



IMPLEMENTATION OF GST: BENEFITS AND IMPACT IN INDIA

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Abstract

Goods and Services Tax bill is India's biggest reform in India's indirect tax structure. The purpose of the bill is to introduce one single tax on supply of goods and services, from the manufacturing stage until its delivery to the final consumer. The final consumer of the goods and/or services will only have to bear the GST charged by the final dealer in the supply chain, and avail set-off benefits at all the previous stages. This means interim tax stages such as excise duties, service tax and state levies like VAT will be absorbed under GST. Clause 366(12A) of the Constitution Bill defines GST as "**goods and services tax**" means any tax on supply of goods, or services or both except taxes on the supply of the alcoholic liquor for human consumption. Further the clause 366(26A) of the Bill defines "**Services**" means anything other than Goods. Thus it can be said that GST is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level. The proposed tax will be levied on all transactions involving supply of goods and services, except those which are kept out of its purview. GST was introduced as the Constitution (One Hundred and First Amendment) Act 2017. This paper focus on the Implementation of GST: Benefits and Impact in India.

Key Words: Goods and Services Tax, Implementation, Impact, Constitution, consumption.

Introduction

Tax plays an important role in the economic advancement of a nation. Tax is the main source of revenue to a nation for the development of society and the economy. As taxes are the drivers of the economy. The main purpose of levying tax is to accumulate funds for the functioning of the government machineries. It collects financial resources from the employees and wealth creators such as industry and business communities. Revenue paid by the citizens in the form of tax is utilised for the development of nation such as for defence, for service sectors like police, natural disasters, hospitals, education etc., for infrastructural purpose like laying roads, bridges ,dams, development of housing facilities to poor etc., and for recreation facilities like libraries, parks etc. Through Tax the state controls the financial and economic activities of business, statutory bodies and natural persons. This also contributes to controlling the sources of income and the directions of spending .The economy of a nation can be good and strong with good tax policies of that nation. Great Tax frame work should keep in view that income from tax is sufficient to meet administrative and infrastructural advancement by the government. Tax administrations ought to be outlined in such a way, that it does not turn into the mutilation of wellspring in the market or result in disappointment of market.¹

India follows federal structure of tax system that comprises of two categories, Direct Tax and Indirect Tax. 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. Indirect Tax is a tax which is levied on one person, but the burden of tax keeps shifting to another person in the production/supply chain and is finally borne by the ultimate consumer. 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. India's taxation powers are shared between the Union government and the State government.²

Concept of Goods and Service Tax

The problems in Indirect tax structure such as very complex, as both centre and state governments levy taxes leading to double taxation, state governments are not empowered and these leads to tax reforms in India. The deficiencies in Indirect tax system leads to the existence of GST. GST is the biggest tax reform since independence. It will subsume all major levies including Excise, VAT and service tax. The reform is expected to simplify India's taxation system and also help to deal with tax evasion. GST is a tax that is levied on the value added to a purchased supply (whether goods or a service) before it is sold again. Under the GST regime, tax would be levied on the value addition done at each stage of production and distribution, where as prior to GST under indirect tax regime, separate taxes are levied on manufacturing (Excise duty) ,on sales within state (VAT),on interstate sales (CST) ,on provision of taxable services (Service tax)and on Imports and Exports(Customs duty) . GST covers all the intermediaries involved in the supply chain.GST would be levied from the production to the distribution and ultimately till the goods or services reach the final consumer, though GST is levied from top to bottom GST does not lead to double taxation. GST will bring uniform taxation across the country and allow full tax credit from the procurement of inputs and capital goods which can later be set off against GST output liability. This reform gives equal footing to the big enterprises as well as SMEs. The aim of GST is thus to simplify tax hurdles for the entire economy. The main aim of introducing GST is one nation one tax system.³



History of GST in India

GST was first introduced in France in the year 1954 later various countries like Japan, South Korea, UK, Australia etc. implemented GST. Canada and Brazil are the only countries which have dual GST model (SGST & CGST) like India, where the revenue is distributed between union and state. India will become 166th nation to adopt GST.

In India, the idea of adopting GST was first suggested by the Atal Bihari Vajpayee government in 2000. The state finance ministers formed an Empowered committee (EC) to create a structure for GST, based on their experience in designing state VAT. Dr .Vijay Kelkar chairman of Kelkar committee recommended GST in India in the year 2004. The first announcement for introduction of GST was made in budget speech on 28-2-2006 by the then Finance Minister, P.Chidambaram. It was proposed to introduce nationwide GST with wide effect from 1-4-2010. This was postponed due to various political differences, conflicting interest of stake holders, later on various steps were initiated towards introduction of GST in India. Constitutional amendment was required before introduction of GST in India. The Indian constitution (122nd Amendment) Bill was introduced in the Lok Sabha by the Finance Minister Arun Jaitely, on 19th December 2014, and passed by the house on 7th May 2015. The bill was passed by Rajya Sabha on 3rd August 2016 .Subsequently the 101 Constitutional Amendment Act was ratified by the States and received assent from the President of India, Sri. Pranab Mukherjee on 8th September 2016. The GST is implemented from 1st July, 2017. GST bill is brought for the reason that the different taxes paid by us on different rates would be brought under one roof so that all the taxes may get cancelled and only one tax is paid which is GST.⁴

The following Bills have been passed by Lok Sabha on 29-3-2017 and by Rajya Sabha on 5-4-2017.

1. The Central Goods and Service Tax (CGST) Bill, 2017
2. The Integrate Goods and Service Tax (IGST) Bill, 2017
3. The Union Territory Goods and Service Tax (UTGST) Bill, 2017.

Who will have to pay GST?. GST will be paid by all manufacturers and sellers. It will also be paid by service providers such as telecom providers, consultants, chartered accountants etc. However, being an indirect tax, GST will be ultimately borne by the end consumers, just like in the current process what kind of GST will be implemented in India? India will implement the Canadian model of Dual GST, i.e., both the Centre and State will collect GST. GST is a destination based tax system. Supply of goods and services are base for charging tax. GST is very comprehensive indirect taxation system on manufactured product and services, sale and consumptions of goods and services at national level. GST is going to be one of the biggest tax reforms after independence till the date. GST is very comprehensive indirect taxation system on goods manufactured and services provided. It is one of the biggest tax reforms in country. Clause 366(12A) of the Constitution Bill defines GST as "goods and services tax" means any tax on supply of goods, or services or both except taxes on the supply of the alcoholic liquor for human consumption. Further the clause 366(26A) of the Bill defines "Services" means anything other than Goods. Thus it can be said that GST is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level. The proposed tax will be levied on all transactions involving supply of goods and services, except those which are kept out of its purview.⁵

Objective

This main objective and focus on the paper Implementation of GST: Benefits and Impact in India.

Data Source

This paper is based on secondary data.

Salient Features of GST

Dual Goods and Service Tax: India has adopted concurrent Dual GST Model for implementing GST from the various models of GST. Under dual GST model both centre and states have the power to levy tax. In Dual GST system there will be Central GST (CGST) to be administered by the central government and State GST (SGST) to be administered by state government.

Inter-State Transactions and the IGST Mechanism

The Centre would levy and collect the Integrated Goods and Services Tax (IGST) on all inter- State supply of goods and services. The IGST mechanism has been designed to ensure seamless flow of input tax credit from one State to another. The inter- State seller would pay IGST on the sale of his goods to the Central Government after adjusting credit of IGST, CGST and SGST on his purchases (in that order). The exporting State will transfer to the Centre the credit of SGST used in payment of IGST. The importing dealer will claim credit of IGST while discharging his output tax liability (both CGST and SGST) in his own State. The Centre will transfer to the importing State the credit of IGST used in payment of SGST.



Destination-Based Consumption Tax: GST will be a destination-based tax. This implies that all SGST collected will ordinarily accrue to the State where the consumer of the goods or services sold resides.

Computation of GST on the basis of invoice credit method: The liability under the GST will be invoice credit method i.e. convert credit will be allowed on the basis of invoice issued by the suppliers.

Payment of GST: The CGST and SGST are to be paid to the accounts of the central and states respectively.

Goods and Services Tax Network (GSTN): A not-for-profit, Non-Government Company called Goods and Services Tax Network (GSTN), jointly set up by the Central and State Governments will provide shared IT infrastructure and services to the Central and State Governments, tax payers and other stakeholders.

Input Tax Credit (ITC) Set off: ITC for CGST & SGST will be taken for taxes allowed against central and state respectively.

GST on Imports: Centre will levy IGST on inter-State supply of goods and services. Import of goods will be subject to basic customs duty and IGST.

Maintenance of Records: A taxpayer or exporter would have to maintain separate details in books of account for availment, utilization or refund of Input Tax Credit of CGST, SGST and IGST.

Administration of GST: Administration of GST will be the responsibility of the GST Council, which will be the apex policy making body of the GST. Members of GST Council comprised of the Central and State ministers in charge of the finance portfolio.

Goods and Service Tax Council: The GST Council will be a joint forum of the Centre and the States. The Council will make recommendations to the Union and the States on important issues like tax rates, exemption list, threshold limits, etc. One-half of the total number of Members of the Council will constitute the quorum of GST council.⁵

GST - How It Works In India?

GST is based on the grounds of VAT. Same set-off system is also available in the respect of the taxes paid in the previous level against GST charged at time of sale. The following modules of GST are:

Components: GST will be basically divided into two components i.e namely, Central Goods and Service Tax and also State Goods and Service.

Applicability: GST will be also applicable to all the Goods and Services sold and provided in India, only except from the list of exempted goods which fall outside its purview.

Payment: At central and State level GST will be paid separately.

Credit: The facility of Input Tax Credit at Central level will only be available in respect of Central Goods and Service tax.⁶

Impact of GST on Indian Economy:

The impact of GST on Indian economy is as follows

1. The Business units which does not come under the tax bracket previously will now have to register under GST. This leads to lesser tax evasion.
2. Expect reduction of prices in telecom sector, unpacked foods , fresh vegetables , education services ,health services etc .
3. Increase in prices of Luxury cars, tobacco, aerated beverages, ice creams, textiles, cosmetics, toiletries, etc.
4. GST will resolve the issue of transportation of agricultural products.
5. Impact of GST on cab services is beneficial for passengers as it has reduced travelling costs.
6. In terms of impact on services, it would mostly be more expensive in the initial phases, where as impact on other goods could be a mixed bag.⁷



Advantages of GST

For Citizen: Simpler tax system, GST eliminates multiple indirect taxes

1. Reduction in prices of goods and services due to elimination of cascading leads to saving more money by the common man.
2. Uniform prices throughout the country due to uniform tax system.
3. Transparency in taxation system.
4. Increase in employment opportunities. Reduction in prices will automatically increase demand for goods and services, which leads to increase in production of goods and services and increase in employment.⁸

For Trade/Industry

1. Reduction in multiplicity of Taxes
2. Mitigation of cascading /double taxation
3. More efficient neutralization of taxes especially for exports
4. Development of common national market.
5. Simpler tax regime-fewer rates exemption. Returns filing , tax payment and process will easy.⁹

For Central/ State Governments

1. A unified common national market to boost Foreign Investment and "Make In India" campaign.
2. Boost to export /manufacture activity, generation of more employment, leading to reduced poverty and increased GDP growth.
3. Improving the overall investment climate in the country which will benefit the development of the states.
4. Uniform SGST and IGST rates to reduce the incentives for tax evasion.
5. Reduction in compliance costs as no requirement of multiple records keeping.¹⁰

Challenges of GST in Indian Context

GST will be the biggest reform in Indian taxation since 1947, but there are many challenges for its successful implementation. These are as under.¹¹

Consent of States

1. Revenue Neutral Rate (RNR),it is the rate at which there will be no revenue loss to the government after implementation of GST.
2. Threshold Limit in GST, the threshold limit of turnover for dealers below which goods and services may be exempted from goods and services tax (is another bone of contention between the government and the Empowered committee aiming to broaden the tax base under GST.).Both empowered committee and central government must ensure that lowering of threshold limit should not be a taxing burden on small business men in the country.
3. Robust IT Network, it is IT back bone connecting all state governments, trade and industry, banks and other stakeholders on a real time basis.
4. Extensive Training to Tax Administration Staff

Conclusion

Taxation plays a significant role in the development of the economy as it impacts the productivity and value. It is normal that a decent framework should control wage appropriation and in the meantime it will likewise try to create tax revenue income which will bolster government use on open administrations and advancement of foundation. GST will have positive effect on Indian economy. GST has faced lots of controversy and opposition in terms of its implementation. Time will only decide whether it will have positive impact or negative impact. International trade, firms and consumer will have new system of tax which is single level and more transparent. The new arrangement of tax collection is thought to be more enhanced framework over the previous central extract obligation at the national level and deals charge framework at state level. The new tax will be significant comprehensive indirect tax reforms in the country.GST is not only VAT plus service tax but it is major improvement over previous VAT system. A single tax will help to maintain simplicity and transparency by treating all goods and services equal without giving a special treatment to some types of goods and services. It will reduce the litigation on classification of issues. It is sure that India will join the international standards of taxation, corporate laws and managerial practices and also be among the world leaders.



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