

## **An Overview of Goods and Services Tax (Gst) In India**

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**Abstract:** The GST is a Value added Tax (VAT) is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. It will replace all indirect taxes levied on goods and services by the Indian Central and State governments. It is aimed at being comprehensive for most goods and services. The GST council, comprising federal and state finance ministers, has already cleared all the five draft laws- the central GST, Integrated GST, state GST, union territory GST and rules on compensating states for revenue losses. GST is expected to create a business friendly environment, as price levels and hence inflation rates would come down overtime as a uniform tax rate is applied. It will also improve government's fiscal health as the tax collection system would become more transparent, making tax evasion difficult. In this paper impact of GST (Goods and Services Tax) on Indian Tax Scenario will be analyzed. Here firstly historical scenario of Indian taxation and its tax structure will be described and then the need for the change in tax structure from traditional to GST model will be discussed. An attempt will also be made to study the concept of goods and service tax, its impact on Indian economy as well as the advantages and challenges of GST in Indian scenario in this paper.

**Keywords:** Value added tax, Goods and service tax, Indian taxation, Economy

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### **I. Introduction**

Value added tax was first introduced by Maurice Laure, a French economist, in 1954. The tax was designed such that the burden is borne by the final consumer. Since VAT can be applied on goods as well as services it has also been termed as goods and services tax (GST). The reform process in indirect tax regime of India was started in 1986 by Vishwanath Pratap Singh by introduction of Modified Value Added Tax (MODVAT). During the last four decades VAT has become an important instrument of indirect taxation with 130 countries having adopted this, resulting in one-fifth of the world's tax revenue.

France was the world's first country to implement GST Law in the year 1954. Since then, 159 other countries have adopted the GST Law in some form or other. In many countries, VAT is the substitute for GST, but unlike the Indian VAT system, these countries have a single VAT tax which fulfils the same purpose as GST. In India, the discussion on GST Law was flagged off in the year 2000, when the then Prime Minister Atal Bihari Vajpayee brought the issue to the table.

Based on concept of 'one nation one tax', the One Hundred and First Amendment of the Constitution of India, officially known as The Constitution (One Hundred and First Amendments) Act, 2016, introduced a Goods and Services Tax in India from 1 July 2017. For a developing economy like India it is desirable to become more competitive and efficient in its resource usage. Traditionally India's tax regime relied heavily on indirect taxes including customs and excise. Revenue from indirect taxes was the major source of tax revenue till tax reforms were undertaken during nineties. The major argument put forth for heavy reliance on indirect taxes was that the India's majority of population was poor and thus widening base of direct taxes had inherent limitations.

The new tax, biggest tax reform since India got independence in 1947 from the British colonial rule, is expected to boost the rate of economic growth by about 0.5 percentage points, broaden the revenue base and cut compliance cost for firms. Goods & Service Tax (GST) or VAT serves the purpose to impose a broad-based tax on final consumption by households. Hence, GST is a comprehensive tax levy on supply of goods and services. GST would also address issues of development through greater interaction between VAT/GST systems, along with growing risks of double taxation and unintended non taxation in the absence of international VAT/GST coordination. Basic principles of VAT/GST are generally same across the tax jurisdictions in so far as they are designed to tax final consumption in the jurisdiction where it occurs according to the destination principle. The fundamental proposition is that GST/VAT is a tax on final consumption and hence the burden should not rest on the business, additional customs duty, surcharge and state-level value added tax. Other levies which are currently applicable on inter-state transportation of goods are also likely to be done away with in GST

regime. Goods and Services tax (GST) will subsume various indirect taxes including central excise duty, services tax

## II. Objective Of Study

1. To evaluate shortcomings of current taxation system in India.
2. To understand the concept of goods and service tax.
3. To understand operating mechanism of GST in India.
4. To understand the benefits of GST over the current taxation system in India.
5. To analyze the impact of goods and services tax (GST) on economic growth in India.

## III. Research Methodology

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

## IV. Review Of Literature

**Devarajan *et al* (1991)** analyse the impact of introducing 10 per cent VAT in Thailand using a general equilibrium model to identify gainers and losers and the effect on output, prices and incomes. Though the paper provides an overall view of the changes in aggregate exports and imports it does not bring out sectoral changes therein. It does not provide reference to the type of the model used.

**Wittwer and Kym (2002)** use a computable general equilibrium model (CGE) to analyse the impact of the GST and wine tax reform on Australia's wine industry introduced in 2000. It is concluded that export-oriented premium segment would gain at the expense of non-premium segment of wine industry. The implicit message is that such gains would originate from increased prospects of exports of the premium wine segment.

**Nishitha Guptha (2014)** in her study stated that implementation of GST in the Indian framework will lead to commercial benefits which were untouched by the VAT system and would essentially lead to economic development. Hence GST may usher in the possibility of a collective gain for industry, trade, agriculture and common consumers as well as for the Central Government and the State Government.

**Saravanan Venkadasalam (2014)** has analysed the post effect of the goods and service tax (GST) on the national growth on ASEAN States using Least Squares Dummy Variable Model (LSDVM) in his research paper. He stated that seven of the ten ASEAN nations are already implementing the GST. He also suggested that the household final consumption expenditure and general government consumption expenditure are positively significantly related to the gross domestic product as required and support the economic theories. But the effect of the post GST differs in countries. Philippines and Thailand show significant negative relationship with their nation's development. Meanwhile, Singapore shows a significant positive relationship.

## V. Shortcomings Of Current Taxation System

Indirect taxation in India needs a vast change as we have multiple taxes like service tax, excise duty, sales tax and so on, for a single good or service. The taxation system has become very complex and leading to various issues like double taxation and cascading effects etc., which ultimately affecting to the general public, with increasing prices and lack of transparency. The present system is not only affecting the general public, but also the investors, industries and business men and tax payers as well, which is hampering the easy of doing business and growth of economy at large. Indirect taxes are related to growth of GDP, so it plays an important role. Goods and Services Tax (GST) is considered to be a best solution for all these issues and which is expected to bring in tax efficiency, simplicity, transparency and degree of harmonization to the tax base, tax rates and tax infrastructure.

## VI. Concept Of Gst ?

GST is one indirect tax for the whole nation, which will make India one unified common market. GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefit.

The introduction of Goods and Services Tax (GST) would be a significant step in the reform of indirect taxation in India. Amalgamating several Central and State taxes into a single tax would mitigate cascading or double taxation, facilitating a common national market. The simplicity of the tax should lead to easier administration and enforcement. From the consumer point of view, the biggest advantage would be in terms of a reduction in the overall tax burden on goods, which is currently estimated at 25%-30%, free movement of goods from one state to another without stopping at state borders for hours for payment of state tax or entry tax and reduction in paperwork to a large extent.

## VII. How Does Gst Work

The GST system is based on the same concept as VAT. Here, set-off is available in respect of taxes paid in the previous level against the GST charged at the time of sale. The GST model has some aspects which are as follows:

**Components:** GST will be divided into two components, namely, Central Goods and Service Tax and State Goods and Service

**Applicability:** GST will be applicable to all Goods and Services sold or provided in India, except from the list of exempted goods which fall outside its purview.

**Payment:** GST will be charged and paid separately in case of Central and State level.

**Input Tax Credit:** The facility of Input Tax Credit at Central level will only be available in respect of Central Goods and Service tax. In other words, the ITC of Central Goods and Service tax shall not be allowed as a set-off against State Goods and Service tax and vice versa.

A nationwide tax reform cannot function without strict guidelines and provisions. The GST Council has devised a fool proof method of implementing this new tax regime by dividing it into three categories.

**CGST:** where the revenue will be collected by the central government

**SGST:** where the revenue will be collected by the state governments for intra-state sales

**IGST:** where the revenue will be collected by the central government for inter-state sales

**In most cases, the tax structure under the new regime will be as follows:**

Transaction	New Regime	Old Regime	Comments
Sale within the state	CGST + SGST	VAT + Central Excise/Service tax	Revenue will now be shared between the Centre and the State
Sale to another State	IGST	Central Sales Tax + Excise/Service Tax	There will only be one type of tax (central) now in case of inter-state sales.

## VIII. Implementation Of Gst

For the implementation of GST in the country, the Central and State Governments have jointly registered Goods and Services Tax Network (GSTN) as a not-for-profit, non-Government Company to provide shared IT infrastructure and services to Central and State Governments, tax payers and other stakeholders. The key objectives of GSTN are to provide a standard and uniform interface to the taxpayers, and shared infrastructure and services to Central and State/UT governments.

GSTN is working on developing a state-of-the-art comprehensive IT infrastructure including the common GST portal providing frontend services of registration, returns and payments to all taxpayers, as well as the backend IT modules for certain States that include processing of returns, registrations, audits, assessments, appeals, etc. All States, accounting authorities, RBI and banks, are also preparing their IT infrastructure for the administration of GST.

There would no manual filing of returns. All taxes can also be paid online. All mis-matched returns would be auto-generated, and there would be no need for manual interventions. Most returns would be self-assessed.

### HOW WILL IMPORTS BE TAXED UNDER GST

The Additional Duty of Excise or CVD and the Special Additional Duty or SAD presently being levied on imports will be subsumed under GST. As per explanation to clause (1) of article 269A of the Constitution, IGST will be levied on all imports into the territory of India. Unlike in the present regime, the States where imported goods are consumed will now gain their share from this IGST paid on imported goods.

### BENEFITS OF GST

The benefits of GST can be summarized as under:

- Wider tax base, necessary for lowering tax rates and eliminating classification disputes.
- Elimination of multiplicity of taxes and their cascading effects.
- Rationalization of tax structure and simplification of compliance procedures.
- Harmonization of center and state tax administrations, which would reduce duplication and compliance costs.

- Automation of compliance procedures to reduce errors and increase efficiency.

#### **For business and industry**

- **Easy compliance:** A robust and comprehensive IT system would be the foundation of the GST regime in India. Therefore, all tax payer services such as registrations, returns, payments, etc. would be available to the taxpayers online, which would make compliance easy and transparent.
- **Uniformity of tax rates and structures:** GST will ensure that indirect tax rates and structures are common across.

#### **For Central and State Governments**

- **Simple and easy to administer:** Multiple indirect taxes at the Central and State levels are being replaced by GST. Backed with a robust end-to-end IT system, GST would be simpler and easier to administer than all other indirect taxes of the Centre and State levied so far.
- **Better controls on leakage:** GST will result in better tax compliance due to a robust IT infrastructure. Due to the seamless transfer of input tax credit from one stage to another.

#### **For the consumer**

- Single and transparent tax proportionate to the value of goods and services
- Relief in overall tax burden

### **IX. Impact Of Gst On Indian Economy:**

GST will be a game changing reform for the Indian economy by creating a common Indian market and reducing the cascading effect of tax on the cost of goods and services. It will impact the tax structure, tax incidence, tax computation, tax payment, compliance, credit utilization and reporting, leading to a complete overhaul of the current indirect tax system. GST will have a far-reaching impact on almost all the aspects of the business operations in the country, for instance, pricing of products and services, supply chain optimization, IT, accounting, and tax compliance systems.

Like every coin has two sides; even GST will probably have its own Positives and negative impacts:

#### **Positive Aspects of GST:**

##### **There are following positive aspects of Goods and Services Tax (GST):**

1. The main reason to implement GST is to abolish the cascading effect on tax. A product on which excise duty is paid can also be liable to VAT. Suppose a product A is manufactured in a factory. As soon as it releases from factory, excise duty has to be paid to central government. When the product A is sold in same state then VAT has to be paid to the State Government. Also no credit on excise duty paid can be taken against output VAT. This is termed as cascading effect since double taxes is levied on same product.
2. GST will lead to more transparent and neutral manner to raise revenue.
3. Implementation of GST will help resolve various issues concerning taxation and logistics with regard to e-commerce business, which has been recording rapid growth in the country, says a study.
4. Simplified and cost saving system as procedural cost reduces due to uniform accounting for all types of taxes. Only three type of account; CGST, SGST & IGST have to be maintained.
5. GST is structured to simplify the current indirect system. It is a long term strategy leading to a higher output, more employment opportunities and economy boom.
6. It is beneficial for both economy and corporations. The reduced tax burden on companies will reduce production cost making exporters more competitive.
7. GST will reduce transaction costs for taxpayers through simplified tax compliance.
8. It will result in increased tax collections due to wider tax base and better conformity.
9. For the Centre and the States: According to experts, by implementing GST, India will gain \$ 15 Billion a year. This is because it will promote more exports, create more employment opportunities and boost growth.
10. For individuals and companies: In the GST system, taxes for both Centre and State will be collected at one point of sale. Both will be charge on manufacturing cost. Individuals will be benefited by this as prices are likely to come down. Lower price mean more consumption, more consumption means more production
11. The implementation of GST will make industry more competitive through dismantling of the complex indirect tax structure and boost the tax revenue of states and thereby helping in the growth of the companies.

#### **Negative Aspects of GST:**

There are following negative aspects of Goods and Services Tax (GST):

1. Majority of dealers are not covered with the central excise but are only paying VAT in the state. Now all the VAT dealers will be required to pay Central Goods and Services Tax (CGST).

2. GST is referred as single taxation system in India but in reality it is a dual tax in which both state and centre collect separate tax on single transaction of sale & service. However GST has some negative aspect but at the end it will boost economy.
3. GST would impact negatively on the real estate market. It would add up to 8 percent to the cost of new homes and reduce demand by about 12 percent.
4. Service tax litigations have risen substantially in recent years and that may be because of the absence of a pan-India Goods and Services Tax (GST) regime that can potentially remove several ambiguities around indirect taxation, experts maintain.

### X. Conclusion:

The introduction of Goods and Services Tax (GST) would be a significant step in the reform of indirect taxation in India. Amalgamating several Central and State taxes into a single tax would mitigate cascading or double taxation, facilitating a common national market. The simplicity of the tax should lead to easier administration and enforcement. From the consumer point of view, the biggest advantage would be in terms of a reduction in the overall tax burden on goods. Under the VAT the rates and regulation vary across different states and there is a tendency that different States cut their rates to attract more investments which results in lowering govt. revenues. Under GST there will be uniform tax structure where the tax revenue will be divided among states and center according to the consumption cycle. The Goods and Services Tax (GST) is expected to simplify and harmonize the complex indirect tax regime in the country and reduce the cost of production, thereby making industry more competitive. GST is expected to pave way for better E-Commerce and will make industries more competitive.

All sectors of economy whether the industry, business including Govt. departments and service sector shall have to bear impact of GST. All sections of economy viz., big, medium, small scale units, intermediaries, importers, exporters, traders, professionals and consumers shall be directly affected by GST... One of the biggest taxation reforms in India -- the Goods and Service Tax (GST) -- is all set to integrate State economies and boost overall growth. GST will create a single, unified Indian market to make the economy stronger. Under GST, the taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions.

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### Online Resources:

- <http://www.indiataxes.com/Information/VAT/Introduction.htm>
- [http://www.taxmanagementindia.com/wnew/detail\\_rss\\_feed.asp?ID=1226](http://www.taxmanagementindia.com/wnew/detail_rss_feed.asp?ID=1226)
- [www.goodsandservicetax.com](http://www.goodsandservicetax.com)
- <http://www.ey.com/in/en/services/ey-goods-and-services-tax-gst>
- <https://cleartax.in/s/gst-law-goods-and-service>
- [taxhttp://www.veertutorial.com/objectives-of-gst/](http://www.veertutorial.com/objectives-of-gst/)

- <http://www.gstindia.com/about/>
- <http://www.ijbmi.in/v2-i2/2%20ijbmi.pdf>

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