

An Impact of Goods and Service Tax (GST) on Indian Economy

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Abstract

VAT was introduced in to the Indian taxation system from 1 April 2005. Vat is a significant improvement over the local sales tax system. To serve the issues untouched by vat the finance minister Pranab Mukherjee while presenting the budget on July 6, 2009, said that GST come into effect from April 2010. The constitutional amendment for the same was passed by Lok Sabha on 6 May, 2015 but is yet to be ratified by the Rajyasabha. GST stands for Good and Service Tax. GST also known as the goods and services tax is the giant indirect tax structure designed to support and enhance the economic growth of a country. It is a single indirect tax for the whole nation, one which will make India a unified common market. GST is expected to create a business friendly environment, as price levels and hence inflation rates would come down overtime as a uniform tax rate is applied. It will also improve governments fiscal health as the tax collection system would become more transparent making tax evasion difficult. The present research paper is an attempt to study concept of goods and service tax and its impact on Indian economy.

Key words: Goods and Service tax, Indian economy, VAT.

Introduction

GST stands for Good and Service Tax. It was first initiated in 1986, 7th Prime Minister of India. After that in 2007, the current government proposed to implement GST and presented the same in Lok Sabha in 2011. In Dec 2014 GST again presented in Lok Sabha and in same is passed in 2015. After approval of Rajya Sabha same is called as 101th amendment of the Constitution. And GST is rolling out from 1 July 2017. GST is a historical milestone in the Indian economy. It is an Indirect tax at all the stages of production to bring about uniformity in

the system. Tax policies 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 endeavor to generate tax revenues to support government expenditure on public services and infrastructure development.

Currently tax rates differ from State to State. GST will ensure a comprehensive tax base with minimum exemptions, will help industry, which will be able to reap benefits of common procedure and claim credit for taxes paid. GST, as per government estimates, will boost India's

GDP around 2 per cent. Under this system, the consumer pays the final tax but an efficient input tax credit system ensures that there is no cascading of taxes-tax on tax paid on inputs that go into manufacture of goods.

GST is a comprehensive indirect tax on manufacture, sale and consumption of goods and services at national level. The GST is expected to replace all the indirect taxes in India. At the centre's level, GST will replace central excise duty, service tax and customs duties. At the state level, the GST will replace state VAT.

Types of GST

There are three kinds of taxes under the GST. SGST, CGST AND IGST.

SGST

State goods and service tax is the part of tax diverted to the state government which is credited to revenue department of state government. This is generally equivalent to CGST. This compensates the loss of existing VAT or Sales tax revenue to state government. In the case of local sales, 50% quantum of tax amount under GST is diverted to SGST TAX.

CGST

CENTRAL GOODS AND SERVICE TAX is the share of GST TAX Diverted to revenue department of central government and same it's also equivalent to SGST. This share of tax compensates the loss of existing excise duty and service tax to the central government. In the case of local sales, balance 50% quantum of GST is transferred to CGST.

IGST

INTEGRATED GOODS AND SERVICES TAX is levied when inter-state sales and purchase is made. One part of this tax transferred to central

government and another to state government to whom goods and services belong. The IGST is the separate tax which is charged only in case of inter-state sales or when transactions between two states involved.

Objectives of the study

1. To understand the concept of goods and service tax.
2. To understand how GST will work in India.
3. To learn about shortcomings of current taxation system in India.
4. To understand the benefits of GST over the current taxation system in India.

Research Methodology

The study focus on secondary data, collection from government reports, publications from various websites, various books which focused on various aspect of goods and service tax.

Why GST is Important in India

The current structure of taxes in India is a rat trap. The wide powers to levy and collect taxes provided to states and central government. as a result, both levy different kinds of taxes which makes the Indian tax structure very much complex and a complex economy too. The small scale industries In India continuously suffering from these problems

GST Implementation in India

India's biggest tax reform is now a reality. A comprehensive dual Goods and Services Tax (GST) has replaced the complex multiple indirect tax structure from 1 July 2017. The concept of GST was visualized for the first time in 1999. On 8 August 2016, the Constitutional Amendment Bill for roll out of GST was passed by the Parliament, followed by ratification of the bill by more than

15 states and enactment of the bill in early September.

In a short span of time, all the states (excluding Jammu and Kashmir) approved their State GST (SGST) laws. Union territories with legislature, i.e., Delhi & Pondicherry, have adopted SGST Act and the balance 5 Union territories without legislatures have adopted UTGST Act.

The government has also notified GST rules, tax rates on goods and services, exemption list and categories of services on which reverse charge is applicable. The second phase of enrolment process for migrating existing taxpayers to the proposed tax regime through GST common portal has already commenced from 1 June 2017. GST Network, an IT backbone of GST, has also carried out the test run of its Portal. GSTN has released offline utility for GSTR-1.

Value Added Tax (VAT)

Vat is a system of indirect taxation, which has been introduced in lieu of sales tax. It is the tax paid by the producers, manufacturers, retailers or any other dealer who add value to the goods and that is ultimately passed on to the consumers. Vat has been introduced in India to ensure a fair and uniform system of taxation.

Vat makes the tax structure simple hassle – free and export – oriented. The integration of VAT with tally will help you in the smooth functioning of your business and eliminate the complication that might otherwise arise in VAT.

Indian Taxation System

India has got a well-structured and simplified taxation system, wherein an authoritative segregation 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 solely responsible 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 compute and levy taxes on properties and other utility services like drainage, water supply and many others. The past 15 years have witnessed tremendous reformations of the taxation system in India. Apart from the rationalization of the rates of tax, simplification of the different laws of taxation has even been done during this period. However, the process of tax rationalization is still in progress in the Republic of India. Courtesy New Business Maps of India)

GST- Work in India

The GST system based on the same concept as VAT. Here, set-off is available in respect of taxes paid in the previous level against the GST charged at the time of sale. The GST model has some aspects which are as follows:

- **Components:** GST will be divided into two components namely Central goods and services tax & state goods and service tax.
- **Rate:** Rate charged across all states and the central level will be uniform along with the regulation definition and classification.
- **Applicability:** GST will be applicability to all goods and services sold or provided to India, except from the list of exempted goods which fall outside its preview.
- **Payment:** GST will be charged and paid separately in case of Central and state level.
- **Input tax credit:** The facility of input tax credit at Central level will be only available in respect of Central goods and service tax. In other words the ITC (Input tax credit)

of Central goods and service tax shall not be allowed as a set -off against state goods and service tax and vice versa.

GST Impact

On Salaried Employees Self Employed Professionals

GST is applicable mainly for business and hands won't directly affect the salaried class and self -employed professionals such as doctor's lawyers etc. The medical sector has been exempted from GST.

On Business

The GST is all set to change the way business have operated until now. The elimination of multiple levies and creation of a single market with fewer tax rates and less tax exemption will improve the ease of doing business and reduce avoidable litigation. However these advantages are only going to be visible in the long run. At the moment, business as clearly unsure above what the immediate impact will be.

The Taxes GST Will Subsume

Industries and commercial enterprises were paying various taxes at various stages of a product or service such as manufacture, transport, wholesale, logistics and retail. The administration of these taxes were often tangled in paper work, resulting in slow inter – State movement of products and increased costs for consumers. GST new replaces at least 17 existing indirect taxes being by the centre and State.

GST Benefits

GST brings benefits to all the stakeholders of industry, Government and the consumers. It will lower the costs and services, give a boost to the economy and make the products and services globally competitive. Besides, it aims to remove

the economic barriers thus paving the way for an integrated economy at the national level. GST is also pegged to improve competitiveness and improve liquidity of the business man's. GST will help to improving the country's ranking in the 'Ease of doing business index'. India is currently ranked 130 out of 190 countries in World Bank group's annual report on the ease of doing business.

Conclusion

The proposed GST regime is a half- hearted attempt to rationalize indirect tax structure. More than 150 countries have implemented GST. The Government of India should study the GST regime set up by various countries and also their fallouts before implementing it. At the same time, the government should make an attempt to insulate the vast poor population of India against the likely inflation due to implementation of GST. No doubt, GST will simplify existing indirect tax system and will help to remove inefficiencies created by the existing current heterogeneous taxation system only if there is a clear consensus over issues of threshold limit, revenue rate, and inclusion of petroleum products, electricity, liquor and real estate. Until the consensus is reached, the government should resist from implementing such regime. It can be concluded from the above discussion that GST will bring One Nation and Tax market. 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. Efficient formulation of GST will lead to resource and revenue gain for both Centre and States majorly through widening of tax base and improvement in tax compliance. It can be further concluded that GST have a positive impact on various sector and industry. Although implementation of GST requires concentrated efforts of all stake

holders namely, Central and State Government, trade and industry. Electronic processing of tax returns, refunds and tax payments through 'GSTNET' without human intervention, will reduce corruption and tax evasion. Built – in check on business transactions through seamless credit and return processing will reduce scope for black money generation leading to productive use of capital, Therefore It is necessary on the part of the government to educate, conduct proper training, continuous seminars and workshop on

GST is need of the hour. Thus, necessary steps should be taken.

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