AN EXPLORATORY STUDY ON EVOLUTION & IMPLEMENTATION OF GST IN INDIA

Yogesh Garg[1], Jyoti Gupta[2]

[1]***Asst Professor*** *Department of Commerce, Amity University & SRI GURU GOBIND SINGH COLLEGE OF COMMERCE -Delhi University,(India)*

[2]***Asst Professor*** *Department of Commerce .Rukmini Devi Institute of Advanced Studies, GGSIPU,(India)*

ABSTRACT

This paper is a brief description of the historical scenario of Indian taxation and its tax structure. Then why there is a need for the change in tax structure from traditional system to GST model. Goods and service tax is a new story of VAT which gives a widespread setoff for input tax credit and subsuming many indirect taxes from state and national level. Evolution of GST has be detailed discuss in this paper as the background, silent features, Problems, efforts of government etc. The implementation of a comprehensive GST in India is expected to lead to efficient allocation of factors of production thus leading to gains in GDP and exports. Though a number of initiatives by the various machineries at the Centre, the present taxation regime is marked as cumbersome, complicated and unfriendly. It is in this perspective, the Central government has entrusted Dr.Vijay Kelkar, Chairman of 13th Finance Commission to suggest a rational, scientific and modern but unified system of taxation in tune with developed nations form the base behind the introduction of Goods and Service Tax (GST) in India.

Keywords: Value Added Tax, Central Value Added Tax, Goods and Services Tax, Gross domestic Product.

I. INTRODUCTION

GST is a broad based, single, comprehensive tax levied on goods and services at each point of sale of goods or provision of service, in which, the seller or service provider may claim the input credit of tax which he has paid while purchasing the goods or availing the service; the final consumer will thus bear only the GST charged by the last dealer in the supply chain.**GST** was recommended by Kelkar Taskforce in 2004. According to the Taskforce, an all India GST would be in the nature of a revolution in India's indirect Tax structure since independence because GST would merge all Indirect Taxes imposed by the centre and states ,so there is one country ,one single Indirect Tax. As such GST would substantially bring down cascading burden of various Indirect Taxes Imposed by centre and state together which falls on a final consumer. Most importantly, GST would be a destination based Tax imposed on final consumption wherever a commodity is sold or a service is

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rendered. It has been proposed that GST revenues shall be shared between the centre and states as all other Indirect Taxes would be subsumed in GST.

II. LITERATURE REVIEW

This section covers the review of literature of some of the important studies, research papers and articles on the various aspects of GST System.

Garg (2014) focused on the impact of GST (Goods and Services tax) with a brief description of the historical scenario of Indian taxation and its tax structure and discussed the possible challenges, threats and opportunities that GST brings to strengthen our free market economy.

Shah (2014) highlighted the objectives of proposed GST and discussed the possible challenges, threats and opportunities that GST bring before is to strengthen our force marked economy.

Almost all countries that have established the Goods and Services Tax (GST) system adopt the consumption-type GST in which all purchases of capital goods from other firms are deductible from a firm's sale (Shoup, 1990)

The earlier studies covered the concept & objectives of GST But it is very important to study the evolution and Implementation of GST in India.

III. TAX STRUCTURE IN INDIA

Taxes in India are levied by the Central Government and the State Governments. Some minor taxes are also levied by the local authorities such as Municipality or Local Council. The authority to levy tax is derived from the Constitution of India which allocates the power to levy various taxes between Centre and State (Patel, A. (2010)).

3.1 Subsumed Indirect Taxes in GST

A: The proposed Taxes of the **Centre** to be subsumed in GST are

1. CENVAT
2. Service Tax
3. All central surcharges & cess
4. Custom duty
5. Excise duty

B. The proposed Taxes of the **States** to be subsumed in GST are

1. VAT
2. Entertainment tax,
3. Entry tax
4. Luxury tax

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5. Taxes on Betting, Gambling and Lottery
6. All State surcharges and cess

Since both CENVAT and VAT as well as service tax will lose their independent identity, GST shall be in the nature of a dual tax imposed by the centre and state depending upon the jurisdiction but revenues shared in an agreed proportion so that centre's share goes into central goods and service tax account (CGST A/c) and state share goes into state goods and service tax account (SGST A/c). The tax rates would be at 4 slabs of 5%, 12%, 18% and 28%.Luxury and demerit goods will be taxed at 28% plus cess.

As GST would be on final Consumption, there shall be not tax at the manufacturing stage which itself would reduce the cascading burden of indirect taxes on final consumers.

IV. ROLE OF GOVERNMENT IN GST

4.1 Efforts To Introduce GST

The Union Finance Minister announced in his budget speech of 2007-08 that the Goods and Services Tax (GST) would be introduced in coming years which led to the setting up of an empowered committee comprising of state finance ministers. The empowered committee over the years has tried to access grievances and problems of state government and redress them to ensure smooth transition to GST. Several problems faced by state government over the years has been as followed:-

1. Apprehension of the loss of revenue
2. Apprehension of the loss of autonomy
3. Problem regarding fixation of standard rate of GST which must be a **Revenue Neutral Rate (RNR)** so that neither state nor centre loose revenues.
4. Demand by states for additional compensation in lieu of abolition of entry tax
5. Demand by manufacturing states for additional compensation as there shall be no tax at manufacturing stage under GST. (generally 1% additional GST is proposed)
6. States were adamant that they will not permit VAT on alcohol and petroleum under GST as these two accounts for 40% to 50% of total tax revenues of state government.

4.2 GST Preconditions To Constitutional Amendment

1. To empower states to tax services
2. To empower center to tax retail and sales

Successful implementation of GST would require a strong IT enable technology backward support and efficient administrative machinery to reconcile transactions at all India stage.

4.3 Centre's Approval on GST

The centre in the GST bill passed in the Lok Sabha have agreed to the Demands of state government:-

1. Centre has promised a five year compensation package under which center will compensate states to the extent of 100% in first three years, 75% in fourth year & 50% in fifth year in the loss of their revenue.
2. Center has also decided to keep VAT on alcohol and petroleum out of GST at present.

3. It has also agreed additional 1% rate GST for abolition of entry tax.
4. It has also decided to set up a GST council with 75% representations of state government which will take all decisions including the rates of GST to address the problem of autonomy of states.
5. A panel has been set up under **Nandan Nilay Keni** to prepare a strong IT enabled backup support for smooth transition to GST.

V. BENEFITS OF GST

The applicability of GST may lead to following advantages in India-

1. GST provide comprehensive and wider coverage of input credit setoff, you can use service tax credit for the payment of tax on sale of goods etc.
2. Consumer needs to pay single tax i.e GST instead of all other indirect taxes.
3. Uniformity of tax rates across all states
4. By reducing the tax burden the competitiveness of Indian products in international market is expected to increase and there by development of the nation.
5. As the benefits of less tax burden would be passed on to the consumer prices of goods are expected to reduce in the long run.
6. GST would result in higher GDP which may lead to higher Tax revenues (higher tax GDP ratio) which will bring down fiscal deficit to half its size and revenue deficit to zero.

VI. CONCLUSION

GST is the most logical steps towards the comprehensive indirect tax reform in our country. Since independence GST will give more relief to final consumers, industry, trade and agriculture through a more comprehensive and wider coverage of input tax set-off and service tax set-off, subsuming of several Central and State taxes in the GST and phasing out of CST. The subsuming of major Central and State taxes in GST would reduce the cost of locally manufactured goods and services. This is likely to increase the competitiveness of Indian goods and services in the international market and to boost Indian exports. GST would bring down the cascading & Tax burden on final consumers, prices will also fall, Consumption and Demand would go up, investment would increase and as a result GDP would go up. A higher GDP would result in higher Tax revenues (higher tax GDP ratio) which will bring down fiscal deficit to half its size and revenue deficit to zero. Besides GST would integrate Indian economy with rest of the world as more than 130 countries already have GST in place.

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