

# Goods and Service Tax – A Changing Scenario for Indirect Taxation

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**Abstract.** Goods and service tax is India's most efficient indirect tax reform. The central idea behind levying up of this kind of taxation is to replacing VAT, central excise, sales tax by levying a comprehensive tax on goods and services. GST will be a game changing reform for Indian economy by developing a common Indian market and reducing the cascading effect of tax on the cost of goods and services. It will impact the Tax Structure, Tax Incidence, Tax Computation, Tax Payment, Compliance, Credit Utilization and Reporting leading to a complete overhaul of the current indirect tax system. GST will have a far reaching impact on almost all the aspects of the business operations in the country, for instance, pricing of products and services; supply chain optimization; IT, accounting and tax compliance systems.

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 government's fiscal health as the tax collection system would become more transparent, making tax evasion difficult. An attempt is made in this paper to study the concept of goods and service tax and its impact on Indian economy. The study also aims to know the advantages and challenges of GST in Indian scenario

**Keywords:** GST, VAT, Sales Tax, Excise

## 1 INTRODUCTION

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 globalized. 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.

Currently in India we follow a complex structure of tax which is governed by state and central list structure. GST is an attempt to bring all tax structure under one common umbrella. It we follow advice and suggestions of tax expert's they says this tax regime is going to bring a lot of difference in tax implication in an economy, as it is going to smoothen the overall tax structure of Indian economy.

## **2. OBJECTIVE OF THE STUDY**

The study is a progressive attempt towards enlighten following Objectives:

- i) To understand the concept of GST, it merits and demerits.
- ii) To understand the evolution of GST in India.
- iii) To understand the modus operandi of collection of tax.

## **3. RESEARCH METHODOLOGY**

The research design is completely explanatory based on data collected through various government portals and data so collected from various journals, books of GST, and popular blogs of eminent researchers etc.

## **4. LITERATURE REVIEW**

Dr. R. Vasanthagopal (2011) studied, "GST in India: A Big Leap in the Indirect Taxation System" and concluded that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy. Success of GST will lead to its acceptance by more than 130 countries in world and a new preferred form of indirect tax system in Asia also.

Ehtisham Ahmed and Satya Poddar (2009) studied, "Goods and Service Tax Reforms and Intergovernmental Consideration in India" and found that GST introduction will provide simpler and transparent tax system with increase in output and productivity of economy in India. But the benefits of GST are critically dependent on rational design of GST.

Nitin Kumar (2014) studied, “Goods and Service Tax- a Way Forward” and concluded that implementation of GST in India help in removing economic distortion by current indirect tax system and expected to encourage unbiased tax structure which is indifferent to geographical locations. Pinki, Supriya Kamma and Richa Verma (July 2014) studied, “Goods and Service Tax- Panacea For Indirect Tax System in India” and concluded that the new NDA government in India is positive towards implementation of GST and it is beneficial for central government, state government and as well as for consumers in long run if its implementation is backed by strong IT infrastructure.

## 5. CONCEPT OF GST

It has been long pending issue to streamline all the different types of indirect taxes and implement a “single taxation” system. This system is called as GST (*GST is the abbreviated form of Goods & Services Tax*). The main expectation from this system is to abolish all indirect taxes and only GST would be levied. As the name suggests, the GST will be levied both on Goods and Services. GST was first introduced during 2007-08 budget session. GST is a tax that we need to pay on supply of goods & services. Any person, who is providing or supplying goods and services is liable to charge GST. GST is a consumption based tax/levy. It is based on the “Destination principle.” GST is applied on goods and services at the place where final/actual consumption happens.

GST is collected on value-added goods and services at each stage of sale or purchase in the supply chain. GST paid on the procurement of goods and services can be set off against that payable on the supply of goods or services. The manufacturer or wholesaler or retailer will pay the applicable GST rate but will claim back through tax credit mechanism. But being the last person in the supply chain, the end consumer has to bear this tax and so, in many respects, GST is like a last-point retail tax. GST is going to be collected at point of Sale.

Indian Government is opting for Dual System GST. This system will have two components which will be known as

- **Central Goods and Service Tax (CGST)** and
- **State Goods and Service Tax (SGST).**

The current taxes like Excise duties, service tax, custom duty etc. will be merged under CGST. The taxes like sales tax, entertainment tax, VAT and other state taxes will be included in SGST. So, **how is GST Levied?** GST will be levied on the place of consumption of Goods and services. It can be levied on:

- Intra-state supply and consumption of goods & services
- Inter-state movement of goods
- Import of Goods & Services

## 6. KEY FEATURE OF GST

- a) The tax structure will be made lean and simple
- b) The entire Indian market will be a unified market which may translate into lower business costs. It can facilitate seamless movement of goods across states and reduce the transaction costs of businesses.
- c) It is good for export oriented businesses. Because it is not applied for goods/services which are exported out of India.
- d) In the long run, the lower tax burden could translate into lower prices on goods for consumers.
- e) The Suppliers, manufacturers, wholesalers and retailers are able to recover GST incurred on input costs as tax credits. This reduces the cost of doing business, thus enabling fairer prices for consumers.
- f) It can bring more transparency and better compliance.
- g) Number of departments (*tax departments*) will reduce which in turn may lead to less corruption
- h) More business entities will come under the tax system thus widening the tax base. This may lead to better and more tax revenue collections.
- i) Companies which are under unorganized sector will come under tax regime.

## 7. TAXES TO BE COMPRESSED

The various Central, State and Local levies were examined to identify their possibility of being subsumed under GST. Central and State indirect taxes and levies listed below would be subsumed under the proposed GST: 10 Central tax and levies to be subsumed:

- Central Excise Duty;

- Additional Excise Duties;
- The excise Duty levied under the Medicinal and Toiletries Preparation Act;
- Service Tax;
- Additional Customs Duty, commonly known as Countervailing Duty (CVD);
- Special Additional Duty of Customs – 4% (SAD);
- Surcharges; and
- Cesses.

*State taxes and levies to be subsumed:*

- 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;
- Entry tax not in lieu of Octroi.

## 8. CHALLENGES IN GST:

GST will be the biggest reform in Indian taxation since 1947, but there are many challenges for its successful implementation. These are as under

- **Passing of Bill in RajyaSabha:** Since Central Government is not having sufficient majority in the RajyaSabha. Thus, it will have to ensure safe passage as it will not be cake-walk for the Union government to pass the Bill in the Upper House of Parliament.
- **Consent of States:** For implementing it is critical that GST bill is passed by the respective state Governments in state assemblies so as to bring majority. This is a herculean task.
- **Revenue Neutral Rate (RNR):** It is one of Prominent Factor for its success. We know that in GST regime, the government revenue would not be the same as compared to the current system. Hence, through RNR Government is to ensure that its revenue remains the same despite of giving tax credits.

- **Threshold Limit in GST:** While achieving broad based tax structure under GST, Both empowered committee and Central Government must ensure that lowering of threshold limit should not be a “taxing” burden on small businessmen in the country
- **Robust IT Network:** Government has already incorporated Goods and service tax network (GSTN). GSTN has to develop GST portal which ensure technology support for registration, return filing, tax payments, IGST settlements etc. Thus there should be a robust IT backbone
- **Extensive Training to Tax Administration Staff:** GST is absolutely different from existing system. It, therefore, requires that tax administration staff at both Centre and state to be trained properly in terms of concept, legislation and Procedure.
- **Additional Levy on GST:** The Purpose of additional Levy is to compensate states for loss of revenue while moving to GST. We acknowledge that fundamental purpose of GST is to make “INDIA” as one state where inter-state movement of goods is common. In this situation, it would defeat the very purpose of GST in the country.

## 9. CONCLUSION

GST is the need of the hour, by replacing age old taxation made which use to be followed in our country since independence. GST is leviable on all supply of goods and provision of services as well combination thereof. All sectors of economy whether the industry, business including Govt. departments and service sector shall have to bear impact of GST. All sections of economy will be integrated together in a perfect blend, creating transparency. GST will create a single, unified Indian market to make the economy stronger. Experts say that GST is likely to improve tax collections and Boost India’s economic development by breaking tax barriers between States and Integrating India through a uniform tax rate.

Under GST, the taxation burden will be divided equitably between manufacturing and services, by minimizing exemptions and balancing a taxation base. It has lots of hurdles in its way, but once imposed its going to change the life of all.

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