

GLOBAL JOURNAL OF ENGINEERING SCIENCE AND RESEARCHES

GST IN INDIA: A KEY TAX REFORM AND ITS IMPLEMENTATION

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ABSTRACT

GST is one of the most crucial tax reforms in India which has been long waiting. It was hypothetical to be implemented from April 2010, but due to political issues and contradictory interests of various stakeholders it was still awaiting. The Goods and services tax (GST) is the prime and significant indirect tax reform since independence. The main idea of GST is to replace existing taxes like value-added tax, excise duty, service tax and sales tax. It is levied on manufacture sale and consumption of goods and services. GST is expected to address the cascading effect of the current tax structure and result in bonding the country economically. The paper highlights the background, objectives of the proposed GST and the impact of GST in the present tax scenario in India. The paper further explores various benefits and opportunities of GST and draws out a conclusion.

Keywords: Indirect taxation; Goods and Service Tax; Marketing; Value Added Tax, Central Value Added Tax, GST, Input Credit.

I. INTRODUCTION

India is the hub of taxes where people pay numerous taxes which generate confusion for them. Earlier we pay two types of taxes i.e. Direct and Indirect in various sectors. Direct Tax paid directly to the government by the taxpayer i.e. Income Tax, Wealth Tax, and Corporation Tax. Indirect Tax is a tax levied on goods and services rather than on income or profits. It is not directly paid to government but collected from intermediaries (such as retail stores) from the person who bears the eventual economic burden of the tax (such as consumers). The intermediary later files a tax return and forwards the tax proceeds to government with the return for example, Sales Tax, VAT, Excise Duty, and Custom Duty and so on.

GST is a blanket of Indirect Tax that will include a number of indirect state and federal taxes such as Value Added Tax (VAT) and Excise Duty and different State Taxes, Central Surcharges, Entertainment Tax, Luxury Tax etc. GST was initially initiated in France in 1954, with introduction of GST France became the first country ever to introduce GST. Its beginning was requiring because very high sales taxes and tariffs encourage corrupt and smuggling. After France, it was adopted by 165 nations. Now, India is also going to adopt it. After its execution in India, India became 166th nation to adopt it.

II. INDIAN TAXATION SYSTEM

India has got a logical and simplified taxation system, wherein an authoritative separation has been done among the Central Government, the different State Governments as well as the Local Bodies. The Department of Revenue under the Government of India's Ministry of Finance is exclusively accountable for the computation of tax. This department levy taxes on individuals or organizations for income, customs duties, service tax and central excise. However, the agriculture based income taxes are levied by the respective State Governments. Local bodies have got the power to work out and charge taxes on properties and other utility services like drainage, water supply etc. The past 15 years have witnessed tremendous reformations of the taxation system in India. Apart from the validation of the rates of tax, generalization of the different laws of taxation has even been done for the duration of this period. However, the process of tax rationalization is yet in progress in the Republic of India.

GST is a destination-based excise tax imposed at various stages in the production and distribution of goods and services. State and local taxes, entertainment taxes, consumption taxes, surcharges, patents and many other taxes are combined. Tax applies to transaction prices, with packaging, fees and other costs incurred during the packaging. You can pay full tax deductions from input and capital goods at time of purchase, which can be subsequently amortized for GST output liability.

An important feature of GST is that products and services are equalized and are taxed at a fixed rate until clientele access it within the supply chain. Therefore, tax reforms provide equal rights to large and small businesses and taxpayers.

Another significant attribute of India's GST rollout is that it is dual-based. In other words, both central and multiple government agencies will release GST separately. The central government will charge CGST and the state SGST respectively. However, tax and taxation standards are the same. This is essential in view of the central structure of the government if governments are free to manage their own taxes at two levels.

Another important feature of GST that needs to be mentioned is the elimination of the cascading effects of various state and central taxes. Government taxes included in GST include VAT, entertainment tax, income tax and advanced taxes, VAT and gambling taxes.

Various central taxes that will be subsumed are:

- Central Excise Duty,
- Additional Excise Duty,
- Service tax,
- Additional Custom Duty,
- Special Additional Duty and
- Central Sales tax.

III. LEGISLATIVE HISTORY OF GST BILL IN INDIA

In 2000, Shri Atal Bihari Vajpy brought this system but no one paid attention on it and due to some grounds it was not passed. On 28th February 2006, the finance minister P. Chidambaram, had announced the target date for execution of GST on 1 April, 2010. The Constitution (122nd Amendment) Bill was brought in the Lok Sabha by Finance Minister Arun Jaitely, on 19th December 2014, and passed by the house on 6th May 2015. This bill was passed by Lok Sabha on August 2016. The bill, after endorsement by the States, received consent from President Pranab Mukherjee on 8th September 2016. GST bill is brought for the cause that the different taxes paid by us on dissimilar rates would be brought under one cover so that all the taxes may get cancelled and only one tax is paid which is GST. Goods and Services Tax (GST) will consist of one tax one nation; this announcement was given by the Prime Minister Mr. Narandra Modi. In today's scenario we pay 30% to 35% tax on different things but with GST it will be around 18%, which shows it will be helpful and one main thing that GST will remain similar in all nation. The GST implementation in India is „Dual“ in nature, i.e. it would consist of two components: one levied by Centre (CGST) and another levied by States and Union Territories (SGST).

IV. GST MODELS

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.)

V. NEED AND IMPORTANCE FOR GST

- To bring about the uniformity in the System of Indirect taxation.
- To remove the cascading effects of Tax.

- To bring about the economic integration.
- Reduces complexities and increases more number of economic transactions.
- To bring a competitive pricing.
- To bring the single tax system; this will reduce the cost of production for the manufacturers.
- To bring more transparency in the system.
- The Country is said to have one market economy, as through GST the number of numerous markets divided by various tax will be avoided.
- To avoid the Tax burden of the common consumers and the public by making it into a single tax system

VI. NEED OF THE STUDY

This study will help us to inspect the impact of GST after its execution, it will show the space between present indirect taxes and GST, & also the study will show benefits and challenges which GST may face after execution.

VII. OBJECTIVES OF THE STUDY

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.

VIII. REVIEW OF LITERATURE

- Empowered Committee of Finance Ministers (2009) ; First Discussion Paper on Goods and Services Tax in India which examined the formation and loopholes if any in GST
- Vasanthagopal (2011); article GST in India: A Big Leap in the Indirect Taxation System; argued the impact of GST on various sectors of the economy. The article further said that GST is a big jump and a new momentum to India's economic transform.
- Bird (2012); the article The GST/HST: Generating an integrated Sales Tax in a Federal Country the impact of GST will be on Canada.
- Garg (2014); the article named Basic Concepts and Features of Good and Services Tax in India examined the impact and GST on Indian Tax scenario and accomplished that it will strengthen out free market economy.
- Kumar (2014) ; the article Goods and Services Tax in India: A Way Forward background, silent features and fulfilled with the optimistic impact of GST on present complex tax structure and growth of national market.
- Indirect Taxes Committee of Institute of Chartered Accountants of India (ICAI) (2015) submitted a PPT naming Goods and Service Tax (GST) which stated in brief details of the GST and its positive impact on economy and various stakeholders
- The Institute of Companies Secretaries of India (ICSI) (2015) published a orientation on Goods and Service Tax to offer the information on the idea of GST in details.

IX. METHODOLOGY

This study is descriptive in nature and it exercised the exploratory technique. The data for the study were collected from the secondary sources such as journals, articles published online and offline on various newspapers and websites.

X. IMPACT OF GST ON VARIOUS SECTORS

The GST is said to have an encouraging impact on the economy as a full. But when it comes to sector-wise classification, the GST has both positive as well as negative impact on each of the sectors. Here are some sectors given and its GST is given below

Technology (Information technology and IT'S): The GST system of indirect taxation has made the duty on the manufacturing goods from 14% to 18-20%. As a result, the cost 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 moderate it.

Telecommunications: The telecommunications sector is currently paying the tax at the rate of 14% which is expected to be greater than before during the GST regime. And, it is understood to be around 18% which will be expected to be passed over to the customers and this gives a picture that GST will unfavorably affect this sector.

Pharmaceuticals: currently, 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.

Automobiles: The Automobile industry is currently paying a tax rate of variation between 30-45%. And it is expected that after GST the rate will be around 18% which will be a huge positive for the vehicle industry and which will be cost-effective 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.

Financial Services: The Financial services such as banking, Stock Trading firms are now paying 14.5% as VAT which is likely to be bigger to 18 to 22% in the near future under the GST regime. And the services are expected to be costlier.

Textiles: Currently, the Textile industry is paying the tax at the rate of almost 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 business under the regime of GST it is expected at the rates of 15% which will be having a moderate impact on the industry. This reasonable impact may either be neutral or a little negative when compared to the other present structure of taxation. But they will be advantage through the reduction of cost in transportation, savings etc.

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 business.

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. 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.

Real estate: Real estate contributes about nearly 7.3% of India's GDP and it is the largest generator of employment straight away after IT. Real estate is said to get a positive impact under the GST regime instantly 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 decrease in property prices and the cost of construction. Thus, we can have a positive impact of GST on the Real estate segment.

Problems in Implementing GST

1. There is no such clear picture about the GST both to the government and to the general public.
2. There is lack of 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 declines 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. 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.
9. The impact of the November 8 demonetization of high-value currency on their respective economies to emphasize that it is not the suitable time to implement. That could have an unstable effect on the economy.
1. GST will also have impact on cash flow and working capital. Cash flow and working capital of business organizations which maintain high inventory of goods in different states will be adversely affected as they will have to pay GST at full rate on stock transfer from one state to another. Currently CST/VAT is payable on sale and not stock transfers.

Products not covered under GST

- Petroleum Products
- Alcohol
- Tobacco Products

XI. SUGGESTIONS AND RECOMMENDATIONS

- 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.
- Approval from all states and opinion from each state for betterment of GST and the source of Tax revenue.
- The government should take care about the RNR which should not affect the tax revenue to any government either central or state.
- The loss of Tax revenue should be managed and compensated properly through proper diversification of funds without burden to anyone.
- The Central and the State government should be in proper understanding and cooperative with each other for the successful implementation of GST.

XII. 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

XIII. CONCLUSION

The GST is very crucial tax restructuring since independence of India, so it must be better handled with greatest care and analyzed well prior to implementing it. And, the government both central and state has to conduct awareness programmes and various literacy programmes about GST to its various stakeholders. It can be accomplished from the above discussion that GST will offer relief to manufacturers and consumers by providing wide and broad coverage of input tax credit set-off, service tax set off and including the several taxes. Well-organized formulation of

GST will guide to resource and profits gain for mutually Centre and States majorly through broadening of tax base and upgrading in tax compliance. It can be further accomplished that GST have a positive impact on various sectors and industry. Even if implementation of GST requires rigorous efforts of all stake holders namely, Central and State Government, trade and industry. Thus, essential steps should be taken.

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