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GST”- Biggest Reform In India’s Indirect Tax Structure

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Abstract:

GST is one indirect tax for the whole nation, which will make India one unified common market. GST is the biggest and substantial indirect tax reform since 1947. The main idea of GST is to replace existing taxes like Value-added tax, excise duty, service tax and sales tax. 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 benefits at all the previous stages. In this paper an attempt has been made to see the benefits of GST & its current status in India. Paper gives knowledge about GST and a flawless implementation would trigger an increase in the government revenue and a surge in the Indian economy. GST or the Goods and Services Tax is an indirect tax that brings together most of the taxes that are imposed on all goods and services (except a few) under a single banner. The goods and services tax (GST) is aimed at creating a single, unified market that will benefit both corporate and the economy. The Goods and Services Tax (GST) is a value added tax to be implemented in India, the decision on which is pending.

Key words: GST, salient features, advantages, impact on different sectors.

Introduction:

The word “tax” is derived from Latin word “taxare” which means to estimate. A tax is an enforced contribution, exacted pursuant to legislative authority. 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 services the seller or service provider may claim input credit of tax which he has paid while purchasing the goods or procuring the

services. Goods and Service tax also known as the Value Added Tax (VAT) or Harmonized

Sales Tax. India is one of the 123 countries across the world that is following the VAT mode. White Paper with basic design for VAT was released on January 17, 2005 by the Finance Minister “P.Chidambaram”. VAT was introduced both at centre and state level. It was implemented in Haryana in 2003 and later on 1st April 2005 it was introduced in remaining states as an Indirect Tax in the Indian taxation system.

VAT replaced central excise duty at the national level and the sales tax system at the state level. Thus, it improved the indirect taxation system of the country. Goods and Service tax bill officially known as the constitution bill. GST is called as value added tax because at every stage, tax is being paid on the value addition. Under the GST scheme, a person who was liable to pay tax on output, whether for provision of service or sale of goods, is entitled to get input tax credit (ITC) on the tax paid on its inputs.

The Goods and Services Tax (GST), the biggest reform in India's indirect tax structure since the economy began to be opened up 25 years ago. GST is a tax triggered business transformation which is expected to be a game changing reform for the Indian economy. It will develop a common Indian market and reduce the cascading effect of tax on the cost of goods and services. Both CGST and SGST would be levied on the basis of the destination principle. Thus, exports would be zero-rated, and imports would attract tax in the same manner as domestic goods and services. Inter-state supplies within India would attract an Integrated GST (aggregate of CGST and the SGST of the Destination State). In addition to the IGST, in respect of supply of goods an additional tax of up to 1% has been proposed to be levied by the Centre. Revenue from this tax is to be assigned to origin states. This tax is proposed to be levied for the first two years or a longer period, as recommended by the GST Council. Since VAT

was beneficial for the taxation system but with certain shortcomings which are expected to be overcome by the Goods and Service Tax. Thus, it would definitely a positive reform for the Indirect tax system in India.

Tax Structure in India: In India, the tradition of taxation has been in force from ancient times. Broadly, there are two types of Taxes i.e. Direct and Indirect taxes. 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.

- Some of the important Central taxes are CENVAT (Central Value Added Tax), Customs Duty, and Service Tax.
- Some of the important State taxes are State Sales Tax, CST, Works Contract Act, Entry tax and other local levies.

Need for the study: GST is a comprehensive tax regime levied on manufacture, sales and consumption of goods and services. It is expected to bring

about 2% incremental GDP growth of the country. So, GST is the need of the hour.

Objective of the study: - The objectives of the paper are

- 1) To study about GST and its salient features.
- 2) To study about GST impact on the economy.
- 3) To evaluate the advantages of GST.

Methodology of the study: The study is purely based on secondary source of Information collected from respective journals, reports, newspapers and magazines covering wide collection of academic literature on Goods and Service Tax.

Impact of GST on Indian economy:

GST will have a far-reaching impact on almost all the aspects of the business operations in the country.

The current indirect tax structure is the major impediment to India's economic growth and competitiveness. Introduction of GST is considered crucial for economic growth. GST will have quite a favorable impact on Indian economy. Some sectors will have a more favorable impact compared to others under the proposed GST such as

Reshapes Indirect Tax Structure: The GST will reshape the indirect tax structure by a subsuming majority of indirect taxes like excise, sales and services levies. This will do away with the complex indirect tax structure of the country, thus improving the ease of doing business in the country.

Exports: Exports will become competitive as the GST regime will eliminate the cascading impact of taxes. GST is a key 'brahmastra' for India's gross domestic product in times of challenging global environment.

Gross Domestic Product: In terms of growth impact on GST implementation, the near-term could be messy, and the central government trying to compensate states for revenue loss.

Inflation: Initially, the implementation of the GST in the near-term could bring some upturn in inflation; however, the impact should be transitory.

Foreign Exchange: The passing of the GST will be welcome news for the Indian rupee (INR). So far, the currency has yet to see a GST boost. It is believed that GST will lead to higher foreign direct investment inflows and narrow current account deficit-factors that should help the INR eventually

outperform other Asian and emerging market currencies.

Impact of GST on Make-in-India: The 'Make in India' campaign is proposing to make India a world-class manufacturing hub. The tax reforms through GST will play a crucial role to attract large-scale investment. The impending Goods and Service Tax (GST) promises a progressive tax system which avoids tax cascades and helps establish India as a true common market. GST will reduce the cost of production and allows the hassle free supply of goods. This can increase the ease of doing business India.

Unification of Market: GST will lead to the creation of a unified market, which would facilitate seamless movement of goods across states and reduce the transaction cost of businesses. The GST will help bring down logistical costs.

Credit to Manufactures: Under the GST, manufacturers will get credits for all taxes paid earlier in the goods/services chain, thus incentivizing firms to source inputs from other registered dealers. This could bring in additional revenues to the government.

Credit to Dealers: To claim input tax credit, each dealer has an incentive to request

documentation from the dealer behind him in the value-added/tax chain. Thus, the new tax regime is seen as less intrusive, more self-policing, and hence more effective way of reducing corruption.

Clean-up India: The clean-up of the Indian taxation system will reduce the number of excise duty exemptions. Together, India loses about 2.7 percent of GDP because of exemptions.

IMPACT OF GST ON POVERTY

REDUCTION: At present, primary food particles like rice and wheat are liable to tax by many States either by way of purchase tax or sales tax at a lower rate. But under the GST, all food items covered under the public distribution system including rice and wheat are proposed to be exempted. As a result primary food particles like rice and wheat would be exempted from GST. Since expenditure on food constitutes a large proportion of the total consumption expenditure of the poor, the GST is designed as a poverty reduction initiative. Like food, basic health and education services are also intended to be fully exempted. In any case, as at present, these services will continue to be exempted from tax and therefore no additional burden will arise on account of the switchover to GST.

Benefits: GST has been envisaged as an efficient tax system, neutral in its application and distribution ally attractive. The advantages of GST are:

- Wider tax base, necessary for lowering tax rates and eliminating classification disputes.
- Reduction in multiplicity of taxes, more efficient neutralization of taxes especially for exports.
- Development of common national market .Simple tax regime, fewer rates and exemptions as well as conceptual clarity.
- Harmonization of center and state tax administrations, which would reduce duplication and compliance costs.
- For Centre and State Governments: simply and easy to administer, Better control on leakage, consolidation of Tax base, Higher Revenue efficiency.
- For the consumer: single and transparent tax proportionate to the value of goods and services, Reduction of prices.
- Reduction in prices: Due to full and seamless credit, manufacturers or traders do not have to include taxes as a part of their cost of production, which is a very big reason to say that we can see a reduction in prices.
- Automation of compliance procedures to reduce errors and increase efficiency.
- Less compliance and procedural cost: Instead of maintaining big records, returns and reporting under various different statutes, all assesses will find comfortable under GST as the compliance cost will be reduced.
- Move towards a Unified GST: Internationally, the GST is always preferred in a unified form (that is, one single GST for the whole nation, instead of the dual GST format).
- Last dealer in the supply chain, with set-off benefits at all the previous stages. The bill proposes an additional tax not exceeding 1% on inter-state trade in goods, to be levied and collected by the Centre to compensate the states for two years, or as recommended by the GST Council, for losses resulting from implementing the GST.
- Cross utilization of ITC between the Central GST and the State GST would not be allowed except in the case of inter-State supply of goods.
- The Centre and the States would have concurrent jurisdiction for the entire value chain and for all taxpayers on the

basis of thresholds for goods and services prescribed for the States and the Centre.

- The taxpayer would need to submit Although India is adopting Dual GST looking into the federal structure, it is still a good move towards a Unified GST which is regarded as the best method of Indirect Taxes
- Destination principle: The GST structure would follow the destination principle. Accordingly, imports would be subject to GST, while exports would be zero-rated. In the case of inter-state transactions within India, State tax would apply in the state of destination as opposed to that of origin.

Salient features of the proposed Indian GST system:

GST is defined as any tax on supply of goods and services other than on alcohol for Human consumption.

- However, only the Centre may levy and collect GST on supplies in the course of inter-state trade or commerce. The tax collected would be divided between the Centre and the states in a manner to be provided by parliament, on the

recommendations of the GST Council.

- Central taxes such as Central Excise duty, Additional Excise duty, Service tax, Additional Custom duty and Special Additional duty as well as state-level taxes such as VAT or sales tax, Central Sales tax, Entertainment tax, Entry tax, Purchase tax, Luxury tax and Octroi will subsume in GST.
- Petroleum and petroleum products, i.e., crude, high speed diesel, motor spirit, aviation turbine fuel and natural gas, shall be subject to GST - date to be notified by the GST Council. As a measure of support for the states, petroleum products, alcohol for human consumption and tobacco have been kept out of the purview of the GST.
- GST may be levied on the sale of newspapers and advertisements. This would mean substantial incremental revenues for the Government..
- Administration of GST will be the responsibility of the GST Council, which will be the apex policy making body for GST. Members of GST Council comprise Central and State ministers in charge of the finance portfolio. The GST Council is to consist of the union finance minister

as chairman, the union minister of state of finance and the finance minister of each state.

- The final consumer will bear only the GST charged by the common format for periodical returns, to both the Central and to the concerned State GST authorities. Each taxpayer would be allotted a PAN-linked taxpayer identification number with a total of 13/15 digits.

Findings: The Findings which are being drawn out from the study are as GST will widen the tax base, Improve tax compliance and will remove unhealthy competition among states and It ensures uniformity of tax system across the states.

Suggestion: The suggestions from the study are the government of India should take final step to pass the GST bill in parliament with removing all hurdles. Workshops, Training and various seminars on GST must be conducted in all states by their respective State and Central Governments to create awareness to the public. Instead of maintaining different rates of taxes, a single rate would help maintain simplicity and transparency by treating all goods by Central and state GST.

CONCLUSION: It can be concluded from the above discussion that GST will provide relief to producers and consumers by providing wide and comprehensive coverage of input tax credit set-off, service tax set off and subsuming the several taxes. Overall GST is helpful for the development of Indian economy as well it will be very much helpful in improving the gross domestic product of the country more than two percent. It can be further concluded that GST have a positive impact on various sectors and industry.

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