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Goods and Services Tax (GST): An Overview

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Keywords:

GST, CGST, SGST, UTGST, IGST, Cascading Tax Effect.

Abstract (12pt)

Goods and Services Tax (GST) is the most revolutionary tax reform that has been implemented since independence. GST is a destination based consumption tax levied on supply of goods and services both. GST was introduced on 1st July, 2017 and will applicable through India. The Purpose of GST is to replace all major indirect taxes applicable in our country including excise duty, service tax, value added tax, sales tax, purchase tax, entertainment tax, octroi duty, luxury tax, purchase tax etc.with single tax. GST is a good step taken by the government that will open a door for India to new limitless possibilities. It will bring one nation one tax system. GST will replace multiple cascading tax effects levied by central and state government. In India, tax structure is divided into two parts: Direct tax and Indirect tax (now it is called GST). GST is further divided into two parts i.e. Intra state and Inter state. Intra state tax is collected by the CGST and SGST/UTGST (Central GST, State GST and Union Territory GST) and Inter state tax is collected by the IGST (Integrated GST). This paper highlights the impact of GST on Indian economy and also examines the defects in earlier tax structure of indirect tax and the benefits of GST. To achieve this objective, descriptive type of research design has been used. The secondary data has been intensively used for this research paper. Finally, this paper will draw a conclusion.

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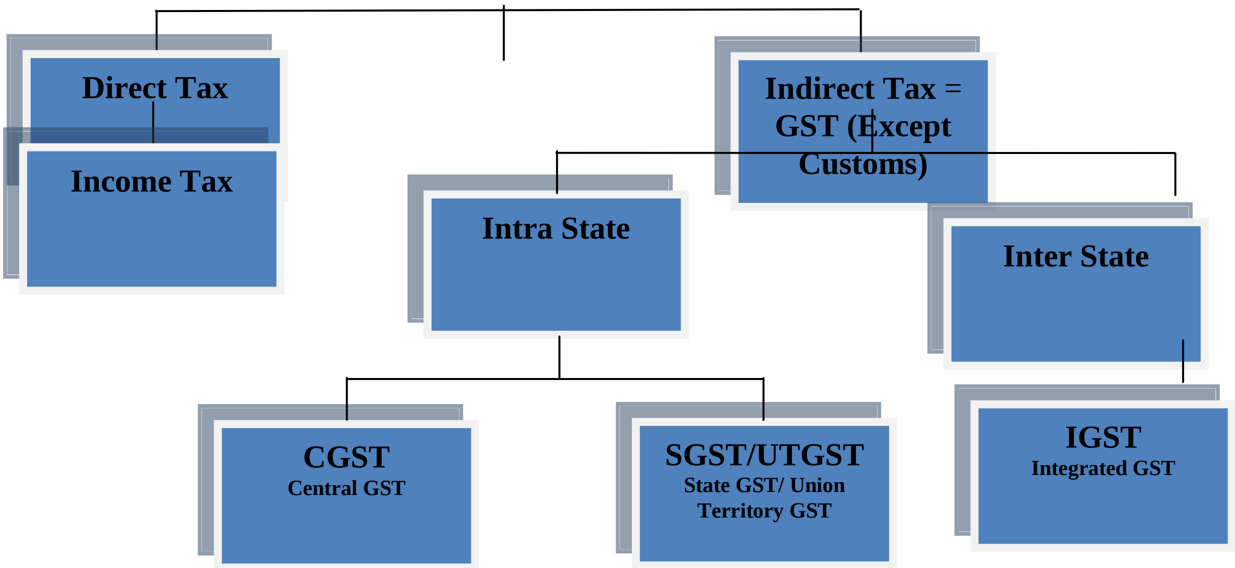
1. Introduction

The word "Tax" has been derived from the Latin word "Taxa" which means charge or some other type of levy imposed upon a taxpayer. It is a legal aspect charged by government in order to fund various types of public expenditure. Tax consists of direct and indirect taxes. Now a days, all major indirect taxes have been removed and replaced by the GST and Custom Act. GST stands for "Goods and Services Tax". France was the first country who introduced GST in the year 1954. After that many countries like Japan, South Korea, UK, Australia, Brazil, Canada and China implemented GST in their countries. In some countries, VAT is the substitute for GST. Presently there are around 160 countries that have implemented GST or VAT in same or the other form. GST has been introduced in India w.e.f 1st July 2017; Let us hope that this new tax will brings changes not only for the common man but also for the country as a whole. Indian GST is based on the Canadian Dual Model. GST is applicable all over India including J&K.

Goods and Services Tax is the tax which is levied on goods and services both. It is a destination based consumption tax. It is imposed when there is consumption. GST is said to be the most revolutionary tax reform that have been implemented since independence. It is a new tax regime which replaced multiple cascading taxes levied by the central government and state government. Initially the people might have to face some difficulties when goods and services tax is rolled out but in the long run new indirect tax will help to reduce the cases of tax evasion and will also help to control inflation in the Indian economy. India is one of the biggest markets in the world and GST will help to grow the economy with the single rate of tax. That's why it is called a "Game Changer". This change will provide opportunity to the business professionals like Chartered Accountant, Cost Accountant, Company Secretary, Lawyer, Sales Tax Practioner, Accountants etc. The present tax structure in India is shown with the help of a diagram given below:

Present Tax Structure in India



- **CGST (Central Goods and Services Tax):** It is collected by Central Government on sales of goods and services.
- **SGST (State Goods and Services Tax):** It is collected by respective State Government on sales of goods and services.
- **UTGST (Union Territories Goods and Services Tax):** It is collected by respective Union Territories on sales of goods and services. In India, there are seven Union Territories but only two UT (Delhi and Pondicherry) which have its own state legislature is treated as state government and collected tax accordingly but rest of the five UT which don't have its own legislature is treated as UT itself and collected tax accordingly.
- **IGST (Integrated Goods and Services Tax):** It is collected by Central Government on inter-state transaction of goods and services. The collected IGST revenue is distributed between the concern states.

Rate of Taxes in Different Countries

The rate of taxes in different countries is shown with the help of a table given below:

Countries	GST/VAT Rate	Countries	GST/VAT Rate
India	18%*	Japan	8%
Russia	18%	China	17%
United Kingdom	20%	Canada	5%
Spain	21%	Mexico	16%
France	20%	Singapore	7%
Australia	10%	Sweden	25%
Germany	19%	South Africa	14%
New Zealand	15%	Switzerland	8%

* India has kept majority of items under 18% tax slabs but 28% tax is charged on various

2. Research Method (12pt)

This study is an explanatory research and it is based on the secondary data like: National and International journals, articles, news paper, magazines, government report, publications from various websites, various books related to GST. To achieve the above said objective, descriptive type of research design has been used. The secondary data is intensively used for this research study.

REVIEW OF LITERATURE

Sehrawat Monika and Dhanda Upasana (2015) in their research paper concluded that there is need to implement GST for transparent tax system. In the long run it will increase the output by which it will open a door for employment opportunities and due to this GDP will increase by 1to1.5%. If GST is implemented successfully, it will reduce the cost of doing business that will result the domestic product more competitive in local and international market.

Garg Girish (2014) in his research paper concluded that the GST will directly affect to the big, medium, small scale units, intermediaries, importers, exporters, trader, professionals and consumers. Apart from this GST will improve the tax collections and boost India's economic development by breaking the tax barriers between states and central through a uniform tax rate.
Khurana Akanksha and Sharma Aastha (2016) in their research paper concluded that GST will provide relief to producers and costumers. 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.
Lourdunathan F and Xavier P (2017) in their research paper concluded that GST will bring one nation one tax market. GST will increase the revenue both for central and state government. Tax return, refund and tax payment could be done through 'GSTNET' without human intervention and this will reduce corruption and tax evasion. They have also suggested that the government should conduct a workshop and seminar on GST, that's why the people can easily understand about GST.
Shaik Shakir, Sameera S.A. & Firoz Sk. C. (2015) in their research paper concluded that GST is a good step taken by the government and surely it would positive impact on national economy, international trade, firms and consumers. GST is considered to be a major improvement since independence. A single rate would help to maintain transparency by treating all goods and services as equal without giving any special treatment to goods and services. Implementation of GST will lead to commercial benefit which were untouched by the VAT system and would lead to economic development.

OBJECTIVE OF THE STUDY

This study has following objectives:

- To study the impact of Goods and Services Tax (GST) on the Indian Economy.
- To examine the defects in earlier structure of indirect taxes and the benefits after implementing GST.

3. Results and Analysis

IMPACT OF GST ON INDIAN ECONOMY

In this section we will discuss some of the important sector and will see the impact of GST on Indian economy.

- **Banking and Insurance Sector: -** Before the implementation of GST banking company charged service tax@ 15% but now bank is charging @18% under GST. Insurance company also charging 18% before GST it was 15%. Insurance company includes Life Insurance & Health Insurance and General Insurance. Life and health insured person can not enjoy the input tax credit on the GST paid on their policy whether they are general policy holder or corporate policy holder. But in the case of general insurance only the corporate policy holder can enjoy the input tax credit on their policy. Services will become more expensive to the customer due to rise in tax rate whether they are banking companies or insurance companies. It means all policy holders/ account holders will have to pay higher premium on their insurance or services due to GST. So it will make negative impact on economy because it will increase the burden of customer due to rise in tax by 3%.

- **Fast Moving Consumer Good (FMCG) Sector: -** Fast moving consumer goods will benefits from GST. Now, FMCG companies are either slashing their prices on product or increasing the weight of the product on dispatches made from July 1 onwards and the tax benefits are passing to the consumer. GST council has put daily usage product like bathing soap, hair oil, detergent powder, soap, tissue paper and napkins under 18% tax slab. The rate of tax on some goods under FMCG is shown with the help of table given below:

Goods	Under Previous Tax System	Under GST
Soap	24%	18%
Toothpaste	24%	18%
Hair Oil	24%	18%
Detergent	24%	28%
Shampoo	24%	28%
Skin Cream	24%	28%
Chocolate	24%	28%

With the help of this table we can say that there will be mixture impact on the economy but definitely in the long run it will make positive impact on economy.

- **Automobile Sector: -** Before the implementation of GST the tax rate was around 28% to 41% but under GST all automobile except tractor will attract a rate of 28%. In addition to the GST, car more than four meters in length will attract 15% cess. Lower prices of automobile may help to support volume growth. Overall impact on automobile sector may significantly change.
- **IT Sector: -** Currently IT industry is paying 15% of tax to the concern authority but tax rate may be 18-20% after the implementation of GST. Also an important point to notice here, that the long disputed issue of canned software taxation will also come to end as their will no difference arise between goods and services after the GST. Overall impact on IT sector may neutral or slightly negative.
- **Telecom Sector: -** Currently the Telecom sector is paying 15 % of tax to the government but the rate of tax will be 18% under GST. It means more taxes will be charged on telecom industry and the company is thinking to pass the extra burden of tax to the customers. It seems that the overall tax regime will be negative to the industry. Now this sector is facing several forces in the form of extreme competition from Reliance Jio.
- **Cement Industry: -** Earlier the tax rate was around 27 to 32% but under GST it is 28%. In the cement industry major portion of coal is required and due to reduction duty on coal from 12% to 5% will benefit the cement industry. Overall it will be positive impact on cement industry.

- **Home Appliances: -** Higher tax will be charged on air conditioner, refrigerator and water heater. Previously the rate of tax was 26% but it is 28% under GST. Lower tax will be charged on cookers. Previously it was 15% and now it is 12%. Higher tax slab for sanitary ware, faucets and tiles at 28% from 18 to 24% may hurt volume growth. Apart from the above sector there are so many sectors like Pharmacy and Healthcare, Real Estate and Infrastructure, Airlines, Brokers and Equity investment, Logistics, Textiles, Metal, and Gold etc.

DEFECTS IN EARLIER STRUCTURE OF INDIRECT TAX

There were following major defects in the earlier structure of indirect tax.

- Cascading effect of taxation could not be avoided due to CST and Entry tax.
- Central Sales Tax (CST) was paid at every stage of movement of goods from one state of another state.
- Same transaction was levied by both central and state government which creates confusion and double taxation in many cases.
- Central government could not levy tax on goods beyond manufacturing level and State government could not levy tax on services.
- In European Union, movement of goods is free across all countries without any incidence of tax. But in India, movement of goods was taxable.
- Over the years, it is very difficult to distinct goods and services due to which there is overlapping of state VAT and Central Service Tax on transaction.

On the basis of these above said problems we can hopefully say that GST will remove all problems of tax system which was previously being faced by the government and society.

BENEFITS OF GST

The benefits of Goods and Services Taxes are as follow:

- It will replace all major Indirect Taxes.
- It will remove cascading effect.
- One India one market.
- One nation one tax.
- It will reduce flow of Black Money.
- Ease of doing business.
- Easy flow of goods across nation.
- Manufactured goods could become cheaper.
- It will reduce transaction cost.
- It will rise in Gross Domestic Product (GDP).
- Development of common national market.

4. Conclusion

It can be concluded from above discussion that GST is a good step taken by the central government with the help of all the states and union territory. As we know that India is one of the biggest market in the world and GST will help to grow the economy with the single rate of tax. That's why GST is called "Game Changer". A single tax rate will help to maintain transparency by treating all goods and services as equal without giving special treatment to goods or services. Currently, the overall tax collection in India (both direct and indirect) has Rs. 14.6 lakh crores out of which Rs. 2.8 lakh crores are collected from excise and Rs. 2.1 lakh crores from service tax which makes 34% of indirect tax. After the implementation of GST the portion of indirect tax could increase significantly. After discussing the impact of GST on various sectors, we reached to the conclusion that in most of the sectors GST will bring positive impact on economy and it is expected that GDP will increase by 1-2% and this will boost the Indian economy. Offcourse in certain sectors GST will bring negative impact on economy in few years but overall it will bring positive impact on economy. There were many defects in the earlier tax structure which is to be removed by implementing GST. GST is one nation and one tax system. GST will remove multiple cascading taxes which were levied by the central government and state government. Now we can easily file tax return, refund and payment of tax through "GSTNET" without human intervention and this will reduce the corruption and to the some extent corruption can be removed. At last it is advised to the government that they should conduct a seminar or workshop on GST that's why the common man and business man can easily understand about the GST.

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