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GST AND INDIAN ECONOMY

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ABSTRACT

GST (Goods and Services Tax) is a tax on consumption of goods and services. It is a single tax on supply of goods and services which is levied from manufacturing of good and flows till final consumption of goods. It is pertinent to note that the credit of taxes paid at previous stages are available as set off. Thus, it can be construed that under this regime, only addition in the value gets taxed and the tax load is borne by the consumer finally.

KEYWORDS*: GST, Single Tax, Supply of Goods & Services, Fiscal Responsibility, Budget Management.*

Introduction

The origin or journey of GST in India is outlined below:

- The Kelkar team recommended the implementation of the Fiscal Responsibility and Budget Management Act, 2003. The vision of this team was to implement fully integrated system of GST in PAN India.
- Then Union minister Shri P Chidambaram introduced a National level Goods and Service Tax by April 01, 2001 at the time of presenting the budget for 2007-2008.
- The process of enactment of GST accelerated when the then government in power tabled the Constitution (122nd Amendment) Bill, 2014 in the Parliament on 19th December 2014.
- This bill was passed by the Lok Sabha on 6th May 2015 and then by Rajya Sabha on 3rd August 2016.
- After received the affirmation on this bill from majority of the states, the Constitution (122nd Amendment) Bill, 2014 was presented to the President of India and it received his assent on 8th September 2016.
- Post receiving the President assent, the bill converted into the Constitution (122nd Amendment) Act, 2016, hence actually legalized and GST was officially introduced in India.
- Thereafter, the government introduced in Lok Sabha CGST Bill 2017, IGST Bill, 2017, UTGST Bill, 2017 and GST (compensation to state) Bill, 2017 on 27th March 2017. They all were passed on 29th March 2017 and received assent of the honorable President on 12th April 2017.
- The aforementioned implementation of the central acts also served as a driver for the various state to enact their State GST laws. The first five states to pass their State GST laws were Telangana, Rajasthan, Chhattisgarh, Punjab, Goa and Bihar.
- The government officially launched the GST from 1st July 2017.

The GST Law in India is a comprehensive indirect tax reform and a significant breakthrough for organized and unorganized sector. It deals with merging various central and state taxes into one single tax, resulting in uniformity in tax system, dismantling all the inter-state barriers with respect to trade.

Basis its features, GST will undoubtedly improve collection of tax for the government on account of uniform form of levy. Further, due to introduction of technology driven processed in this system, it will surely assist in eliminating/minimizing black money. There was a PAN India adoption of the technology which helped in removing the complexities of reporting, filing return, assessment and all the relevant compliances.

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Further, GST model has been framed keeping in view the federal structure of India. As a federal republic, India has a clear division of taxation powers under the Constitution between the Centre, States and the local Authority. In GST model, there will be levy of GST by Centre and State on taxable supply of goods and services if such transaction occurs within a State or Union territory. However earlier the taxpayers continued to remain caught in the net of various types of taxes being levied by these three authorities and related compliances. GST has now relieved the taxpayers from these complexities and paved a way for a uniform tax system.

There were various flaws in the erstwhile tax system like dual taxation of transaction as both goods and services, cascading effect of taxes, non-integration of VAT and service tax, no proper check, lack of transparency, manual intervention, problem in set off of input credit resulting in high burden of tax on consumer etc. All these deficiencies have been now removed under this new regime of indirect tax. To further understand this legislature, it is important to know the various objectives of this GST regime:

- To prevent cascading effect i.e. tax on tax/double levy of tax. The major objective of implementing this regime was to prevent this cascading or double taxation in a significant way. The set off of relief has become seamless and it has led to a continuous chain of set off from original producers point or service provider point upto the retailer lever or consumer level.
- GST has replaced and merged various indirect taxes into a single tax. The benefit of one single tax would imply following the same rate for a specified product or service.
- Implementation of GST has eased tax administration for the taxpayers as well as government as the same is technology driven. The same has brought major transparency in the system, which was missing in the erstwhile regime.
- GST has helped in widening the tax base and reach in India as supplier of good and services are mandatorily required to obtain registration under the Act if his turnover of the business exceed a specified limit.

In order to further understand the impact of GST on the overall Indian economy, it is important to understand the application of GST and its types.

GST is levied on every stage of manufacturing and sales of goods and services across India. This is a destination-based tax, which is levied when the goods or services are consumed. The earlier concepts of manufacture or sale of goods or rendering of services are no longer applicable as the tax is no levied on “Supply of Good and/ or services”. There are three subcategories to GST:

- **CGST** (Central Goods and Services Tax) is imposed/levied by the Central Government on intra-state supplies of goods and services.
- **SGST/UTGST** (State Goods and Services Tax/Union Territory Goods and Service Tax) is imposed by the State Government on intra-state supplies.
- **IGST** (Integrated Goods and Services Tax) is a tax imposed and levied by Center on sale from state to another i.e. on inter-state supply of goods and services.

To sum up, Central government administers CGST and IGST, whereas SGST/UTGST is governed by respective State/Union territory. For the purpose of CGST, there is single legislation – CGST Act, 2017. Further, legislation for governing UTGST in union territories without State legislature like Andaman and Nicobar Island, Lakshadweep, Dadra and Nagar Haveli, Daman and Diu and Chandigarh is governed by UTGST Act, 2017. The State and Union territories which have their own State legislature (Delhi and Puducherry) have their own GST law for administration of SGST. This dual GST model has made administration easy and efficient for the relevant stakeholders.

One may think that there are multiple law governing SGST, however it is important to note that the basics of the structure is consistent in all the SGST legislation including its features, definition, classification of goods and services, meaning defined of various important terms, taxability, procedure etc. The soul of the GST is one nation, one tax, accordingly, to protect this soul, it is important to have this uniformity in all legislations. Further, the input tax credit is available seamlessly in the supply process. Input tax credit in respect of CGST is allowed to be set off against the payment of CGST liability. Similarly for SGST/UTGST input tax credit can be set off for payment of SGST/UTGST liability. However, one may note that cross utilization of credit of CGST and SGST/UTGST is not possible i.e. CGST credit cannot be utilized for payment of SGST/UTGST and vice versa. Cross utilization is allowed only between IGST and CGST/SGST/UTGST. Hence, credit of IGST can be utilized for disbursing CGST/SGST/UTGST liability.

Let us Understand the above with an Example

Mr A has an IGST liability of INR 500 and the input tax credit available for IGST is INR 1000. In respect of CGST, he has an output liability of INR 500 and input tax credit of INR 300 is available as to him. He has also output liability towards SGST/UTGST of INR 500 and INR 300 is available as input tax credit for same.

In this illustration, Mr. A can set off IGST liability of INR 500 towards its IGST input tax credit. For balance IGST credit of INR 500, the same can be set off against CGST and SGST/UTGST. After setting off of IGST input tax credit of balance INR 500 equally between the two, the balance CGST tax liability of INR 250 can be adjusted from CGST input tax credit and similarly for STGST/UTGST balance liability of INR 250 can be adjusted under available STGST/UTGST input tax credit. It is important to note that IGST credit can be utilized by the taxpayer in any order. The only condition to be kept in mind is to utilize the IGST credit prior to setting off the CGST or SGST credit. A careful consideration needs to be done in respect of allocation of these credits by the taxpayer to achieve optimum utilization.

With this above detailed discussion, let's go through the practical aspect of GST by understanding the impact of GST on the Indian economy:

- GST has eliminated the chain of multiple taxes and hence double taxation. This new law has subsumed majority of indirect taxes into single GST.
- The overall burden of the levy of tax on the consumer has gone down due to integration of multiple taxes into one single tax and seamless set off of credit.
- There has been a massive increase in the government revenue in terms of GST collection post introduction of this GST law. The major reason for such surge is due to adoption of technology and systematic related changes. The government has implemented various artificial intelligence tools to fix the areas of revenue leakage and catch suspicious transactions. Also, a website has been setup by the government for ease of the taxpayer and a common IT framework for Centre and State.
- The administration of the government is much simpler in GST as compared to erstwhile regime. All the activities like invoicing, registration, electronic return filing, application for refund, assessment, response to notices needs to be done online on the GST portal, which accelerates the processes and brings transparency into the system.

Hence, it can be rightly said that GST is a cure for all the ills of the erstwhile indirect tax regime. It has proved to be an efficient system and also covered large number of suppliers under its ambit, thus widening the tax base. The government has been extending all support to the supplier and manufactures and have implemented the best possible measures to maintain liquidity in their hands and save them from financial crisis. One such example of the same is reliefs announced by the government after emergence of Covid 19 in India. The reforms included extension of due dates of various compliances, relief in payment of taxes, refund processing etc. It has let to rise of various growth opportunities at all levels.

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