

Goods and Service Tax (GST): Make in India by Making One India

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Abstract-Indian economy is the witness for accelerating the growth in very short span of time. Tax in form of direct and indirect is the major source of income to the government. Chairman of 13th Finance Commission Dr.Vijay Kelkar has suggested to have a rational, scientific and modern taxation system in tune with developed nations form the base behind the introduction of Goods and Service Tax (GST) in India. Tax structure is planned and implemented in such a way that it leads to the development of country. A Taxation Structure which facilitates easy of doing business and having no chance for tax evasion brings prosperity to a country's economy. The Good and services tax (GST) is the principal and extensive indirect tax reform since 1947. Replacement of exiting taxes like value-added tax, excise duty, service tax and sales tax is the main idea of GST. It will be imposed on manufacture sale and consumption of goods and services. GST is expected to effect of the existing tax structure and result in uniting the country economically. The GST based taxation system brings more transparency in taxation system and increases GDP rate from 1% to 2% and reduces tax theft and corruption in country. The paper highlighted the background of the taxation system, the GST concept along with significant working, comparison of Indian GST taxation system rates with other world economies, and also presented in-depth coverage regarding advantages to various sectors of the Indian economy after levising GST and outlined some challenges of GST implementation. This paper has highlighted on the background, objectives of the proposed GST and the impact of GST in different areas of Make in India and Indian Economy. The paper further focused on various benefits and opportunities of GST. Finally, the paper examines and draws out a certain conclusion.

Keywords: Indirect Tax, GST, GST Council, Tax Reforms.

INTRODUCTION

GST stands for Goods and Services Tax levied by the Government in a move to replace all of the indirect

taxes. In India, the idea of GST was contemplated in 2004 by the Task Force on implementation of the Fiscal Responsibility and Budget Management Act, 2003, named Kelkar Committee. The Kelkar Committee was convinced that a dual GST system shall be able to tax almost all the goods and services and the Indian economy shall be able to have wider market of tax base, improve revenue collection through levying and collection of indirect tax and more pragmatic approach of efficient resource allocation. Under the Goods and Service Tax mechanism, every person is be liable to pay tax on output and shall be entitled to enjoy credit on input tax paid and tax shall be only on the amount of value added. The principal aim of GST is to eliminate cascading effect i.e. tax on tax and it will lead to bringing about cost competitiveness of the products and services both at the national and international market. GST System is built on integration of different taxes and is likely to give full credit for input taxes. GST is a comprehensive model of levying and collection of indirect tax in India and it has replace taxes levied both by the Central and State Governments. GST be levied and collected at each stage of sale or purchase of goods or services based on input tax credit method. Under this system, GST-registered commercial houses shall be entitled to claim credit of the tax they paid on purchase of goods and services as a part of their day to day businesses.

The concept of GST that is goods and services is a Canadian value-added tax levied on most of domestic consumption. The tax is levied to provide revenue for the government. The GST is aid by consumers, but it is levied and remitted to the government by businesses selling the goods and services. Across the world India is one of the 123 countries that is following the VAT mode which was introduced at both center and state level. At the national level GST is a full inclusive of

indirect tax levy on manufacture, sale and consumption of goods as well as services. All indirect taxes which will be imposed on goods and services by Central and State government of India under GST. It is aimed at being wide ranging for most goods and services. France is the first country in 1954 GST is first implemented the world.

The historic GST or goods and services tax has become a reality. The new tax system was launched at a function in Central Hall of Parliament on 1 st July ,2017 (Friday midnight). GST, which embodies the principle of "one nation, one tax, one market" is aimed at unifying the country's \$2 trillion economy and 1.3 billion people into a common market. Under GST, goods and services fall under five tax categories: 0 per cent, 5 per cent, 12 per cent, 18 per cent and 28 per cent. For corporates, the elimination of multiple taxes will improve the ease of doing business. And for consumers, the biggest advantage would be in terms of a reduction in the overall tax burden on goods. "Inflation will come down, tax avoidance will be difficult, India's GDP will be benefitted, and extra resources will be used for welfare of poor and weaker section," Finance Minister Arun Jaitley said at GST launch event in Parliament. The Lok Sabha has finally Passed the Goods and Services Tax Bill and it is expected to have a significant impact on every industry and every consumer. Apart from filling the loopholes of the current system, it is also aimed at boosting the Indian economy. This will be done by simplifying and unifying the indirect taxes for all states throughout India.

REVIEW OF LITERATURE

- A Research Paper on Impact of GST on Indian Economy: There is a fall in prices of Auto Commercial Vehicle, Two wheelers, Small cars, Midsized cars and SUV, essential items, Footwear, Building Materials etc. and education, healthcare are going to be exempted from GST but on the other hand, price of some other goods and services increased after GST like Hotel room rental, Restaurants & fine dining and Branded Apparels. There was threat of inflation before GST rolled out. It can be concluded that GST has been going to be an historical record for its full fledged implementation and hopefully this biggest

historical reform will result in ease of doing business in India.

- GST: A Step towards Strengthening Indian Economy: India's historic and bold move towards integrated tax structure is viewed by most economists as an answer to regressive indirect tax structure. It is believed that GST would put India's indirect tax structure at par with more than 140 countries and would be productive for all the sectors. Implementation of such reforms does face surmountable challenges; however, this is expected to bring in benefits in the form of higher GDP and also transparency in the tax system. The GST would be imposed on the value –addition and thus would leave lesser scope for tax evasion.
- In study of GST studied in India: A Big Leap in the Indirect Taxation System discussed by Vasantha gopal (2011), the article focused on the impact of GST on various sectors of the economy. The article further stated that GST is a big leap and a new impetus to India's economic change. The paper is concluded positive impacts on different sectors are dependent on a unbiased and normal design of the GST.
- In the article of Pinki, Supriya Kamma and Richa Verma (June 2017) studied, "Study on Impact of goods and services tax implementation in India" focused on goods and services tax implementation in India which is necessity to understand it as a system as well as a process. They concluded that the organizations as well as the consumers, by embracing the new tax reformation, may help the government to accelerate the growth of the Indian economy.

OBJECTIVE OF THE STUDY

- *To study the conceptual framework of GST in Indian Context.*
- *To study the need of Goods and Services Tax (GST).*
- *To evaluate the advantages and challenges surrounding GST*
- *To furnish the information for future research on GST based taxation system.*
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SCOPE OF THE STUDY

GST after implementation will bring uniformity with tax rates and will also overcome lots of shortcomings in the Indian taxation system with regard to indirect taxation. The Good and Services Tax would surely be highly advantageous for major areas of the India economy.

RESEARCH METHODOLOGY

The paper is based on secondary sources of data, which have been obtained from various GST implementation discussion papers, published article in journals, web articles (internet sources), past studies and newspaper etc. With the help of these secondary sources, attempt has been made to find the obstacles coming on the way of GST and looking for future opportunities of it in India.

IMPACT OF GST ON VARIOUS AREAS OF ECONOMY

GST has a positive impact on the economy and on various sectors which are as follows:

1. Impact on consumer goods sector: With the implementation of Goods and Service Tax, FMCG sector would really change. The Food Manufacturing Consumer Goods sector consist 50% Food and Beverage sector and 30% is Household and Personal care. FMCG sector which is also called consumers packed goods is the key taxation contributor both direct and indirect in the economy. The multiplicity of the taxation influences the company decision on manufacturing location and distribution of Goods. Their companies set their manufacturing units and warehouses where they can gain tax benefits. They have to pay taxes to transfer the stock from the warehouses among the states. FMCG sector would surely impacted because of GST as taxes affect the cost to the company.
2. Impact of GST on Prices of Goods and Services: Tax experts claimed that the previous practice of tax on tax – for example, VAT was being charged on not just cost of production but also on the excise duty that was added at the factory gate

leading to production cost building up but now all had been gone when GST is rolled out. The prices of consumer durables, electronic products and ready-made garments will be available at low price after rolled out GST. In other aspects, for goods which were taxed at low rate, the impact of GST brings price increment. Services bearing essential ones like ambulance, cultural activities, pilgrimages etc. were exempted from levy are same. India has seen the strongest tax reform that aims to do away with various – tax system on goods and services and bring them under one rate. We can draw the following impact of GST on prices: The government rolled out the much talked about Goods and Services Tax (GST) on the midnight of June 30. The GST Council has fixed the tax rates, keeping a view on all goods and services; they are classified under tax slabs 0 % (exempted ones), 5%, 12%, 18% & 28%.

3. Impact on Brokers and equity investments: With the service tax being subsumed into GST, the rate of GST on financial services stands modified from 15 per cent to 18 per cent. From a long-term investor's perspective, this may not be too significant since the overall shift is just about 3 basis points. These 3 basis points for short term traders will change the economics of mixing their funds in the equity markets. It remains to be seen whether it actually affected the volumes and liquidity in the markets.
4. Impact on Cement Industry: According to Angel Broking, GST implementation is expected to be neutral for the cement industry. Earlier, cement was taxed at 12.5 per cent excise and VAT rates between 12.5-15.5 per cent. Under GST, the cement will be taxed at 28 per cent, which is nearly the same as the current tax structure.
5. Impact on Food Industry: Since food constitutes a large portion of the consumer expense of lower income households, any tax on food would be regressive in nature. The food processing sector will root difficulty in extending GST in view of the fact that production and distribution of food is largely unorganized in India, in most of the countries tax food keep at a lower rate with view the considerations of fairness and equity on global observe . Countries such as Canada, UK and Australia where food establishes a relatively small portion of the consumer basket and food is taxed

at zero rates. Even in some countries, food is taxed at a standard rate which is considerably as low as 3% in Singapore and Japan at the commencement of the GST. In level of international jurisdictions, no division is tied on the degree of processing of food. Hence, the gain of lower or zero tax rates should also be prolonged to all food items in India regardless to degree of processing.

6. Impact on Information Technology services: The proposed GST rate under the IT industry is not yet decided. The discussed joint rate of GST for the product is 27%. According to projected GST if electronic form software is transferred through it would be regarded as service (intellectual property).and if it is transferred through media or any other touchable property then it should be treated as goods. Price will be reduced by implementation of GST in uniform simplified and single point taxation.
7. Impact on Infrastructure sector: The Indian infrastructure sector largely comprises power, road, port, railways and mining. Each of them the indirect tax levy is different and exclusive, and this is composite in nature. While this sector enjoys different exceptions and concerns as it is important on national front. With the implication of GST the multiplicity of taxes will be removed and it would increase the tax base with continuation of exceptions and concerns for national interest and growth.
8. Impact on small Scale Enterprises: In the small scale enterprises there are three categories, those below threshold need not to register for the GST. Those between the threshold and composition turnovers will have the option to pay a turnover based tax or opt to join the GST regime. Those above edge limit will need to be within context of GST. In respect of the central GST the situation is slightly complex's is expected to encourage compliance and which is also expected to widen tax base adding up to 2% to GDP. Less tax with implication of GST will have to pay by manufacturers, traders.
9. Impact on Telecom: The sector is facing severe pressure in the form of intense competition from Reliance Jio. Under the GST regime, telecom services will be taxed at 18 per cent as against 15 per cent earlier.

10. Impact on Automobile and auto ancillaries: In consideration of Auto sector the GST rates are mostly expected likely to be neutral except for the hybrid cars which will be taxed at the 28 per cent GST. No significant changes will not see from the current tax structure by other vehicle categories. Tractors companies will face negative situation which will be taxed at 12 per cent against current 6-7 per cent which in the tractor categories.

CHALLENGES

- Not using the correct accounting method may result in discrepancies in tax computation and compliance.
- Incorrectly claiming GST credits on bank fees.
- Incorrectly claiming GST credits on government charges --such as land tax, council rates and water rates.
- Incorrectly claiming a GST credit on the 'total cost' of a business insurance policy.
- Not remitting GST on some government grants and incentives which are received inclusive of GST.
- Incorrectly claiming GST credits on GST-free purchases such as basic food items, exports and some health services.

BENEFIT OF GST

- To The Economy - It will simplify India's tax structure, broaden the tax base, and create a common market across states. This will lead to increased compliance and increase India's tax-to-gross domestic product ratio.
- To The Corporate - It will be beneficial for India Inc. as the average tax burden on companies will fall. Reducing production costs will make exporters more competitive.
- To The Exporters - The subsuming of major Central and State taxes in GST, complete and comprehensive setoff of input goods and services and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports.

- To Industry - Manufacturing sector in India is one of the highly taxed sectors in the world. A complex and high taxation structure has the tendency to render products uncompetitive in the international market or consume large portions of the cost arbitrage available in manufacturing set-ups in low cost economies such as India. GST when enforced would eliminate complexities in the present taxation structure and consequently prevent the loss of nearly 50% of the advantage of lower manufacturing costs that India has over the western nations. "A well-designed GST is the most graceful method to get rid of distortions of the existing process of multiple taxation" Sanjay Pant, Commissioner Service Tax, Bangalore.
- To The Individuals And Companies - With the collection of both the central and state taxes proposed to be made at the point of sale , both components will be charged on the manufacturing costs and the individual will benefit from lowered prices in the process which will subsequently lead to increase in consumption thereby profiting companies.

EFFECT OF GST ON GROSS DOMESTIC PRODUCT (GDP)

The ratio of indirect taxes to GDP in India increased from 3.99% in 1950-51 to 12.7% in 2008-09. However, it has fallen to 4.4% in 2011-12. Export of goods and services as a percentage of GDP for India increased from 22% in 2010 to 25.2% in 2013. Implementation of GST which is zero-rated will result in increase of exports thereby further adding to exports. The revenue neutral GST rate of 10% against the proposed GST rate of 25-27% will further add to the tax receipts. Exports which grew at 13% CAGR during 2010 and 2013 is expected to increase at around 6-8% due to implementation of GST thereby further adding to GDP. Lastly, the GST will result in efficient allocation of factors of production (land and capital) thus resulting in overall price going down. Thus the real return to factors of production will go up. Finally, GST is expected, ceteris paribus, to increase India's GDP by 1 to 1.8%.

CONCLUSION

Indeed, GST has the potential to be the single most important initiative in the fiscal history of India. It can pave the way for standardization of tax administration - make it simpler and more transparent - and significant enhancement in voluntary compliance for the development of the nation. As an economist, I believe that the implementation of the GST proposal of the Union Government pertinent to all states across the country will prove to be an effective medium of simplification in paperwork and accounting processes for businesses, equitable revenue sharing between centre and states and consequent significant improvement in commerce and eventually economic development of the nation can be achieved. Tax policies play an important role on the economy as it is the revenue source, it has a positive impact on both efficiency and equity. In view issues of income distribution a good tax system should keep pace with it and at the same time it should also endeavour to generate tax revenues to support government outflows on public services and infrastructure development. At the end we can say clearly with no doubt that it is the biggest ever change in tax structure of India. It can be concluded that GST has been going to be an historical record for its full fledged implementation and hopefully this biggest historical reform will result in ease of doing business in India.

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