International Journal of Enhanced Research in Management & Computer Applications
ISSN: 2319-7471, Volume 7 Issue 1, January-2018, Impact Factor: 3.578

Implementation on GST in India: Advantages and Challenges in Indian Context

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ABSTRACT

GST is one of the biggest taxation reforms in India it integrates State economies and boost overall growth. The basic concept of GST is One Nation One tax. Currently, companies and businesses pay lot of indirect taxes such as VAT, service tax, sales tax, entertainment tax, excise duty and luxury tax etc. And due to different rate of VAT between the various states the price of same goods is different in among the sate. Once GST is implemented there would be only one tax at national level and it is monitored by the central government. GST is implemented at the final point of consumption and not at the manufacturing stage. Now there is separate tax for Goods and Services but in GST there is one single tax rate for all Goods and all type of services. GST is providing business friendly environment and uniform tax system. It will also improve government tax revenue and fiscal health as the tax collection system would become more transparent. This paper aims to study the concept of goods and service tax and its impact on Indian economy. The paper further explores various benefits and opportunities of GST.

Keywords: Goods and service tax, Indian Economy, GDP, VAT, and Service Tax.

INTRODUCTION

There are two types of tax in Indian taxation system, Direct and Indirect Tax. Goods and Services Tax (GST) is one of the biggest Indirect Taxation reforms since 1947. It was introduced The Constitution (One Hundred and First Amendment) Act 2016. The chairman of GST bill is union finance minister (Arun Jaitley). It is a comprehensive tax regime levied on manufacture, sales and consumption of goods and services. It is expected that it will accelerate the GDP growth with 2%. So, GST is the need of the hour. It is important the tax regime is designed in such a way that it does not become a source of distortion in the market or result in market failures. The tax laws should be such that they raise a given amount of revenue in an efficient, effective and equitable manner. 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 endeavour to generate tax revenues to support government expenditure on public services and infrastructure development. GST provides a single tax for all types of Goods as well as all types of services. It integrates all states economies and also provides a solid link between the states government and central government. It also helps the Industries and Business Houses for a business friendly environment and a very easy tax system for their goods and services. 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%, free movement of goods from one state to another without stopping at state borders for hours for payment of state tax or entry tax and reduction in paperwork to a large extent. Now the estimated tax rate for GST is around 18%*. 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

LITERATURE REVIEW

Jaiprakash, (2014) in his research study mentioned that the GST at the Central and the State level are expected to give more relief to industry, trade, agriculture and consumers through a more comprehensive and wider coverage of input tax set-off and service tax setoff, subsuming of several taxes in the GST and phasing out of CST. Responses of industry and also of trade have been indeed encouraging. Thus GST offers us the best option to broaden our tax base and we should not miss this opportunities to introduce it when the circumstances are quite favorable and economy is enjoying steady growth with only mild inflation.

Saravanan Venkadasalam, (2014) has analysed the post effect of the goods and service tax (GST) on the national growth on ASEAN States using Least Squares Dummy Variable Model (LSDVM) in his research paper. He stated that seven of the ten ASEAN nations are already implementing the GST. He also suggested that the household final consumption expenditure and general government consumption expenditure are positively significantly related to the gross domestic product as required and support the economic theories. But the effect of the post GST differs in countries. Philippines and Thailand show significant negative relationship with their nation's development. Meanwhile, Singapore shows a significant positive relationship.

Shaik, Sameera and Firoz, (2015) explored "Does Goods and Services Tax (GST) Leads to Indian Economic Development?" they finds that expectations the GDP growth is likely to go up by 1 to 2 %. They further explored that GST considered to be a major improvement over the pre-existing central excise duty at the national level and the sales tax system at the state level, the new tax will be a further significant breakthrough and the next logical step towards a comprehensive indirect tax reform in the country.

Khurana And Sharma, (2016) in their study "Goods and services tax in india - a positive reform for indirect tax system" they finds that GST have a positive impact on various sectors and industry. Although implementation of GST requires concentrated efforts of all stake holders namely, Central and State Government, trade and industry. Thus, necessary steps should be taken.

Indirect Taxes Committee of Institute of Chartered Accountants of India (ICAI) (2015) submitted a PPT naming Goods and Serice 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 Reference on Goods and Service Tax to provide the information on the concept of GST in details

The Institute of Cost Accountants of India (2015) published a paper "Insight of goods and services in India" and explode the whole framework of GST in India.

Parkhi did an exploratory research in an article Goods and Service Tax in India: the changing face of economy and stated that implementation of GST is a changing face of India and the government is well equipped for that which is a symptom of fast paced economy.

Research Problem

The Goods and Services tax is the biggest tax reforms in India, but it is not so easy to im plement GST on 1-4-2017. India has been taking many big steps to meet its target of rolling out goods & services tax (GST) on April 1, 2017. The research intends to focus on understanding concept of goods and service tax and its impact on Indian economy.

Objectives of the Study

1. To study the concept of Goods and Services Tax and its positive impact on Indian Economy.
2. To understand how GST will work in India.
3. To know the challenges of GST in Indian context.

RESEARCH METHODOLOGY

The study is descriptive in nature because the main goal of the study is to describe the the concept of GST. The study focuses on extensive study of Secondary data collected from various books, National & international Journals, government reports, publications from various websites which focused on various aspects of Goods and Service tax.

Concept of Goods and service tax

Initially the idea was that there would be a national level Goods and Services tax. But as the release of first discussion by the empowered committee of the state Finance Ministers on 10.11.2009, it has been made certain that there would be a

“Dual GST” in the country. Centre and state both governments are entitled to charge taxes on the goods and services. Almost 150 countries have introduced GST in some form. While countries such as Singapore and New Zealand tax virtually everything at a single rate, Indonesia has five positive rates, a zero rate and over 30 categories of exemptions. In China, GST applies only to goods and the provision of repairs, replacement and processing services. GST rates of some countries are, Australia 10% , France 19.6%, Canada 5%, Germany 19%, Japan 5%, Singapore 7%, Sweden 25%, New Zealand 15%.

GST is a comprehensive indirect tax on manufacture, sale and consumption of goods and services at national level. One of the biggest taxation reforms in India the (GST) is all set to integrate State economies and boost overall growth. Currently, companies and businesses pay lot of indirect taxes such as VAT, service tax, sales tax, entertainment tax, octroi and luxury tax. Once GST is implemented, all these taxes would cease to exist. There would be only one tax, that too at the national level, monitored by the central government. GST is also different in the way it is levied — at the final point of consumption and not at the manufacturing stage. At present, separate tax rates are applied to goods and services. It will also improve government's fiscal health as the tax collection system would become more transparent, making tax evasion difficult. 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.

Framework of GST in India

In GST there is a single tax rate for all Goods and services, so that all the other tax like VAT, Excise duty, CST, Service tax Entertainment tax etc will merge in GST. So that these all tax are merge in GST and further the GST will divided into three basic categories:

1. **CGST:** CGST stands for Central GST and it is on applicable supplies within the states and this tax collected and shared by the Central Government. Different indirect tax of central excise duty, CST, Service tax, CVD, SAD and other surcharge merged with CGST.
2. **SGST:** SGST stands for State GST and it is applicable on supplies within the states and this tax collected and shared by State Government. The taxes like State sales tax, VAT, Luxury tax, Entertainment tax and Entry tax etc. merged with SGST.
3. **IGST:** IGST stands for Integrated GST and it is applicable on interstate and import transactions, tax collected is shared between Centre and State.

It should be noted that GST is applicable on supply of Goods and services not against sales hence transfer og goods like stock transfer, free supplier etc are also libel to Goods and service tax.

Commodities not subsumed in GST: Alcohol for human consumption and Petroleum product
Taxes not subsumed in GST: Stamp duty and property tax, Toll tax, Electricity Duty
Tax Rate in GST:

- Merit rate- essential goods and service
- Standard rate- goods and service in general
- Special rate- precious metals
- Nil rate- exempted goods and services

Goods and Services Tax Network(GSTN): Goods and services network has been set up bt the Government as a private company under company Act. GSTN provide three front and services, namely registration, payment and returns to taxpayers.

GST Council: The GST council would consist of 2/3rd representation of states and 1/3rd representation of center. The GST council will take all decisions regarding tax rate, dispute resolution, and exemption so on.

Liability for Registration: every suppliers shall be liable to be registered to be under GST in the states from where he makes taxable supply of Goods and services if his aggregates turnover in a financial year exceeds Rs. 20 lakh (Rs. 10 Lakh in north eastern states).

Impact of GST on Indian Economy: Economy The Goods and Service Tax (GST) bill is expected to have wide ranging ramifications for the complicated taxation system in the country. It is likely to improve the country’s tax to GDP ratio and also inhibit inflation. However, the reform is likely to benefit the manufacturing sector but may make things difficult for the services sector. Though there are expectations that the GDP growth is likely to go up by 1 to 2 %, the results can only be analysed after the GST implementation. The response is mixed from countries around the world. While the New Zealand economy had a higher GDP growth, it was lower in case of Canada, Australia and Thailand after the GST was implemented. The one per cent tax that has been proposed as a sop to appease the States for compensating their loss of revenue from the inter-state CST is likely to play a spoil sport. It is probable that it may affect the GDP adversely. The Congress is already opposing the 1 per cent tax. The GS Tax rate is expected to be around 17-18% and can be assumed as a tax neutral rate. This tax rate is not likely to give any incremental tax revenue to the government. The rate will prove beneficial for the manufacturing sector where the tax rate is around 24% at present. The major manufacturing sectors that will benefit the most are FMCG, Auto and Cement.

This is because they are currently reeling under 24 to 38 per cent tax. The sector which is going to be adversely affected is the services sector. Already there has been a hike from 12 to 14% from the 1st of June this year. Another 4 per cent increase will break their backs. The uniformity in the taxation rate is fine but it should not result in disparity for the goods and services sectors. Nobody has thought of the implications it will have in the services sector if the government moots a higher GS Tax rate like 20% or 24%. The higher GST rate will definitely boost the tax to GDP ratio, while giving financial muscle to the government for increasing the capital expenditure. This is likely to spur growth in the economy. There is definitely a silver lining to the whole exercise. The unorganised sector which enjoys the cost advantage equal to the taxation rate can be brought under the GST bill. This will bring a lot of unorganized players in the fields like electrical, paints, hardware etc. under the tax net. It is easier said than done. It will take a lot of meticulous planning in the implementation of the GST reform for capturing the unorganized sector under its ambit. For one it will widen the tax reach and secondly it will benefit the organized players who lose out revenue to the unorganized sector at present. There are still a lot of unchartered territories which need to be looked into through parliamentary discussions in the sessions. This will bring sanctity to the taxation system without hurting any of the sectors adversely. To The Individuals and Companies **-** With the collection of both the central and state taxes proposed to be made at the point of sale , both components will be charged on the manufacturing costs and the individual will benefit from lowered prices in the process which will subsequently lead to increase in consumption thereby profiting companies

Challenges Of GST in India: At Present, lots of speculations are going as to when the GST will actually be applicable in India. Looking into the political environment of India, it seems that a little more time will be required to ensure that everybody is satisfied. The states are confused as to whether the GST will hamper their revenues. Although the Central Government has assured the states about compensation in case the revenue falls down, still a little mistrust can be a severe draw back. The GST is a very good type of tax. However, for the successful implementation of the same, there are few challenges which have to face to implement GST In India. Following are some of the factors that must be kept in mind about GST:

1. Firstly, it is really required that all the states implement the GST together and that too at the same rates. Otherwise, it will be really cumbersome for businesses to comply with the provisions of the law. Further, GST will be very advantageous if the rates are same, because in that case taxes will not be a factor in investment location decisions, and people will be able to focus on profitability.
2. For smooth functioning, it is important that the GST clearly sets out the taxable event. Presently, the CENVAT credit rules, the Point of Taxation Rules are amended/ introduced for this purpose only. However, the rules should be more refined and free from ambiguity.
3. The GST is a destination based tax, not the origin one. In such circumstances, it should be clearly identifiable as to where the goods are going. This shall be difficult in case of services, because it is not easy to identify where a service is provided, thus this should be properly dealt with.
4. More awareness about GST and its advantages have to be made, and professionals like us really have to take the onus to assume this responsibility.

CONCLUSION

Goods and service tax is a very big tax reforms and it provide a smooth way of doing business and helps in Indian economic development. It also encourages Foreign Capital and also helps to Indian exporter to sell their product in international market more efficiently. 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 sectors and industry. But it is possible only when there is a strong link between the Center and sates, and it also require a lot of political willpower to doing this.

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