Research Paper
Impact Factor: 4. 695
Peer Reviewed & Indexed Journal

IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

ADVANTAGES AND DISADVANTAGES OF GST FOR INDUSTRY AND COMMERCE

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Abstract
The GST is basically an indirect tax that brings most of the taxes imposed on most goods and services, on manufacture, sale and consumption of goods and services, under a single domain at the national level. In the present system, taxes are levied separately on goods and services. The GST is a consolidated tax based on a uniform rate of tax fixed for both goods and services and it is payable at the final point of consumption. At each stage of sale or purchase in the supply chain, this tax is collected on value-added goods and services, through a tax credit mechanism.

Introduction

'G' – Goods
'S' – Services
'T' – Tax
"Goods and Service Tax (GST) is a comprehensive tax levy on manufacture, sale and consumption of goods and service at a national level.

GST is a tax on goods and services with value addition at each stage having comprehensive and continuous chain of set-of benefits from the producer's/ service provider's point up to the retailer's level where only the final consumer should bear the tax."

GST is a Goods and Service Tax based on consumption. The law will require all businesses to register for GST with the Customs Dept. In some countries like UK it is called VAT.

Essentially a GST registered business can offset GST paid by the business against GST charged on supplies to that business. GST is charged on the value added at each stage of the supply chain. The consumer is at the end of the supply chain and therefore cannot recover the GST. In addition, GST is charged when a sale is made and not when payment is received and is payable to the Government monthly. GST is a major difference from the present sales and service tax in Malaysia. Some very small businesses will be exempt from registration.

Need for GST

Introduction of a GST to replace the existing multiple tax structures of Centre and State taxes is not only desirable but imperative in the emerging economic environment. Increasingly, services are used or consumed in production and distribution of goods and vice versa. Separate taxation of goods and services often requires splitting of transaction values into value of goods and services for taxation, which leads to greater complexities, administration and compliances costs. Integration of various taxes into a GST system would make it possible to give full credit for inputs taxes collected. GST, being a destination-based consumption tax based on VAT principle, would also greatly help in removing economic distortions and will help in development of a common national market.

Justification of GST

Despite the success of VAT, there are still certain shortcomings in the structure of VAT, both at the Centre and at the State level.

A. Justification at the Central Level

i. At present excise duty paid on the raw material consumed is being allowed as input credit only. For other taxes and duties paid for post-manufacturing expenses, there is no mechanism for input credit under the Central Excise Duty Act.
ii. Credit for service tax paid is being allowed manufacturer/ service provider to a limited extent. In order to give the credit of service tax paid in respect of services consumed, it is necessary that there should be a comprehensive system under which both the goods and services are covered.
iii. At present, the service tax is levied on restricted items only. Many other large number of services could not be taxed. It is to reduce the effect of cascading of taxes, which means levying tax on taxes.

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Model of GST

- The dual GST model proposed by the Empowered Committee and accepted by the Centre will have dual system for imposing the tax. GST shall have two components i.e. (i) Central GST (ii) State GST
- Central Excise duty, additional excise duty, services tax and additional duty of customs (equivalent to excise), state VAT entertainment tax, taxes on lotteries, betting and gambling and entry tax (not levied by local bodies)would be subsumed within GST.

GST - Salient Features

- It would be applicable to all transactions of goods and service.
- It to be paid to the accounts of the Centre and the States separately.
- The rules for taking and utilization of credit for the Central GST and the State GST would be aligned.
- Cross utilization of ITC between the Central GST and the State GST would not be allowed except in the case of inter-State supply of goods.
- The Centre and the States would have concurrent jurisdiction for the entire value chain and for all taxpayers on the basis of thresholds for goods and services prescribed for the States and the Centre.
- The taxpayer would need to submit common format for periodical returns, to both the Central and to the concerned State GST authorities.
- Each taxpayer would be allotted a PAN-linked taxpayer identification number with a total of 13/15 digits.

The advantages and disadvantages for manufacturers and traders are the following:

Advantages

- **One tax:** The common base for charging GST for Centre and the state will consist of an amalgamation (subsuming) of several central taxes and state taxes which will enable them to give one tax rather than giving about 16 taxes.
- **Common market:** There will be a common market in the absence of CST and entry tax. At present, goods are being sold mostly within the state in order to avoid paying the CST which is not credited at the stage of manufacture or in course of trading. Good quality products being manufactured in one part of the country will find more market in t:he farthest part of the country because there will be no CST and no entry tax
- **Distinction between goods and services will go:** In some cases, there is a distinction between goods and services when they are sold as a package. These controversies will go.
- **Invoicing will be simpler:** At present, the invoices are more detailed since taxes on goods and services are written separately for one transaction. With the introduction of GST only one rate will be written.
- **Common exemptions between Centre and states:** Now the exemptions given by the Centre and the states being different, the final price becomes different in different states. In the GST regime, exemptions will be common between the Centre and the states which will make the rates of duty same all over India.

Positive impact on Indian economy

- ✓ Speeds up economic union of India Better compliance and revenue buoyancy
- ✓ Replacing the cascading effect [tax on tax] created by existing indirect taxes Tax incidence for consumers may fall Lower transaction cost for final consumers
- ✓ By merging all levies on goods and services into one, GST acquires a very simple and transparent character
- ✓ Uniformity in tax regime with only one or two tax rates across the supply chain as against multiple tax structure as of present
- ✓ Increased tax collections due to wide coverage of goods and services
- ✓ Improvement in cost competitiveness of goods and services in the international market

Disadvantages

- Critics have argued that the GST is a regressive tax, which has a more pronounced effect on lower income earners, meaning that the tax consumes a higher proportion of their income, compared to those earning large incomes.
- A study commissioned by the Curtin University of Technology, Perth in 2000 argued that the introduction of the GST would negatively impact the real estate market as it would add up to 8 percent to the cost of new homes and reduce demand by about 12 percent.
- India has opted for a dual-GST model. Critics claim that CGST, SGST and IGST are nothing but new names for Central Excise/Service Tax, VAT and CST and hence GST brings nothing new to the table. The concept of value-add has never been utilised in the levy of service as the Delhi High Court is attempting to prove in the case of Home

IJMSRR
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Solution Retail while under Central Excise the focus is on defining and refining the definition of manufacture instead of focusing on value additions. The Revenue can be very stubborn when it comes to refunds as the Maharashtra Government proves and software entities that applied for refunds on excess service tax paid on inputs discovered.

Conclusion

In the light of the empirical conclusions developed in this paper, it seems appropriate to conclude by briefly noting the policy implications of the results.

In the first place, the macroeconomic impact of a change to the introduction of the GST is significant in terms of growth effects, price effects, current account effects and the effect on the budget balance.

Secondly, in a highly developed open economy with a high and growing service sector, a change in the tax mix from income to consumption-based taxes is likely to provide a fruitful source of revenue.

Thirdly, the aggregate consumer price impact of the introduction of the GST in India on the macro-economy was both limited and temporary. Finally, despite falling outside the limited focus of this short note, we should record that some impact has also occurred in the administrative component of the compliance cost of the GST as well as a likely increase in tax revenue from the "underground" or "black" economy.

The task of fiscal consolidation for this government will not be easy. There will be little scope to cut overall expenditure, as it has already been trimmed sharply in the last 2 years. The government must instead focus on switching expenditure from unproductive subsidies towards spending on sector such as health, education and infrastructure. The only way to reduce fiscal deficit, therefore, is to raise revenues as a share of GDP. To do so, the government must implement structural tax reforms such as GST, improve tax compliance and widen tax coverage