysian citizens. It's indeed an efficient strategy of economic development to over towards the high income country by 2000(Kumar, Prasad, &Bhat, 2018).

At the level of consumers, GST will be reducing the burden of tax which is at present twenty to thirty percent. In this system of tax, consumer pays final tax and an effective system of input taxation credit helps in making sure that there's no cascading of tax. For avoiding paying multiple taxes like "service tax and excise duty at the Central level" and "Vat at State level," GST unifies the taxes and develops a inform marketplace across the country. The integration of different taxes into the system of "GST" brings an efficient cross utilisation of credit. The present system of production of taxes and GST aims at consumption of taxes(Jain, 2018). Currently, commodities are taxed in a different manner and even at different levels. However, after the application of GST, the commodities would be equally treated. Also the multiple tax level would be reduced prominently and this would eventually cause less amount of corruption. GST would also reduce the complexity of tax and help the businesses in a number of ways(Kaur, Mehta & Gudwani, R., 2018).

It offers a number of advantages to the stakeholders, citizens, industries, and the government. It is also expected that it will reduce the cost for commodities, boost economy and also to make the product and service competitive globally. GST would make India the common nationalised market with uniform taxation rate and processes. It removes all the economic barriers, and paves modes for "integrated economy" at national level (Uma & Umamaheswari,2018). By including the "State" and the "Central indirect tax" in one "single tax" and by permitting the set-off of the initial stage of taxes for transaction throughout the "value chain," GST mitigates the ill-effects of "cascading" and improves "competitiveness" in the Indian industry. It is planned in such a way that the tax which is collected at each stage and credit of the taxes that is paid at earlier stages are there for setting off taxes which need to be paid at following stages of transactions. Thus, it completely eliminates the cascading of tax. This helps in eradicating taxes on taxes. It also permits cross-utilisation of input taxation credits that benefit industries by making the whole tax on supply chain neutral.

GST would give a height to Indian Government. It makes commodities provided or produced in India, very competitive at the "national" as well as "international level." Further, all the goods that are imported are charged with an incorporated tax. This is almost similar to "Central GST" and "State GST." It brings parity in tax on the local as well as imported commodities (Mujalde and Vani, 2017).

Under the domain of GST, the exports are rated zero in the entirety, unlike earlier tax systems where the refund of a few taxes wasn't allowed because of fragmented nature of the indirect tax between States and the Centre. All the taxes which are paid on commodities exported or on the input or the input services which are used for supplying the exported commodities may be refunded. The main principle to export just the cost for commodities and not the taxes is not followed. It boosts the Indian exports improving balance of payment status. The exporters are also being facilitated through grants of the provisional refund of about 90% of the claims within just 7 days of issuing acknowledgment of application. This results in easing the position in respect to the flow of cash. It was stated by Vijayaraghavan & Unais (2017) in their study that there is an important impact of "GST" on the economy of India and the study has also concluded that the burden of the tax on the manufacturers will be reduced by the implementation of GST and this in turn will encourage them to increase their production. It is also found that the export of India will be increased by this process and this will result in increasing the total GNP (Gross Domestic Production). Since it is avoiding the cascading effects which in turn is empowering the manufacturers to increase their production to their optimum cap.

The consumers are mostly concerned with implementation of VAT or GST. It causes the price to go up. However, implementation of the Value Added Tax in Australia's did not show any prominent distinction in pricing within 8 capital cities. On the contrary, in Canada, price just hiked up once. However, this was not constantly after implying VAT. Although an increment in pricing was there after implementation of the "Goods and Services Tax" because of uneven transitional stages from earlier taxation system Singapore proved that they uphold inflationary pressures (Yadav & Shankar, 2018).

The evaluation of the state performance for its fulfilment and collection of GST is very important as it will help to understand the state financial trajectory. In India, there are so many structural changes that were taking place and it is expected that it will influence the inter-governmental financial relations and also the financial self-sufficiency of the state. Tax base of the states is included in GST and are contributing a significant amount in "OTR (Own Tax Revenue)" mobilization and this is the reason why "GST" plays very important role in the state finances. It is not like the union government where the states do not have sufficient power to overcome the issue of short fall in the collection of GST. As the continuance of GST returns beyond the transition duration of time is not fixed (Mukherjee 2020), it will always play an important role in protecting their tax bases and also help in exploring the potential for extra revenue mobilization from the present sources of "tax and non tax" revenues that can fulfil the demands of the public expenditures that keeps on increasing daily.

It is concluded by Namburajan & Kesavan (2020) that for an organization, the publicity and advertisements are the key life lines to sell their goods and services as well. Other main service procurements are "brand promotion services, advertisement expenses and hiring of building and studios" on which GST was applied at the rate of 15% but now it is applied at the rate of 18% which shows GST has been reduced from the taxation that was applied in previous days as tax has been bifurcated from 15% to 45% on the total expense that has been involved on the advertisements for the advertisements that were done through non print media and its taxation cost as well. It is found that the advertising revenues are providing a significant share of the funding for majority of television networks that were owned by the private sectors. In order to generate more revenue the numbers of commercials were increased but their duration has been decreased.

It is seen that there is a significant number of people that are not aware and also they do not have the proper knowledge of GST. It is very important for the government to aware the people and make them understand the value of GST on every purchase of goods and the services especially in case of "invoice, purchase bill, and the transactional evidence documents." It is found that after the implementation of GST, India is experiencing a huge difference in the growth in terms of collection of tax system and it is not possible for the businesses to seal their income which is above Rs. 5 lakh and is a taxable income and will not be able to avoid to pay the tax and fill the income tax returns. The agencies involved in advertisement sector are not included for the GST for their business and the client will only pay for their advertisements at the rate of 18% if it is in digital form and at the rate of 5% of the GST if it is in print form.

It is found in the study by Ilagerr (2018) that GST is helpful in reducing the compliance burden and will develop the economy of India. It is also found that GST plays a crucial and important part in country's growth and development. The implementation of "Goods and Services Tax" wouldn't increase the prices. It would further either retain or reduce the prices. It's been proven through efforts by some of the biggest merchandise and grocery retailers. The businesses were able to maintain similar prices and announce absorption of the indirect taxes for products that are followed by different merchandise and grocery retailing giants and other businesses. Resultantly, there been increased competitiveness in global market which would continue to be so in future as well.

Conclusion

With GST, its being anticipated that taxation base would be quite comprehensive, virtually all the commodities would be taxable with minimum to no exemptions. GST would also bring in the modern day taxation system for making sure that there is an effective and efficient administration of tax. It would bring better transparency and also help in strengthening the system of monitoring. Therefore it makes evasion of tax difficult. While the entire process of GST implementation has unfold and is very important for an understory to first understand the effect as well as opportunities offered by the GST reform.

The GST is considered as the biggest game changer when it comes to indirect tax reforms in India. GST has removed the cascading effects of taxes on the cost of "goods" and "services" and it is supporting India to make its position among other fastest growing economy all over the world. GST was implemented in the year 2017 and after that number of important and significant changes has been made in its compositions and framework that is based basically on different recommendations that were made by the council of GST and this is the reason why a decrease in the incidence of GST has been seen from 14% to 11.8% from the 2017 to 2020. In addition, there are so many efforts that were made by the governing bodies to ensure 99% of items should attract about 18% of GST or may be lower than that they are also making efforts to leave only sin or luxury items and keep them in the highest tax brackets of 28%. The implementation of GST has also reduced the inter-state transaction cost significantly and for the Indian traders and the manufacturers the model of IGST is very beneficial as it has reduced the transaction cost which is further helpful in reducing the cost of raw materials, it has also improved the sales and has increased the efficiency of the labours and is very important for the revenues and finances at it has overall increased the profitability of the country.

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