GOODS AND SERVICES TAX IN INDIA: AN INTRODUCTORY STUDY

Mrs. Poonam

PG Department of Commerce and Management, Sri Guru Teg Bahadur Khalsa College, Sri Anandpur Sahib, Punjab, (India)

ABSTRACT

The introduction of Goods and Services Tax (GST) would be a very significant step in the field of indirect tax. The cascading or double taxation effects could be reduced by combing many central and state taxes. Consumer's tax burden will approximately reduce to 25% to 30% after introduction of GST. After introduction of GST Indian products would became more competitive in the domestic and international markets. This tax would instantly encourage economic growth.GST with transparent feature will prove easier to administer .In this paper i try to attempt to spot the concept of GST & its current status in India. Paper gives information about GST. The study also aims to be familiar with the advantages and challenges of GST in Indian scenario.

***Keywords**: Central State Taxes, Domestic markets, Economic growth, GST, value added tax,*

1. INTRODUCTION

This large quantity of taxes at the State and Central levels has brought about a complex indirect tax structure in the nation that is ridden with concealed expenses for the trade and industry. Firstly, there is no consistency of assessment rates and structure crosswise over States. Also, there is falling of charges because of 'tax on tax'. No credit of excise duty and service tax paid at the phase of manufacture is available to the traders while paying the State level sales tax or VAT, and vice-versa. Further, no credit of State taxes paid in one State can be benefited in different States. Due this tax on tax prices of goods and services get unnaturally inflated. The arrangement of GST would stamp a reasonable takeoff from the plan of dissemination of monetary forces conceived in the Constitution. The proposed dual GST conceives tax assessment of the same assessable occasion, i.e., supply of products and enterprises, at the same time by both the Center and the States. The credit of GST paid on input at each phase of value addition would be available for the discharge of GST liability on the output, thereby ensuring GST is charged only on the component of value addition at each stage. Indian indirect tax will become simpler after GST. It is expected to decrease cost of creation and inflation in the economy, accordingly making the Indian trade and industry more competitive, locally and additionally globally. It is likewise expected that arrangement of GST will encourage a typical or consistent Indian market and contribute essentially to the development of the economy.

2. LITERATURE REVIEW

Kautilya`s Arthasastra: His works state that the taxes are often perceived to be a measure for raising resources for the government. In the primitive barter economies of the medieval period in Europe and even in ancient India, the primary objective of taxation was to raise resource for the economy.

Mukhopadhyay Sukumar (2005): His study reveals that Revenue growth is the most important aspect by which to judge the success of VAT in Haryana. The deemed growth of revenue estimated by the Commercial Tax Department of Haryana, however, has not taken into account a number of positive factors. As Haryana implemented VAT only in 2003, one year is too short a period to judge its efficiency from a revenue point of view. The conclusion is that the design of VAT introduced in Haryana is unexceptional

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.

Jaiprakash (2014) in his research study mentioned that the GST at the Central and the State level are expected to give more relief to industry, trade, agriculture and consumers through a more comprehensive and wider coverage of input tax set-off and service tax setoff, subsuming of several taxes in the GST and phasing out of CST.

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.

3. OBJECTIVES OF THE STUDY

- 1. To study the concept of Goods and Services Tax (GST) and its impact on Indian Economy.
- To perceive how GST will work in India.
- To know the advantages and challenges of GST in Indian context.

4. RESEARCH METHODOLOGY

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

5. CONCEPT OF GOODS AND SERVICE TAX

The Goods and Services Tax (GST), the major change in India's indirect tax structure since the economy began to be opened up 25 years prior, finally looks set to end up reality. The Constitution Amendment Bill for Goods

and Services Tax (GST) has been permitted by The President of India post its passage in the Parliament (Rajya Sabha on 3 August 2016 and Lok Sabha on 8 August 2016) and sanction by more than 50 percent of state governing bodies .The Government of India is committed to substitute all the indirect taxes levied on goods and services by the Centre and States and put into action GST by April 2017. With GST, it is foreseen that the assessment base will be comprehensive, as virtually all goods and services will be assessable taxable, with least exclusions. GST will be a diversion changing reform for the Indian economy by making a common Indian market and reducing the cascading effect of tax on the cost of goods and services. It will affect the tax structure, tax incidence, tax computation, tax payment, compliance, credit utilization and reporting, prompting to an entire upgrade of the current indirect tax system.GST will have a broad effect on every one of the parts business operations in the country, pricing of products and services, supply chain optimization, IT, accounting, and tax compliance systems.

6. GST MODEL FOR INDIA

India is opting for ―Concurrent Dual GST model. The need for a Dual-GST model is based on the following premise:

- At existing framework, both levels of Government i.e. Centre and State, as per Constitution holds concurrent powers to levy tax domestic goods and services;
- The proposed Concurrent Dual-GST model would be a dual levy imposed concurrently by the Centre and the States, but independently;
- Both the Centre and State will operate over a common base, i.e. the base for levy and imposition of duty/tax liability would be identical.

To understand the operating procedure of ―Concurrent Dual GST Model I have to consider the tax/taxes which shall be levied as per place of supply of goods and services.

- CGST – Central Goods and Service Tax
- SGST – State Goods and Service Tax
- IGST – Integrated Goods and Service Tax

Additional Tax (upto 1%) to be levied in case of inter-state supply of goods, which is a Non-VAT able item. Hence, no input credit available on such.

Now I will try to understand when each of these will be levied by the below chart

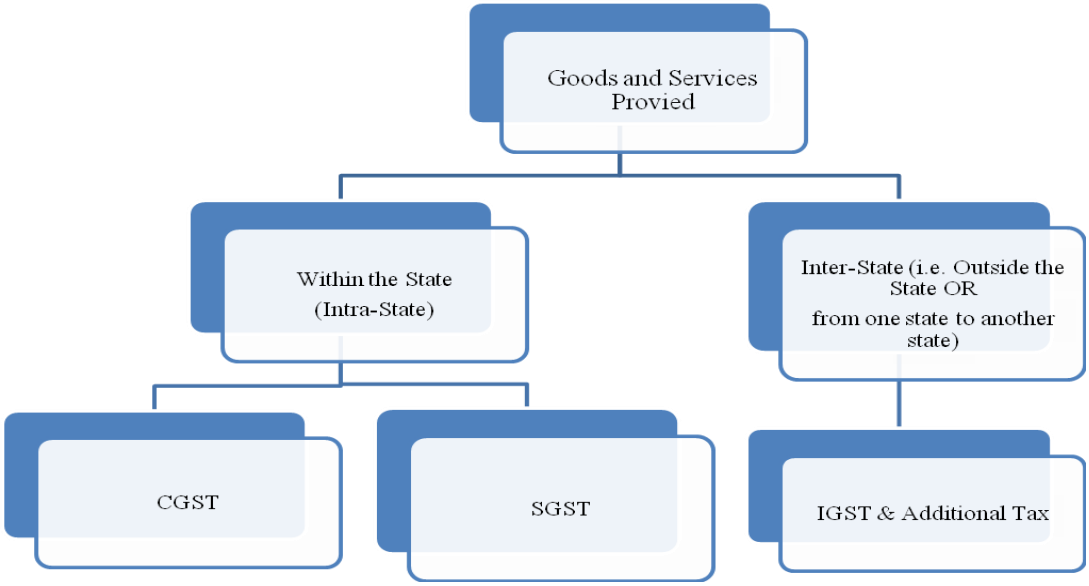

Fig 1

Table: A summary of levy and the imposing and collecting authority

Nature of Levy	To be levied by	To be paid to the account of
CGST	Central Government on Intra-State Supply of Goods and/ or Services	CG
SGST	State Government Intra State Supply of Goods and/ or Services	SG
IGST = CGST + SGST	Central Government on Inter-State Supply of Goods and/ or Services	CG
Additional Tax	Central Government on Inter-state supply of goods, but the net proceeds to be assigned to the States from where supply originates	CG

Source (Tax Research Department, the Institute of Cost Accountants of India)

7. SALIENT FEATURES OF GST

- There are two segments of GST, one is central GST & other one is state GST.
- All transactions will be covered up in central & state GST except exempted goods & services.
- There would be 2 rate structure in GST one is the lowest rate for goods of basic importance other one is standard rate for other than basic goods. In addition to above two rates we have a special rate for any specified goods like metal & precious metals.
- GST would be applicable if there should be an occurrence of import of products and services.

- Administration of state GST would be given to state & administration of central GST would be given center. Because of this, the issue of circulation of income of expense between center and state can be diminished.
- Meaning of taxable person, taxable event, changeability, a measure of levy etc. would be same in CGST & SGST.
- Central GST would be paid to central government & state GST would be paid to state separately.
- Central GST paid on inputs can be claim against central GST only & same thing is applicable in case of state GST.
- Procedure for gathering will be same in central and state GST.
- Return to central & state GST would be submitted periodically & to the concerned author.
- PAN card based identification number would be allotted to taxpayer to facilitate data exchange.

8. Benefits of GST

8.1 To Trade

8.1.1 Reduction in range of taxes

8.1.2 Mitigation of cascading/ double taxation

8.1.3 More efficient balance of taxes particularly for exports

8.1.4 Development of Common National Market or Common Economic Market

8.1.5 Simpler tax administration regime with less rates and exemptions.

8.1.6 Increase in cost competitiveness' for local enterprises with reduction in tax cost and also reduced cost of compliance

8.2 To Government

8.2.1 Simpler tax framework

8.2.2 Broadening tax base

8.2.3 Improved compliance and revenue collections

8.2.4 Efficient utilization of resources

8.2.5 Investments out of savings by consumers - due to mitigation of cascading effect, contributes to increase in availability of funds out of savings of consumer - which may be used for financing developmental activities

8.3 To Consumer

8.3.1 Reduction in cost of goods and services due to removal of cascading effect of taxes

8.3.2 Increase in buying force and real income

8.3.3 Increase in savings due to decline in cost

8.3.4 Increase in investments due to increase in savings.

9. EXAMPLE OF GST

Assume rate of GST= 16%

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9.1 Manufacture sold goods to traders

Inputs used in manufacturing: Raw material – 200 lakh, Stores & spares – 20 lakh,

Services - 30 lakh, Selling Price = 400lakh

Table: Input Tax

Description	Amt	Tax paid
Raw material	200@16%	32lakh
Stores & spares	20@16%	3.2lakh
Services	30@16%	4.8lakh
Total input tax		40 lakh

Table: Output Tax

Description	Amt	Tax paid
sales	400@16%	64lakh
Total output tax		64 lakh

Net GST payable= output tax- Input tax

=64-40

=24lakh

9.2 Trader sold goods to consumer

Trader used service of Rs 10 lakh then

Sold goods to customer

Profit = 10 lakh

Purchase price = 400lakh

GST – 16 lakh

GST rate =16%

Table:

Description	Amt	Tax paid
Goods	400@16%	64lakh
services	10@6%	1.6lakh
Total input tax		65.6lakh

Selling price – 440 lakh

Table:

Description	Amt	Tax paid
Goods sold	440@16%	70.4%
Total output tax		70.4%

Net GST payable = Output tax – Input tax

= 70.4-65.6

= 4.8lakh

10. TAXES TO BE SUBSUMED POST-GST

The following Central indirect taxes and levies could be subsumed in GST:

- Central Excise Duty,
- Additional Excise Duties,
- Excise Duty levied under the Medicinal and Toilet Preparations (Excise Duties) Act.
- 1955,
- Service Tax,
- Additional Customs Duty commonly known as Countervailing Duty (CVD),
- Special Additional Duty of Customs (SAD),
- Central Surcharges and Cesses excluding those applicable to income-tax, customs duties and to excise duties so far as they relate to goods outside the purview of the goods and services tax.

And the following State indirect taxes and levies would be subsumed in GST:

- State VAT/Sales Tax,
- Entertainment tax (unless it is levied by the local bodies),
- Luxury Tax,
- Taxes on lottery,
- Betting and gambling.
- Tax on advertisements,
- State Cesses and Surcharges insofar as they relate to supply of goods and services; and
- Entry Tax, not levied by local bodies

11. SHORTCOMING OF GST (commission, 2009)

In case of GST we are using uniform rate across the states. states are not having any privilege to roll out any improvements in rate , it decrease the monetary self-sufficiency of states , therefore autonomy should be given to states to change rate so that they can meet out their revenue crisis.

States should be permitted to change their rates as indicated by the social & economic goals of states so that they can utilize the tax system as a tool for achieving their social & economic goals.

12. CHALLENGES OF GST IN INDIAN CONTEXT

At Present, lots of speculations are going regarding when the GST will actually be applicable in India. Looking into the political environment of India, it seems that a little more time will be required to ensure that everybody is satisfied. The states are confused as to whether the GST will hamper their revenues. Although the Central Government has assured the states about compensation in case the revenue falls down, still a little mistrust can be a severe draw back. The GST is a high-quality type of tax. However, for the successful implementation of the same, there are few challenges which have to face to implement GST In India. Following are some of the factors that must be kept in mind about GST:

- Firstly, it is really required that every one of the states actualize the GST together and that too at similar rates. Otherwise, it will be really cumbersome for businesses to comply with the provisions of the law. Further, GST will be very advantageous if the rates are same, because in that case taxes will not be a factor in investment location decisions, and people will be able to focus on profitability.
- For smooth working, it is important that the GST clearly sets out the taxable event. Presently, the CENVAT credit rules, the Point of Taxation Rules are amended/ introduced for this purpose only.
- The GST is a goal based tax, not the origin one. In such circumstances, it should be clearly identifiable as to where the goods are going. This shall be difficult in case of services, because it is not easy to identify where a service is provided, thus this should be properly dealt with.

13. CONCLUSION

The problem which is present in the current Indian indirect tax system can be avoided by adopting GST. For charging tax on goods and services GST is a better approach. The biggest problems in Indian tax system like Cascading effect & tax evasion, distortion can be minimized by implementing GST. After amalgamation of local state and central taxes competitiveness of industry, exporter and company will increase. The extra revenue which can be generated from broaden tax base structure can be utilized for the growth of nation. In economy tax polices play an important role because of their impact on efficiency and equity. Indirect tax reforms have been as integral part of the liberalization process since new economic reforms. A progressive and welfare oriented nation like India tries to keep a balance between direct and indirect taxes. The new tax will be a further significant breakthrough and the next logical step towards a comprehensive indirect tax reform in the country. GST is not simply VAT plus service tax, but a major improvement over the previous system of VAT and disjointed services tax. A single rate would help to maintain simplicity and transparency by treating all goods and services as equal without giving special treatment to some 'special' goods and/or services. The launch of GST would transform Asia's third largest economy into a single market for the first time.

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