
GST IN INDIA : A KEY TAX REFORM

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ABSTRACT

GST is one of the most crucial tax reforms in India which was introduced on 1st July 2017. It is a comprehensive tax system that will subsume all indirect taxes of states and central governments and unified economy into a seamless national market. Under GST goods and services are taxed with rates 0%, 5%, 12%, 18%, 28%. It is expected to iron out wrinkles of existing indirect tax system and play a vital role in growth of India. However, there is a huge hue and cry against its implementation. This paper presents an overview of GST concept, explains its features along with its timeline of implementation in India. The paper is more focused on advantages of GST and challenges faced by India in execution.

Keywords: Tax, Indirect Tax, Goods and Service Tax (GST), India.

INTRODUCTION

The Goods and Services Tax (GST) is a vast concept that simplifies the giant tax structure by supporting and enhancing the economic growth of a country. GST is a comprehensive tax levy on manufacturing, sale and consumption of goods and services at a national level. GST will be an indirect tax at all the stages of production to bring about uniformity in the system. On bringing GST into practice, there would be amalgamation of Central and State taxes into a single tax payment. It would also enhance the position of India in both, domestic as well as international market. At the consumer level, GST would reduce the overall tax burden, which is currently estimated at 25-30%.

Monika Sehrawat and Dhanda [1] have studied about the various features and the challenges associated with Goods and Service Tax well known as GST. They have found out that the legal procedures in implementing, consent from all the states, proper literacy on the concept of GST are the challenges associated with the implementation of GST.

Akanksha Kurana and Sharma [2] have made a research work about the impact of GST on Indian economy. They have found out that the GST will improve the input tax credit to the manufacturers which would result in reduced cost of goods. They have suggested that the government must provide awareness about the concepts of GST to the public.

Garg [3] and Kumar [4] have said that the GST has positive impact on the present scenario of Indian economy. The Indirect Taxes Committee of Institute of Chartered Accountants of India (ICAI) has said that the Goods and Service Tax have positive impact on Indian Tax System [5].

The benefits of GST as under:

- It would introduce two-tiered One Country One Tax regime.
- It would subsume all indirect taxes at the central and the state level.
- It would not only widen the tax regime by covering goods and services but also make it transparent.
- It would bring down the prices of goods and services and thus increase consumption.
- It would create business-friendly environment and increase tax-GDP ratio.



LITERATURE REVIEW

Agogo Mawuli (May 2014)[6] studied, "Goods and Service Tax- An Appraisal" and found that GST is not good for low-income countries and does not provide broad based growth to poor countries.

Nitin Kumar (2014)[7] studied, "Goods and Service Tax-A way Forward" and concluded that implementation of GST in India help in removing economic distortion by current indirect tax system and expected to encourage unbiased tax structure which is indifferent to geographical locations.

OBJECTIVE OF STUDY

The study has following objectives:

- To recognize the concept of GST
- To study the features of GST
- To evaluate the advantages and challenges of GST
- To furnish information for further research work on GST

RESEARCH METHODOLOGY

Being an explanatory research it is based on secondary data of journals, articles, newspapers and magazines. Considering the objectives of study descriptive type research design is adopted to have more accuracy and rigorous analysis of research study.

LEGISLATIVE HISTORY OF GST BILL IN INDIA

The GST Bill was initially proposed by the committee under the then Prime Minister Atal Bihari Vajpayee during the year 2000 which headed by Asim Dasgupta, the Finance Minister of West Bengal. Later on 2004, The Kelkar Task force which was instrumental in the implementation of Fiscal Responsibility and Budget Management Act (FRBM), 2003 suggested about the implementation of GST under the principle of VAT.

On 2006, the Finance Minister P. Chidambaram, announced the target date for the implementation of GST in India as 1st April, 2010. During 2007, an empowered committee was formed by the finance ministers of each state to submit the roadmap for GST and they have submitted it. On 2008, that Empowered Committee submitted a report entitled "A Model and Roadmap for Goods and Services Tax (GST) in India" containing the roadmap for the implementation of GST in India. They also made some suggestions with regard to that report. Later on November 2009, the EC submitted the first paper and conducted a debate with regard to gather the opinion of all stakeholders.

In 2010, the then finance minister Pranab Mukherjee assured that effective implementation of GST bill on April 1, 2011. And on 2011 the 115 Amendment Bill was passed in Lok Sabha in order to implement the GST Bill for certain goods and services and it was sent to the standing committee. In 2013 the standing committee submitted its report. But later it was lapsed due to some political discrepancies.

On 2014, Union Finance Minister Arun Jaitley has passed a 122 Amendment on Dec 17, 2014. Later, on the budget the Finance Minister said that the bill will be passed on 1st April 2016, and which could not happen and as of during the budget of 2016. Arun Jaitley said that the GST bill will be implemented through the 101 Amendment Bill officially known as The Constitution Amendment Act 2016 will be in force from 1st July, 2017. [8]

CONCEPT

GST is an indirect tax which will subsume almost all the indirect taxes of central government and state government into a unified tax. It has dual model including central goods and service tax (CGST) and state goods and service tax (SGST). The GST is the Indirect Tax System which is levied on the manufacture, sale and the consumption of goods and services. It will replace all the indirect tax systems such as sales tax and value added tax. The main purpose of GST is to bring about the single uniform system of



taxation in the manufacture, sale and the consumption of goods and services in India. The GST is said to reduce the level of Tax evasion and the corruption and it also reduces the tax burden of the public.

Taxes likely to be subsumed in GST

Central Taxes	State Taxes
Central excise duty under Central Excise Act 1944	Sales Tax/ Value Added Tax(VAT)
Additional Excise duties	Entertainment Tax
Excise duty under Medicinal & Toiletries Preparation Act,1955	State Excise Duty
Service Tax under Finance Act, 1944	Luxury Act
Additional Custom Duty	Taxes on lottery, betting & gambling
Special Additional Duty of Customs (SAD)	Entry Tax
Surcharges	Purchase Tax
Cesses	State Cesses
Central Sales Tax	State Surcharges

FEATURES OF GST

- It is applied to all taxable goods and services except the exempted goods and services and on transactions.
- Exempted goods and services include alcohol for human consumption, electricity, custom duty, real estate.
- Petroleum products, motor spirit, natural gas are initially exempted from GST.
- Tobacco products are included in GST along with central excise tax.

OBJECTIVES OF GST

1. To remove the cascading effect of taxes that is through this Single Taxation system the tax on taxes will be removed easily.
2. To reduce the Tax evasion and Corruption.
3. To bring about the consumption based tax instead of manufacturing
4. To absorb various Indirect taxes and to bring a single system of taxation.
5. To remove the prices of goods by having a uniform system of taxation over the country.
6. To increase the GDP by the exclusion of cascading effects of Taxation.

GST MODEL

The GST model consists of three components which are as follows:

- Central GST
 - State GST
 - Dual GST
1. Central GST: Goods and Service Tax to be levied at the centre
 2. State GST: GST levied at the state
 3. Dual GST: GST to be levied at the State and Centre concurrently

GST RATE

Under GST goods and services are taxed with rates 0%, 5%, 12%, 18%, 28%.

NEED AND IMPORTANCE FOR GST

- To bring about the uniformity in the System of Indirect Taxation
- To remove the cascading effects of Tax
- To bring about the economic integration.



- Generally, the Taxes are imposed at various rates among various states in India. So, there is a huge loss of revenue to the central as well as state government. Through GST a uniform tax rate is followed all over the country and so that there will no such loss of revenue.
- Reduces complexities and increases more number of economic transactions.
- To bring about the single tax system which will reduce the cost of production for the manufacturers, so that it will be a big boost for those producers who made their products at lower cost and involves in international trade.
- The tax burden for starting industrial units will be reduced. As a result when more industries were created it will ultimately result on more employment.
- As there is more transparency, the chances of corruption will be very low.

ADVANTAGES OF GST

- a) GST eliminates the cascading effect of tax** GST is a comprehensive indirect tax that was designed to bring the indirect taxation under one umbrella. More importantly, it is going to eliminate the cascading effect of tax that was evident earlier.
- b) Higher threshold for registration** Earlier in the VAT structure, any business with a turnover of more than Rs. 5lakh was liable to pay VAT. Under GST regime, however, this threshold has been increased to Rs. 20 lakh, which exempts many small traders and service providers.
- c) Composition scheme for small businesses** Under GST, small businesses can benefit as it gives an option to lower taxes by utilizing the Composition scheme. This move has brought down the tax and compliance burden on many small businesses.
- d) Simple and easy online procedure** The entire process of GST is made online, and it is super simple. This has been beneficial for start-ups especially, as they do not have to run from pillar to post to get different registrations such as VAT, excise and service tax.
- e) The number of compliances is lesser** Under GST, however, there is just one, unified return to be filed. Therefore, the number of returns to be filed has come down. There are about 11 returns under GST, out of which 4 are basic returns which apply to all taxable persons under GST.
- f) Defined treatment for E-commerce operators** GST has clearly mapped out the provisions applicable to the e-commerce sector and since these are applicable all over India, there should be no complication regarding the inter-state movement of goods anymore.
- g) Improved efficiency of logistics** Under GST, the restrictions on inter-state movement of goods have been lessened. As an outcome of GST, warehouse operators and e-commerce aggregators players have shown interest in setting up their warehouses at strategic locations.
- h) Unorganized sector is regulated under GST** Under GST, there are provisions for online compliances and payments, and for availing of input credit only when the supplier has accepted the amount. This has brought in accountability and regulation to these industries.

IMPACT OF GST ON VARIOUS SECTORS

The GST is said to have a positive impact on economy as a whole. But when it comes to sector-wise classification, the GST have both positive as well as negative impact on each of the sectors. Here are some sectors given and its GST is given below:

- a) Technology:** The GST system of indirect taxation has made the duty on the manufacturing goods from 14% to 18-20%. As a result, the prices of the software products will be at high which will give either a neutral or slightly



negative impact on the Technology Sector as a whole. But they will be benefited through the reduction of tax and benefits of other industries and can somewhat mitigate it.

- b) **Telecommunications:** The telecommunications sector is presently paying the tax at the rate of 14%. It is assumed to be around 18% which will be expected to be passed over to the customers and this gives a picture that GST will adversely affect this sector.
- c) **Pharmaceuticals:** Presently, the Pharma companies are paying taxes around 15-20%. Since, there is no clear picture of tax treatment for Pharma if it is less than 15% it would be a positive impact on the sector but if it is above 15% then it will cause some slight negative impact.
- d) **Automobiles:** The GST rate will be around 18% which will be a huge positive for the automobile industry and which will be profitable to both the Manufacturers and the consumers. The standard and the social status of the consumers get uplifted.
- e) **Financial Services:** The financial services such as Banking, Stock trading firms are currently paying 14.5% as VAT which is likely to be increased to 18 to 22% in the near future under GST and the services are likely to be costlier.
- f) **Textiles:** Currently, the Textile industry is paying the tax at the rate of nearly 12.5% plus surcharges and which varies upon the MRP of the products. Since there is no clear idea about the tax rate of this industry under the regime of GST it is expected at the rate of 15% which will be having a moderate impact on the industry. It either be neutral or slightly negative when compared to other system of taxation. But they will be benefited through the reduction of cost in transportation etc.
- g) **Media and Entertainment:** The tax rate for the Media is around 22% as of now and since the authority for the levy of taxes remains to be the right of the local bodies, it is expected that the cinema fares are expected to come down after the GST regime and the cost of DTH and cable television services are likely to become costlier. There is either neutral or slightly negative impact of GST on the Media and Entertainment Industry.
- h) **Consumer durables:** The current of tax rate of this industry is around the range between 23-25%. And under the GST it is 15-18% which will be positive impact to this industry.
- i) **Cement:** Under the GST the cement industry is fixed at the rate of 18%. This will be a major relief for the companies of that industry. The logistics tax also is to be reduced, it would be a double benefit for all the industries involved in manufacturing.
- j) **Real estate:** It contributes about nearly 7.3% of India's GDP and it is the largest generator of employment immediately after IT. Real estate is said to get a positive impact under the GST regime. It is a single system of Taxation, all other forms of indirect taxation will be removed which results on reduction of property prices and cost of construction.

DISADVANTAGES OF GST

- a) **Increased costs due to software purchase** Businesses have to either update their existing accounting to GST-compliant or buy a GST software so that they can keep their business going. But both the options lead to increased cost of software purchase and training of employees for an efficient utilization of the new billing software.



- b) Being GST-compliant** Small and medium-sized enterprises (SME) will have to issue GST-compliant invoices, be compliant to digital record-keeping, and file timely returns. This means that the GST-compliant invoice issued must have mandatory details such as GSTIN, place of supply, HSN codes and others.
- c) GST will mean an increase in operational costs** GST is changing the way how tax is paid, businesses will now have to employ tax professionals to be GST-compliant. This will increase costs for small businesses as they will have to bear the additional cost of hiring experts.
- d) GST is an online taxation system** GST is a process of online return filing and making payments. This might be tough for some smaller businesses to adapt to.
- e) SMEs will have a higher tax burden** Smaller businesses in the manufacturing sector will face difficulties under GST. Earlier only businesses whose turnover exceeded Rs. 1.5 crore had to pay excise duty. But now, any business whose turnover exceeds Rs 20 lakh will have to pay GST.

PROBLEMS IN IMPLEMENTING GST

1. There is no such clear picture about the GST both to the government and to the general public.
2. There is no cooperation between the Central government and the state government in implementing GST.
3. The State government generally refuses to accept it. As the states levy taxes on the Destination principle, so in order to lose the revenue they were avoiding it.
4. Even though the government said that they will pay the loss of revenue to the state government, it will be again imposed on the general people in some other forms.
5. It involves massive cost on the training of the staff of the Taxation department.

SUGGESTIONS AND RECOMMENDATIONS

1. To provide literacy and awareness about the GST.
2. Effective spending on efficient Tax administration staff.
3. Well maintenance and frequent follow ups of GSTN(Goods and Service Tax Network) portal for better relationship with various stakeholders.
4. The Central and the State government should be in proper understanding and cooperative with each other for the successful implementation of GST.
5. The loss of Tax revenue should be managed and compensated properly through proper diversification of funds without burden to anyone.

CONCLUSION

Due to dissilent environment of Indian economy, it is demand of time to implement GST. Consumption and productions of goods and services is undoubtedly increasing and because of multiplicity of taxes in current tax regime administration complexities and compliance cost is also accelerating. Thus, a simplify, user-friendly and transparent tax system is required which can be fulfilled by implementation of GST. No doubt GST will give India a world class tax system by grabbing different treatment to manufacturing and service sector. There are various challenges in way of GST implementation as discussed above in paper. They need more analytical research to resolve the battling



interest of various stake holders and accomplish the commitment for a cardinal reform of tax structure in India. The GST is very crucial tax reform since independence of India, so it must be better handled with utmost care and analyzed well before implementing it. And, the government both central and state have to conduct awareness programmes and various literacy programmes about GST to its various stakeholders.

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