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THE SIGNIFICANCE OF GOODS AND SERVICE TAX IN INDIAN ECONOMY

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ABSTRACT

Most developing countries continue to face severe issues in developing adequate and quick to respond tax system. While each of these paths to reform is necessary. In the end what 50 years of experience tells us is that improving the precision and understanding with which fiscal issues both within and outside government. Is the really essential ingredient to developing viable and sustainable tax system in developing countries like India. Indian taxation system in has undergone remarkable reform the last decade. The tax rate has been rationalized and tax laws have been simplified resulting in better compliance, ease of tax payment and better enforcement. The process of validation of tax administration is ongoing in India.

Another key objective of tax reform measures has been to increase total tax to GDP ratio as a means of achieving fiscal consolidation and improving resource allocation. GDP, easier tax filing methodology and simpler tax structure – government of India is working to enhance the government's revenue collection, at the same time ensuring that cumbersome taxes do not deter investors. This paper review the two principles ways in which developing countries like India may develop and progress their taxation system through the their economy.

Key words: CGST, SGST, GDP, IT

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INTRODUCTION:

It has been 15 years since the roadmap for implementing the most high – flying constitution related to indirect taxes in India was conceived, aptly named goods and service (GST) is a Comprehensive tax levied on manufacturing, sale and consumption of goods and services 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 point up to the retailer's level where only the final consumer should bear the tax. In the Indian context, initial discussion on GST started in the year of 2000 under the of an Empowered committee headed by Shri Asim Dasgupta, Late, the task force on implementation of the fiscal Responsibility and Budget Management Act, 2003 headed by Dr. Vijaya L, Kelker suggested for an All Indian Goods and Service Tax (GST) which would help achieve a Common market, widen the tax base, improve the revenue productivity of domestic indirect taxes and enhance welfare through efficient resource allocation. GST is a simple, transparent and efficient system of indirect tax, introduced to over 140 countries across the globe. It was first introduction in France in 1954. Many countries have a unified GST system, whereas in our country a dual GST is proposed wherein a central goods and service tax (CGST) state goods and service tax (SGST) will be levied in the taxable value of the transaction. The CGST will subsume central excise duty (cenvat), sales tax, entertainment tax, luxury tax, octori, lottery taxes, and electricity duty, state surcharges related to supply of goods and service and purchase tax at state level.

GST has a vast significance on all Indian economic sectors such as food and industry, housing and construction industry, FMCG, Retail sector, financial services, information technology and MSME these are we try to brief describe.

Objective of the study:

- To understanding the conceptual framework of Goods and Service tax (GST).
- To Analyzing the importance of Goods and Service Tax in Indian Economy.

Methodology of the study:

This study is based on secondary sources from different books, magazine, research article and government research report.

What is G S T? How does it work?

GST is a single tax on the supply of goods and service, right from the manufacture to consumer's credit of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. The consumer will thus bear only the GST changed by last dealer in the supply chain with set- off benefits at all the previous stages.

Conceptual framework of GST:

In the Indian context, initial discussion on GST started in the year 2000 under the aegis of an empowered committee headed by Shri Asim Dasgupta, later the task force on implementation of fiscal responsibility and budget management Act, 2003 headed by Dr, Vijay L, Kelkar suggested for an all India goods and Service Tax (GST) which would help achieve a common market, widen the tax base, improve the revenue productivity of domestic indirect taxes and enhance welfare through efficient resource allocation.

A proposal to introduce a national level goods and services tax (GST) was first mooted in the budget speech for the financial year 2006-07. Since the proposal involved reform/ restructuring of not only indirect taxes levied by the centre but also by the states, The responsibility of preparing a design and road map for the implementation of GST was assigned to the empowered committee of the state finance ministers (EC). In April, 2008, the EC submitted a report titled "A model and roadmap for Goods and service Tax (GST) in India" broad recommendations about the structure and design of GST, Based on the inputs from the government of India and state, the empowered committee released its first discussion paper on goods and service Tax on 10 November 2009.

In order to take the GST related work further, a joint working group consisting of officers from the central as well as the state government was constituted, this was further trifurcated into three sub- working groups to work separately on draft legislations required for the introduction of GST, process/forms to followed in GST regime and development of IT infrastructure needed for smooth functioning of the proposed GST system, in addition, an Empowered group for development of IT system required for goods and services tax regime was set up under the chairmanship of Dr. Nandan Nilekani.

Justification for GST in India

There was a burden of "Tax on tax" in the preexisting central excise duty of the government of India and sales tax system of the state government. The introduction of central VAT (CENVAT) has removed the cascading burden of "tax on tax" to a great extent by providing a mechanism of "set- off" for tax paid on inputs and service up to the stage of production, and thus, has been an improvement over the pre-exciting central excise duty. Similarly, the introduction of VAT in the state has removed the cascading effect by giving set-off for tax paid on inputs as well as tax paid on previous purchase and again been an improvement over the previous sales tax regime.

But both the CENVAT and the state VAT have certain incompleteness. The incompleteness in CENVAT is that it has not been extended to include chain of value addition in the distribution trade below the stage of such as addition excise duties, additional customs duty, surcharge, etc, in the overall framework of CENVAT, and thus kept the benefits of comprehensive input tax and service tax set-off out of the reach of manufactures/dealers. The introduction of GST well not similarly, in the present state- level VAT scheme, CENVAT load on goods has not yet been removed and the cascading effect of that part of tax burden has remained unrelieved. Moreover, there are several taxes in states, such as, luxury tax, entertainment tax, etc. which have still not been subsumed in state level VAT. Further, there has also not been any integration of VAT on good with tax on service at the state level with removal of cascading effect of service tax, in addition, although the burden of central sales tax (CST) on inter-state movement of goods has been lessened with the reduction of CST rate, this burden has also not been fully phased out. With the introduction of GST at the state level, the addition burden of CENVAT and service tax would be comprehensively removed, and a continuous chain of set-off from the original producer's point and service provider's point up to the retailer's level would be established which would eliminate the burden of all cascading effects, including the burden of CENVAT and service tax.

Thus GST is not simply VAT plus service tax, but its shows a major improvement over the previous system of VAT and disjointed service tax, and hence is a justifiable step forward.

Reason behind proposing a Dual GST model

India is a federal country where both the center and states have been assigned the power to levy and collect taxes through appropriate legislation; both the levels of government have distinct responsibilities to perform according to the division of power prescribed in the constitution for which they need to raise resource. A dual GST will, therefore, be in keeping with constitutional requirement of fiscal federalism.

Taxable person/entities under GST:

- ❖ It will cover all types of person carrying on business activities, i.e. Manufacturers, job-workers, trader, importers, exporters, all types of service providers, ect.
- ❖ If a company is having four branches in four different state, all the four branches will be considered as taxable entities under each of the jurisdiction of state government concerned.
- ❖ All the dealer/business entities will have to pay both the types of taxes on all the transactions.
- ❖ A dealer must get registered under CGST as it will make him entitled to claim input tax credit of CGST thereby, attracting buyers under business-to business transactions.
- ❖ Importers have to register under both CGST and SGST as well.

Subsuming of central and state taxes under GST

One of the guiding motives behind the introduction of GST is to enable the free flow of tax credit in intra and inter-state taxes will be identified to be subsumed under GST, though with some exception. These taxes include as given

Taxes subsumed under GST	
Central taxes	State taxes
Central Excise Duty	VAT/sales tax
Additional Excise Duties	Entertainment tax(Unless it is levied by the local bodies)
The Excise Duty levied Under the Medicinal and Toiletries Preparation Act	Luxury tax
Service Tax	Taxes on lottery, betting and gambling
Additional customs Duty, commonly known as countervailing Duty (CVD)	State Cesses and Surcharges in so for as they relate to supply of goods and service, and
Special additional duty of custom- 4% (SAD)	Entry tax not in lieu of octroi
Surcharge, and	
Cesses.	

Taxes that may or not be subsumed under GST

There are a few other indirect taxes that may or may not be subsumed under the proposed GST regime as there is no consensus among state, and between the center and the state. These taxes include purchase tax, stamp duty, vehicle tax, electricity duty and other entry taxes and octroi.

As for as beverage/ items containing alcohol are concerned, these may be kept out of the purview of GST. Sales tax/ VAT could be continued to be levied on alcoholic beverages as per the existing practice. In case, it has been made vatable by some states, there may not be any objection to their stance, excise duty, which is presently levied by the states may also not be affected.

With regard to petroleum product, the empowered committee opined that the basket of petroleum product, i.e. crude, motor spirit (including the aviation turbine fuel) and high speed diesel may be kept outside GST as is the prevailing practice in India. Sales tax could continue to be levied by the states on this product with prevailing floor rate. Similarly, centre could also continue its levies.

However, the centre is of the opinion that keeping petroleum out of GST could lead to leakage of revenue due to disruption of audit trails. Therefore, centre has proposed to the state that the present structure of taxes on petroleum may be allowed to continue temporarily even through petroleum, may not be constitutionally kept out of GST. This would imply that the states would retain the power to levy and collect sales tax/VAT on petroleum, even through petroleum products would be under the ambit of GST. The related rates could be appropriately decide (or zero-rate) by the GST council in such scenario.

Rate structure under GST System

It is proposed to adopt a two- rate structure – a lower rate for necessary items and items of basic importance, and a standard rate for goods in general. There will also be a special rate for precious metals and a list of exempted items. For taxation of services, there may be a single rate for both CGST and SGST. The exact value of the SGST and CGST rates, including the rate for services may, however, be known duly in course of appropriate actions.

GST on Exports and Imports

GST on export will be zero- rated. Both CGST and SGST will be levied on import of goods and services into the country and shall be collected by the central government. The incidence of tax will follow the destination principle and tax revenue in case of SGST will accrue to the state(s) where the imported goods and service are consumed. Full and complete set-off will be available on the GST paid on import on goods and services.

GST in special Economic Zone (SEZs)

The central GST and the state GST would be levied simultaneous on every transaction of supply of goods and service except the exempted goods and services, goods which are outside the purview of GST and the transaction which are below the prescribed threshold limits. Further, both would be levied on the same price or value unlike state VAT which is presently levied on the value of the goods inclusive of CENVAT. While the location of the supplier and the recipient within the county is immaterial for the purpose of CGST, SGST would be chargeable only when the supplier and the recipient are both located within the particulars state. Identification nos,addres and tax invoice nos. coupled with the name and address of the purchasing dealer, his tax identification nos, address and description of goods sold or service provided.

Significance of GST on Indian economy:

The significance of GST on Indian economy can be summarized as below

1) **For Business and Industry:**

- Easy compliance: A robust and comprehensive IT system would be the foundation of the GST regime in India. Therefore, all tax payer services such as registrations returns, payment, etc. Would be available to the taxpayers online, which would make compliance easy and transparent.
- Uniformity of tax rate and structures: GST will ensure that indirect tax rates and structures are common across the country tax neutral, irrespective of the choice of place of doing business.
- Removal of cascading: A system o seamless tax-credits throughout the value –chain, and across boundaries of states. Would ensure that there is minimal cascading of taxes. This would reduce hidden costs of doing business.
- Improved competitiveness: reeducation in transaction costs of doing business would eventually lead to an improved
- Gain to manufactures and exporters; the subsuming of major central and state taxes in GST, complete and comprehensive set- off of input goods and services and phasing out of central sales tax (CST) would reduce the cost of locally manufactured goods and service. This will increase the competitiveness of Indian goods and service in the international market and give boost to Indian exports. The uniformity in tax rate and procedures across the country will also go a long way in reducing the compliance cost.

2) **For Central and State Government**

- Simple and easy to administer: Multiple indirect taxes at the central and state levels are being replaced by GST backed with a robust end-to-end IT system. GST would be simpler and easier to administer than all other indirect taxes of the central and state levied so far.
- Better controls on leakage: GST will result in better tax compliance due to a robust IT infrastructure Due to the seamless transfer of input tax credit from one stage to another in the chain of value addition; there is an in-built mechanism in the design of GST that would incentivize tax compliance by traders.
- Higher revenue efficiency: GST is expected to decrease the cost of collection of tax revenues of the government and will therefore, lead to higher revenue efficiency.

3) For the consumer

- single and transparent tax proportionate to the value of goods and service: Due to multiple indirect taxes being levied by the central and state, with incomplete or no input tax credit available at progressive stages of value addition, the cost of most goods and service in the country today are laden with many hidden taxes. Under GST, there would be only one tax from the manufacturer to the consumer, leading to transparency of taxes paid to final consumer.
- Relief in overall tax burden: Because of efficiency gains and prevention of leakages, the overall tax burden on most commodities will come down, which will benefit consumers.

4) GDP Gains :

Detailed study by the task force has estimated that GST will provide Gains to India's GDP from 0.9%-1.7%.

5) Reduction in Cascading Taxes:

Under GST, the tax is effectively paid not on the value of the output, but on the value added to the output at the output at that particular stage. Since set-offs are only available once tax is paid, incentives for compliance increase s each person in the chain ensures that the previous person has paid the tax.

6) **Gain in Export & Import:** Export- oriented industries would become internationally more competitive as entire taxes in supply chain would be refunded/zero-rated. Import-substituting industries would also become competitive as price of Indian commodities would reduce.

Conclusion:

For a developing economy like India, it is desirable to become more competitive and efficient in its resource usage, Apart from various other policy instruments, India must pursue taxation policies that would maximize its economic efficiency and minimize distortions and impediment to efficient allocation of resources, specialization, capital formation and international trade. To gain in GDP and Exports. This would translate into enhance economic welfare and returns to the factors of production, viz, land, labour and capital.

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