GOODS AND SERVICE TAX ITS IMPACT AND IMPLICATIONIN INDIA

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ABSTRACT:

GST that is Goods and Service Tax is the latest kind of Indirect Tax. The goods and services tax (GST) is a value-added tax levied on most goods and services sold for domestic consumption. The GST is paid by consumers, but it is remitted to the government by the businesses selling the goods and services. In effect, GST provides revenue for the government. The main purpose of GST is to bring about the single tax system for the manufacture and the sale of goods at the both central and the state level in the country. The GST is mainly implemented to remove all other taxes like VAT (Value-Added Tax), Excise duty and Sales Tax.GST the biggest tax reform in India founded on the notion of "one nation, one market, and one tax" is finally here.

Key Words: Goods and Service Tax VAT.

INTRODUCTION:

GST is the crucial form of Indirect Taxation which is said to be the indirect taxation reform ever since our Independence. The GST is said to bring about the economic integration said by our Union Finance Minister Arun Jaitley during the Budget speech at 2016. The Goods and Service Tax is levied on the manufacture, sale and consumption of the goods and services. Through the implementation of GST, all other taxes like Value Added Tax, Sales Tax will be removed and a uniform tax system on goods and services will be followed.

OBJECTIVES OF THE STUDY:

The study has been geared towards achieving the following objectives:

1. To study about the concepts of GST.

2. To study about the need and the Importance of the Goods and Service Tax to the Indian economy.

3. To study about the impact of GST on Various sectors in Indian economy.

4. To provide suggestions and recommendations regarding GST

RESEARCH METHODOLOGY

As this project is a qualitative research, the study was carried out by applying theoretical and empirical research.The data for the study were gathered from the secondary sources such as journals, articles published online and offline on various newspapers and websites.

History of GST Bill in India

The GST Bill was initially proposed by the committee under the then Prime Minster 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) Act, 2003 suggested about the implementation of GST under the principle of VAT. On 2006, the then Finance Minister of Union 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 Mukarjee 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 December 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 One Hundred and One Amendment Bill officially known as The Constitution (One Hundred and One) Amendment Act 2016 will be in force from 1st July, 2017

Concept of Goods and Service Tax:

Tax policies of a country play an important role on the economy through their impact on both efficiency and equity. A good tax system should keep in view issues of income distribution and at the same time, also generate tax revenues to support government expenditure on public services and infrastructure development. The framework of value added tax (VAT), recognized as GST as well in several countries, has been one of the major development in taxation structures worldwide. More than 135 countries adopted the GST/ VAT framework effectively. Indian economy is getting more and more globalised. Introduction of an integrated Goods and Services Tax (GST) to replace the existing multiple tax structures of Centre and State taxes is not only desirable but imperative in the emerging economic environment. The implementation of GST would ensure that India provides a tax regime that is almost similar to the rest of the world. It will also improve the international cost competitiveness of native goods and services. According to a report by the National Council of Applied Economic Research, GST is expected to increase economic growth by 0.9 percent to 1.7 percent and Exports are expected to increase by 3.2 percent to 6.3 percent. The Goods and Services Tax Bill or GST Bill, officially known as The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014, proposes a national Value added Tax to be implemented in India from June 2016. "Goods and Services Tax" would be a comprehensive indirect tax on manufacture, sale and consumption of goods and services throughout India, to replace taxes levied by the Central and State governments. Goods and services tax would be levied and collected at each stage of sale or purchase of goods or services based on the input tax credit method. This method allows GST-registered businesses to claim tax credit to the value of GST they paid on purchase of goods or services as part of their normal commercial activity. Taxable goods and services are not distinguished from one another and are taxed at a single rate in a supply chain till the goods or services reach the consumer. Administrative responsibility would generally rest with a single authority to levy tax on goods and services. Exports would be zero-rated and imports would be levied the same taxes as domestic goods and services adhering to the destination principle.

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%.

As India is a federal republic GST would be implemented concurrently by the central government and by state governments.

"Goods and Service Tax (GST) is a comprehensive tax levy on manufacture, sale and consumption of goods and service at a national level.

GST is a tax on goods and services with value addition at each stage having comprehensive and continuous chain of set-of benefits from the producer's/ service provider's point up to the retailer's level where only the final consumer should bear the tax."

Goods and Service Tax (GST) is a comprehensive tax levy on manufacture, sale and consumption of goods and service at a national level. In simple terms, GST may be defined as a tax on goods and services, which is leviable at each point of sale or provision of service, in which at the time of sale of goods or providing the services the seller or service provider may claim the input credit of tax which he has paid while purchasing the goods or procuring the service. It is basically a tax on final consumption. Under the GST regime, both the Centre and the State would have the powers to tax the supply of goods and services right from their primary stage to final consumption. At the centre's level, introduction of the GST will mean that it takes the place of central excise duty, service tax and additional customs duties. At the state level, the GST will take the place of State VAT.

Objectives of GST

1. To remove the cascading effect of taxes that is through this Single taxation system (GST) 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 or three different varieties of GST. They are as follows.

• Central GST. Goods and Service Tax to be levied at the centre

• State GST. GST levied at the state.

• Dual GST. GST to be levied at the State and Centre concurrently

Proposed GST Rate

The rate of the proposed Goods and Services Tax for the certain goods and services are laid down by the government which is as follows.

1. For Goods the Total GST rate is 20 % in which 12% of the tax is levied by Central while remaining 8% will be levied by the state.

2. For Services the Total GST is 16% out of which 8% is for the Central and 8% is for the state.

3. For the essential Goods the GST is levied at 12% in which is divided equally that is 6% for Centre and 6% for state.

Currently, it is collected in the form of VAT which is 26.5% that is Central Value Added Tax is 14% and State VAT is 12.5%.

The above mentioned percentage of Goods and Service Tax is just a proposed value it may subject to change as per the revisions make up by the Executive Committee and the government

TAXES TO BE SUBSUMED IN GST

CENTRAL TAXES TO BE SUBSUMED IN GST

On application of the above principles and various papers which have been released in this regard, it is deduced that the following Central Taxes should be, to begin with, subsumed under the Goods and Services Tax:

- Central Excise Duty (CENVAT)
- Additional Excise Duties
- The Excise Duty levied under the Medicinal and Toiletries Preparations (Excise Duties) Act 1955
- Service Tax
- Additional Customs Duty, commonly known as Countervailing Duty (CVD)
- Special Additional Duty of Customs – 4% (SAD)
- Surcharges and Cesses levied by Centre are also likely to be subsumed wherever they are in the nature of taxes on goods or services. This may include cess on rubber, tea, coffee, national calamity contingent duty etc.
- Central Sales Tax to be phased out.

STATE TAXES TO BE SUBSUMED IN GST

Following State taxes and levies would be, to begin with, subsumed under GST:

- VAT / Sales tax
- Entertainment tax (unless it is levied by the local bodies)
- Luxury tax
- Taxes on lottery, betting and gambling
- State Cesses and Surcharges in so far as they relate to supply of goods and services
- Octroi and Entry Tax

- Purchase Tax

Importance of Goods and Service Tax :

1. GST will widen the tax base, improve tax compliance, remove existing unhealhy competition among states and re-distribute the burden of taxation equitably among manufacturing and services.

2. GST will ensure the uniformity of taxes across the states, regardless of place of manufacture or distribution

3. GST would integrate the tax base and allow seamless flow of input tax credit across the value chain of goods and services which will lead to reduced cost of goods and services. GST environment would lead to improved disclosure of economic transactions which may have a positive impact on direct tax collections also.

4.The average tax burden on companies will fall which will reduce the costs of Indian goods and services in the international market and give boost to Indian exports, It will mitigate cascading and double taxation and enable better compliance through the lowering of overall tax burden on goods and services.

5. Overall, it will result in increasing revenue at the Centre as the tax collection system becomes more transparent, making tax evasion difficult

IMPACT OF GST:

The GST is said to have a positive impact on the economy as a whole. But when it comes to sectoral-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.

1. **Technology (Information technology and ITeS):**

   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

2. **Telecommunications:**

The telecommunications sector is presently paying the tax at the rate of 14% which is expected to be increased during the GST regime. And, 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

3. **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.

4. **Automobiles:**

The Automobile industry is currently paying a tax rate of a range between 30-45%. And it is expected that after GST the rate will be around 18% which will be a huge positive for the automobile industry and which will be profitable to both the Manufacturers/dealers and the ultimate consumers. The standard and the social status of the consumers get uplifted. There will be a huge boom in the Automobile Industry as a result of implementation of Goods and Services Tax.

5. **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 the GST regime. And the services are likely to be costlier.

6. **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 rates of 15% which will be having a moderate impact on the industry.This moderate impact may either be neutral or slightly negative when compared to the other present system of taxation. But they will be benefited through the reduction of cost in transportation, savings etc.

7. **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 somewhat either neutral or slightly negative impact of GST on the Media and Entertainment Industry.

8. **Consumer durables:**

   The current of tax rate of this industry is around the range between 23-25%. And under the GST regime it is considered to be lower around 15-18% which will be positive impact to this industry.

9. **Cement**:

   The cement industry currently pays the tax at the rate of 25% currently. And, after the GST regime, it is expected to be fixed at the rate of 18 to 20%. This will be a major relief for the companies of that industry. And the logistics tax also is to be reduced; it would be a double benefit for all the industries involved in manufacturing.

10. **Real estate:**

    Real estate 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 immediately after its implementation. It is expected that since there is a single system of Taxation under GST, all other forms of indirect taxation will be removed which results on reduction of property prices and the cost of construction. Thus, we can have a positive impact of GST on the Real estate sector.

Problems in Implementing GST

There are certain challenges and problems in implementing the GST in India. Some of them are as follows.

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 the GST. Even though, if implemented the levy of Tax remains on the part of the state.
3. The State government generally refuses to accept it. As the states levy taxes on the Destination principle i.e. (the state in which the product or service is sold or rendered), so in order to lose the revenue they were avoiding it.
4. The Revenue Neutral Rate (RNR) is the key factor responsible for the effective implementation of GST. But under GST, we could not say that the revenue remains same as that of the current system of taxation.
5. Loss of revenue to the state. If we buy any product the VAT @ 14.5% is included towards it, after the GST regime, there will be no VAT then it results on the loss of revenue to the state.
6. 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.
7. It involves massive cost on the training of the staff of the Taxation department.
8. Lack of political support. The Bill must be passed in the Rajya Sabha for its successful implementation.
9. IT is the backbone of GST which would connect the various stakeholders through the Virtual platform. So, government must show keen interest on the development of portal for GST and successfully achieves it.
10. There is a large debatable question in implementing the GST such as whether the small entrepreneurs and small firms will be helpful through the GST regime?, whether the government and the Public ready for such a change? Are some of the questions which are highly in confused dilemma?

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. In order to avoid the unnecessary loss of revenue to the state government, the central government may think about the considerable percentage of GST which will be helpful for all stakeholders of GST.
5. Consent from all states and suggestions from every state for betterment of GST and the source of Tax revenue.
6. The government should take care about the RNR which should not affect the tax revenue to any government either central or state.
7. The loss of Tax revenue should be managed and compensated properly through proper diversification of funds without burden to anyone.
8. The Central and the State government should be in proper understanding and cooperative with each other for the successful implementation of GST.

Limitations of the Study

1. The study is completely based on the secondary sources.
2. No Quantitative data were collected.
3. The Study is not based on the research.

Conclusion

The GST is very crucial tax reform since independence of India, so it must be better handled with utmost care and analysed 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. The GSTN portal should be maintained properly because lots of time will be wasted by the professional while filling the returns and various compliance of GST.

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