

Role of Goods and Services Tax(GST) in Strengthening Indian Economy

Anuradha Singh

Research Scholar

Department Of Applied Economics & Commerce

Magadh University, Bodh-Gaya, Bihar

Abstract

The Goods and Services Tax (GST) a historic tax reform, has come into effect from July 1, 2017 which aims at complete transformation in the field of indirect taxation in the country involving both central and state levies. The biggest tax reform after independence, GST will pave the way for realization of the goal of 'One Nation – One Tax – One Market' and is expected to benefit the entire stakeholders viz. consumer, trade and industry and the government.

GST will help in creating a unified common national market for India and to make the "Make in India" campaign successful. It will be helpful in preventing cascading of taxes as Input Tax Credit will be available across goods and services at every stage of supply. It will also enhance the economic growth of the country by increasing export and manufacturing activities, generating more employment which will result in increase in GDP and finally in substantive growth. It will help in poverty eradication through generating employment opportunity and financial resources for the government regarding development activities and will reduce prices. Reduction in prices means increase in consumption and production which will make India a manufacturing hub. As the taxes have been subsumed, it will also reduce the chances of tax evasion opportunities due to uniform SGST and IGST rates between neighbouring states and between intra and inter-state sales. It will improve the overall investment climate in the country. It will also be beneficial to the consumers because the prices will decrease and they have low tax burden.

Though there are some major challenges in the way of GST and to the different stakeholders of the society. All the challenges can be solved by the joint efforts of central government, state government and tax authorities of India.

1. Introduction

Sound tax policies of a nation are an indication of a strong governance and sustainable development. Apart from being a source of revenue and growth, tax also plays a key role in making the state accountable to its tax payers. Effective taxation ensures that public finances are sustainable in the long term to support social objectives and promote economic development. Complexities of the Indian tax system have however; always perplexed the best mind in taxation world. With the centre, state and local bodies having the powers to levy a plethora of taxes, every single person ranging from common man to the manufacturers and traders have felt the burden multiple taxes. Taxes were collected at various levels right from the place of origin of the goods to the final destination. The new regime aims to transform the tax scenario of the country by streamlining the system through a single tax for supply of all

goods and services across the country.

The Goods and Services Tax (GST), a historic tax reform, has come into effect from July 1, 2017 which aims at complete transformation in the field of indirect taxation in the country involving both central and state levies. The biggest tax reform after independence, GST will pave the way for realization of the goal of 'One Nation–OneTax–One Market' and is expected to benefit the entire stakeholders viz. consumer, trade and industry and the government.

GST is a destination-based single tax on the supply of goods and services from manufacturer to the customer, which has replaced multiple direct taxes levied by the central and state governments, thereby converting the country into a unified market. The new GST subsumes 17 indirect taxes and 23 cesses of central and states (Table 1), eliminating the need for filing multiple returns and assessments and rationalizing the tax treatment of goods and services along the supply chain from producers to consumers.

Table 1: Indirect Taxes Subsumed by GST

SI. No.	Central Government	State Government
1	Central Excise Duty	State VAT
2	Duties of Excise (Medicinal and Toilet Preparation)	Central Sales Tax
3	Additional Duties of Excise (Goods of Special Importance)	Luxury Tax
4	Additional Duties of Excise (Textile and Textile Products)	Entry Tax (All forms)
5	Additional Duties of Customs (CVD)	Entertainment and Amusement Tax (except when levied by local bodies)
6	Special Additional Duties of Customs (SAD)	Taxes on Advertisements
7	Service Tax	Purchase Tax
8	Central Surcharges and Cesses so far as they relate to supply of goods and services	Taxes on Lotteries, betting gambling
9		State surcharges and Cesses so far as they relate to supply of goods and services.

In India GST is a four tier tax structure of 5, 12, 18 and 28 per cent with lower rates for essential items and highest for luxury and de-merit goods that also attracts an additional cess to compensate states for any loss in indirect tax revenue. Electricity duty, stamp duty, excise duty and VAT on alcoholic beverages, petroleum products (like crude, natural gas, petrol and diesel) are outside the ambit of GST for the time-being. Businesses dealing only in exempted goods or with a turnover of below Rupees 20 lakh annually) but not engaged in interstate supplies are also exempted from filing the returns for GST.

1.1 Main Features of GST

In order to understand GST, it would be better to know the key features of GST which are as follows:

1. The territorial spread of GST is whole of the country including Jammu and Kashmir.
2. GST is applicable on 'supply' of goods or services as the present concept of tax on the manufacture of goods or on the sale of goods or on provision of services.
3. Import of goods is treated as inter-state supplies and would be subject to IGST in addition to the applicable custom duties.
4. It is based on principle of destination based consumption taxation as against the present principle of origin based taxation.
5. Import of services is treated as inter-state supplies and would be subject to IGST on reverse charge basis.
6. CGST, SGST/UTGST & IGST is levied at rates mutually agreed upon by the Centre and States under the aegis of GST Council (GSTC).
7. There are four tax slabs namely 5 per cent, 12 per cent, 18 per cent and 28 per cent for all the goods and services.
8. GST covers the entire gamut of goods and services except alcohol for human consumption which is constitutionally out of GST. Besides, five petroleum products are out of GST at present and can be brought into GST on recommendation of GST Council.
9. A common threshold exemption of Rs 20 lakhs (Rs. 10 lakhs for special category states as specified in Article 279A of the Constitution except State of Jammu & Kashmir) for both CGST and SGST/UTGST has been provided for. Besides, an option to pay tax under composition scheme (i.e. to pay tax at a flat rate without credits) is available to small tax payers (other than specified category of manufacturers and service providers) having an annual turnover of up to 75 lakhs (Rs. 50 lakhs for special category of states as specified in article 279A of the Constitution except state of Jammu and Kashmir and Uttarakhand).
10. Exports and supplies to SEZ are zero-rated.
11. Electronic filing of returns has to be done by different class of persons at different cut-off.
12. Various modes of payment of tax available to the taxpayer including internet banking, debit/credit card and National Electronic Funds Transfer (NEFT)/ Real Time Gross Settlement (RTGS)

13. Refund of tax has to be sought by the taxpayer or by any other person who has borne the incidence of tax within in 2 years from the relevant date.

14. System of self assessment of the taxes payable by the registered person has been provided for.

15. Audit of registered persons to be conducted in order to verify compliance with the provisions of the Act.

1.2 Benefits of GST

Following are the various benefits of GST to the different stakeholders of the society including the government:

- i. GST will help to create a unified common national market for India, giving a boost to foreign investment and "Make in India" campaign.
- ii. GST will mitigate cascading of taxes as Input Tax Credit will be available across goods and services at every stage of supply.
- iii. GST will harmonize the laws, procedures and rates of tax.
- iv. Average tax burden on companies is likely to come down which is expected to reduce the prices which further will result in more consumption and hence more production, thereby helping in the growth of the industries.
- v. In the previous tax regime, businesses had to file several returns for multiple taxes, face multiple authorities for assessment of different indirect taxes. GST, by merging all indirect taxes into one single tax has made the compliance much easier for businesses.
- vi. GST will make inter-state movements of goods easier because it has amalgamated several indirect taxes including Entry and Octroi duty. This will result in saving of time as well as money in movement of transport vehicles.

1.3 Impact of GST on Indian Economy

A unified common national market to boost Foreign Investment and attracts the investment in the country by improving the overall investment climate in the country which will benefit the development of states. It would boost to export, manufacturing activity, generation of more employment, leading to reduced poverty and increased GDP growth. The uniformity of tax rates will lead to reduce the incentive for tax evasion. It may reduce the compliance costs as no requirement of multiple records keeping. Introduction of GST would be a very significant step in the field of indirect tax reforms in India. By amalgamating a large number of Central and State taxes into a single tax and allowing set-off of prior-stage taxes, it would mitigate the illeffects of cascading and pave the way for a common national market. For the consumers, the biggest gain would be interms of a reduction in the overall tax burden on goods, which will lead to reduction of the price of the goods. It would also make our products competitive in the domestic and international markets. There may also be revenue gain for the Centre and the States due to widening of the tax base, increase in trade volumes and improved tax compliance.

1.4 Challenges of GST

GST is the single biggest tax reform undertaken by the government in 70 years of independence highlighting the concept of "one Nation, One Market, One Tax". It is matter fact that a new legislation comes with certain problems. Some of the challenges of GST being faced are:

1. **IT Preparedness and Infrastructure:** GST is an IT driven law and it cannot be assured whether all the states and union territories in India are currently equipped with infrastructure and requisite manpower to embrace this law.
2. **Officers Training:** All the central and state government officers whether in VAT, service tax, excise or custom would have to learn the GST provisions and possible implications.
3. **New Registrations:** GST is expected to bring with many fold registrations. Transition of existing registered assesses and registration of new assesses is a big challenge.
4. **Transition Issues:** There are concerns about registration, carry forward of credits and taking new credits, pending refund/rebate claims, pending assessments, filing of returns, etc. The need for smooth transition is necessary for success of GST.
5. **Pending Cases/ Past Disputes:** There are many disputes pending in context of present indirect tax laws at various stages. With GST now implemented, the government should find ways and means to resolve these disputes.
6. **Impact on Small Enterprises:** The impact of GST on small enterprises is often cited as a concern.

2. Review of Literature

There are various studies in context of GST, highlighting its nature, importance, features, functioning, impact on different sectors of the society and challenges. Some of the important studies have been reviewed which are mentioned below:

T.N. Ashok (2017) has described GST as a second major surgical strike on tax evaders, bringing most traders into the tax net. It will make the movement of the commodities freer in the country and will also attract foreign investors with a unified market with a single tax. He termed GST as a long term benefit with term suffering as the country shifts to a new taxation regime.

Aron Goel (2017) is of opinion that due to GST, the central and state governments will witness tax buoyancy and the tax collection costs will reduce significantly. Export will become more competitive as goods and services will be exported without any tax embedded in them. 'Make in India' programme will get a major fillip due to increased ease of doing business. According to him, all these benefits will add significantly to the GDP growth of India in the medium and long run.

Upender Gupta (2017) has explained GST in a comprehensive manner. According to him, this transformational reform can be seen as a business change, a social regeneration, a revolution that will reenergize the sagging wheels of our economic growth, a buster dose for the immunity of our economy from the vagaries of the world developments and last but not the least, a future where the head will be held high and minds will be free.

Nishita Gupta (2015) in her study highlighted the impact of GST on Indian economy. According to her, GST is indeed a significant improvement towards a comprehensive indirect tax reforms in the country. It abolishes various taxes on the one side and creates a business friendly environment on the other with a uniform tax rate.

Devaraja Reddy M.(2017) highlighted the transitional challenges of GST ahead. According to him, there are many concerns about registration, review of contracts, pending assessments, pending refund/ rebate claims, job work transactions, treatment of stock in hand, filing of returns, etc. He stressed on the need for smooth transition for the success of GST. He further expected that practitioners and advisors would have their hands full in resolving the myriad issues which are sure to arise.

Lourdunathan F. and P. Xavier (2017) described responses and opinions from the manufacturers, traders and society about the GST implemented in India. The passing of GST Bill has put India at the centre of the global economy. Their paper highlights the background, prospects and challenges in the implementation of GST in India.

Aurobinda Panda and Atul Patel (2010) analysed the impact of GST on Indian Tax scenario. They highlighted the need of change in tax structure from traditional to GST model.

3. Objectives of the study

The proposed study will have the following objectives:

- i) To study the tax system in India
- ii) To make study about GST in India and the world
- iii) To establish the role of GST in cooperative federalism
- iv) To assess the impact of GST on Indian economy

- v) To examine the role of IT in GST
- vi) To analyse GST rates and its applications
- vii) To find out some vital observation and valuable suggestions for further study

4. Methodology of the study

The present study will be based on the secondary information and data will be compiled from the publications of Government of India, state government, Reports of Reserve Bank of India and leading newspapers, etc. Books authored by well-known scholars/writers on the subject will be the basis of conceptual analysis in the study. The source of primary information will be based on discussions with higher officials of government.

5. Hypotheses of the study

The proposed study has the following hypotheses :

- (i) GST will result in reduction of prices of commodity and will be beneficial to all.
- (ii) GST will help in establishing a better relation between centre and states.
- (iii) Being based on 'One Tax - One Country', it will remove all the complications of previous tax system.

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