

Goods and Services Tax (GST): A Panacea for Indian Economy

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ABSTRACT

GST stands for “Goods and Services Tax”, and is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. It will replace all indirect taxes levied on goods and services by the Central Government and State Governments. GST is the only indirect tax that directly affects all the sections of our economy. India has been trying to implement the Goods and Services Tax (GST) for last few years but due to political and state governments autonomy issues the Federal government has been unable to make it law. Several countries has implemented this tax system followed by France, the first country introduced the GST in 1954. In India the proposed GST would be implemented from 1 April 2016. For this the Constitution (One Hundred and Twenty Second Amendment) Bill, 2014 was Introduced in the Lok Sabha. The Bill was passed by the Lok Sabha on 6 May 2015. Now Bill has to get the approval of Rajya Sabha and President. India is a federal democratic and therefore the GST will be implemented parallel by the Central and State governments as CGST and SGST respectively.

The present paper focused on explaining the concepts of GST and its evolution in India. Then it discussed the salient features of proposed GST and how does it works. It highlights the benefits of the GST for Indian economy. This paper also shows the challenges to implement GST and how it can be overcome.

Keywords----- CGST, Input tax credit (ITC), GST, SGST, VAT

major improvement over the pre-existing central excise duty at the national level and the sales tax system at the state level. Now the Goods and Services Tax (GST) will be further significant breakthrough towards a comprehensive indirect tax reform in the country.

In 2000, the Vajpayee Government started discussion on GST by setting up an empowered committee. The committee was headed by Asim Dasgupta, Finance Minister in Government of West Bengal. But an announcement to GST for the first time was made by Palaniappan Chidambaram, the Union Finance Minister, during budget of 2007-08 that it would introduced from 1 April 2010 and that the empowered committee of State Finance Ministers, on his request would work with the Central Government to prepare a road map for introduction of GST in India.

After this announcement, the Empowered Committee of State Finance Ministers decided to set up a Joint Working Group on 10 May 2007, with the Adviser to the Union Finance Minister and the Member-Secretary of Empowered Committee as co-conveners and the concerned Joint Secretaries of the Department of Revenue of Union Finance Ministry and All Finance Secretaries of the states as its members. The Joint Working Group, after intensive internal discussions as well as interaction with the experts and representatives of Chambers of Commerce and Industry, submitted its report to the Empowered Committee on 19 November 2007.

In April, 2008 the Empowered Committee (EC) submitted a report titled “A Model and Roadmap for Goods and Services tax (GST) in India” containing broad recommendations about the structure and design of GST. In response to the report, the Department of Revenue made some suggestions to be incorporated in the design and structure of proposed GST. Based on inputs from Government of India and states, the EC released its First Discussion Paper on Goods and Services Tax in India on 10 November 2009 with the objective of generating a debate and obtaining inputs from all stakeholders.

I. INTRODUCTION

India as world’s one the biggest democratic country follows the federal tax system for levy and collection of various taxes. Different types of indirect taxes are levied and collected at different point in the supply chain. The centre and the states are empowered to levy respective taxes as per the constitution of India. The Value Added Tax (VAT) when introduced was considered to be a

Mr. Pranab Babu, (Hon'ble Union Home Minister of Finance Pranab Mukherjee) has made a remark in his Budget Speech of 2010 that an efforts will be made to introduce GST in India from April 2011. This deadline was subsequently extended to April 2012. Ex- Finance Minister Mr. P. Chidambaram in his Budget Speech of 2013-14 while apologizing for the failure to meet the April 2012 deadline announced further postponement of the same to April 2014. Then after missing so many deadlines finally new government came into power in May 2014.

The Constitution (One Hundred and Twenty Second Amendment) Bill, 2014 was introduced in the Lok Sabha by Finance Minister Mr. Arun Jaitley on 19 December 2014. The Bill was passed by the House on 6 May 2015, receiving 352 votes for and 37 against. All no votes came from members of the AIADMK. The Indian National Congress, which opposed the Bill, walked out of the House before voting began. Although the BJD and the CPI (M) had previously opposed the Bill, at the time of voting they cast their votes in favour. The Government attempted to move the Bill for consideration in the Rajya Sabha on 11 May 2015. However, members of opposition repeatedly stalled the proceedings of the House. In order to appease the opposition for further scrutiny of the Bill, Jaitley moved a motion to refer the Bill to Select Committee.

II. OBJECTIVES OF THE STUDY

The study has been geared towards achieving the following objectives:

- 1) To understand the concept of Goods and Services Tax;
- 2) To understand the evolution of GST in India;
- 3) To examine the salient features of Goods and Services Tax; and
- 4) To know the impact of GST on Indian Economy and challenges in implementing GST.

III. RESEARCH METHODOLOGY

The research paper is an attempt of exploratory research, based on the secondary data sourced from various journals, magazines, articles and media reports. Available secondary data was extensively used for the study. The investigator also procures the required data through secondary survey.

IV. MEANING, ORIGIN AND TYPES OF GST

The introduction of VAT was one of the major reforms in indirect taxes in India at the state & Central level. If that was the major reforms in indirect taxes then GST would be advancement over the current existing system. Goods and Services Tax (GST) is a broad based

and a single comprehensive tax levied on goods and services consumed in country.

Goods and Services Tax (GST) is a comprehensive tax levy on manufacture, sale and consumption of goods and services at the national level. GST is similar to the VAT system which is a value added tax on goods with an Input Tax Credit (ITC) mechanism but GST also includes services. Thus GST would be applicable on supply of goods and services as against the present concept of tax.

GST is a value added tax on goods and services that is paid by the final consumer while the retailer will be taking credit of the tax he has paid while buying goods for retailing. So in this all the services of retailer or the chain behind him is taxed apart from the actual value of production of that good.

This can be better understand with the help of an example, suppose that there is a chain of manufacturer, wholesale dealer and the retailer and the GST is 10%. Suppose the manufacturer purchases the inputs worth Rs. 100 for producing a good worth Rs. 140. He will pay net GST of Rs. 4 by taking the tax credit of Rs. 10 paid on the inputs. Similarly the wholesaler who buys this good and sells it for Rs. 150 will pay net GST of Rs. 1 and the retailer who sells it for Rs. 170 will pay net GST of Rs. 2 by taking the tax credit for his purchase which comes to be Rs. 15.

In the other words the GST is designed as a value-added tax, which means starting from the manufacturer to the wholesaler and then retailer, each person will pay tax only on the value addition done by him. So, suppose a manufacturer purchases inputs worth Rs. 40 and then produces a good worth Rs. 100, then with a 10 % GST rate, his tax liability will turn out to be only Rs. 6 (10 % of 60). This is because he gets to set-off the tax paid on the inputs against the tax he pays on the final goods produced.

Ex-CAG Mr. Vinod Rai in his inaugural address to the National Conference on GST describe the concept as "An integrated scheme of taxation that does not discriminate between goods and services and is part of the proposed tax reforms that centre on evolving an efficient and harmonized consumption tax system in the country."

GST was originated in France in 1954 and today it has spread to over 150 countries. The taxable event for the GST will be the supply of goods and the supply of services. The current taxable events such as manufacture, sale of goods and rendering of services will not be relevant for GST. GST is of two types: (a) Single GST and (b) Dual GST. Many countries have unified GST. However, in countries like Brazil and Canada there is dual system wherein GST is levied both by the Central Government and the State Governments. In India due to federal structure there shall be dual GST system. This will comprise of:

- Central GST (CGST) which is levied by the Centre

- State GST (SGST) which is levied by the State
- Integrated GST (IGST) which is levied by the Central Government on inter-state supply of goods and services.

V. JUSTIFICATION OF GST

Despite the success with the VAT, there is still certain shortcoming in the structure of VAT both at the Central and at the State level. GST has been designed to overcome from all shortcomings of VAT because GST is not simply VAT plus service tax but an improvement over the previous system of VAT and disjointed service tax.

VI. HOW GST IS DIFFERENT FROM CURRENT VAT

The mechanics of applying VAT and GST are basically the same. But there are following fundamental differences between them

1. VAT is levied on goods; whereas GST on both goods and services as it is evident from the name.
2. GST would have a uniform rate in all the states which VAT lacks as each state levies its own rate of duty for each goods.
3. Input credit can be set-off only against the goods sold within the state; whereas in case of GST not only you can set-off input credit against goods sold within the country but also against the services.

VII. SALIENT FEATURES OF THE PROPOSED GST MODEL

Followings are the salient features of GST Model:

1. The GST shall have two components: one levied by the Centre (hereinafter referred to as Central GST), and the other levied by the States (hereinafter referred to as State GST). Rates for Central GST and State GST would be prescribed appropriately, reflecting revenue considerations and acceptability.
2. The Central GST and the State GST are to be paid to the accounts of the Centre and the States separately.

3. The Central GST and the State GST would be applicable to all transactions of goods and services made for a consideration except exempted goods and services, goods which are outside the purview of GST.

4. Since the Central GST and the State GST are to be treated separately; taxes paid against the Central GST shall be allowed to be taken as input tax credit (ITC) for the Central GST and could be utilized only against the payment of Central GST. The same principle will be applicable for the State GST.

5. The administration of Central GST to the Centre and for State GST to the States would be given.

6. To the extent feasible, uniform procedure for collection of both central GST and the State GST would be prescribed in the respective legislation for the Central GST and the State GST.

7. The tax payer would need to submit periodical returns, in common format as far as possible to both the Central GST authority and to the concerned State GST authorities.

8. Each tax payer would be allotted a PAN-Linked taxpayer Identification number with a total of 13/15 digits. This would bring the GST PAN-Linked system in line with the prevailing PAN-Based system for Income Tax, facilitating exchange and taxpayer compliance.

VIII. PRESENT INDIAN INDIRECT TAXATION STRUCTURE & ITS LIMITATIONS

Presently India has a dual tax system for taxation of Goods and Services. The tax system is described by the Central Taxes and State Taxes, Which may be further described as Excise Duty, Service Tax, VAT and Custom Duty. India has VAT mechanism which was introduced in 2005 but this system suffers from limitations. Due to non-availability of tax credit for inter-state transactions of goods, consumer suffers double taxation burden of VAT.

IX. CENTRAL AND STATE TAXES TO BE SUBSUMED UNDER GST

The following taxes currently levied and collected by the Centre Government and the State Governments are to be subsumed with the implementation of GST:

Central Taxes to be subsumed	State Taxes to be subsumed
Central Excise duty Additional duties on excise The Excise Duty levied under the Medicinal and Toiletries Preparation Act Service Tax Surcharges, and Cesses	VAT / Sales tax Entertainment tax (unless it is levied by the local bodies) Luxury tax Taxes on lottery, betting and gambling State Cesses and Surcharges in so far as they relate to supply of goods and services Entry tax not in lieu of Octroi.

Source: First Discussion Paper on GST

X. IMPACT OF GST ON PRICING OF PRODUCTS AS COMPARED TO CURRENT SCENARIO

There is a clear difference between the price of the product calculated under VAT system and the price of the product calculated under the proposed Goods and Services Tax (GST) system. Let us take an Example to understand this clearly:

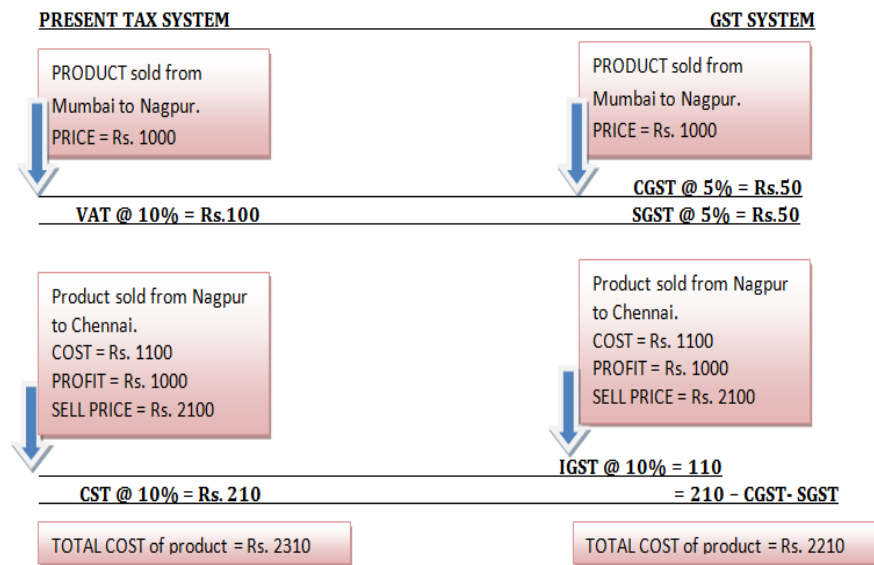


Fig. 1

Source: www.finmart.com

In the above example, you can note that the tax paid on the sale within the state can be claim against the tax paid on sale outside state in GST system, which is not possible in the current tax system. The credit of CGST cannot be taken against the SGST and the credit of SGST cannot be taken against the CGST but both credits can be taken against IGST.

XI. HOW DOES GST WILL WORK?

Let us understand the working of GST of a manufactured commodity from point of view of a Manufacturer, wholesaler, retailer and final consumer:

Assuming GST rate @ 10%

Stage of Supply Chain	Purchase Value of Input	Value Addition	Value of supply	Rate Of GST	GST on output	ITC	Net GST = GST on Output – ITC
Manufacturer	100	30	130	10%	13	10	13-10 = 3
Wholesaler	130	20	150	10%	15	13	15-13 = 2
Retailer	150	10	160	10%	16	15	16-15 = 1

Table 1

Source: Author's views.

Manufacturer:

Manufacturer makes a value addition of Rs. 30 on his purchase worth Rs. 100 of input of goods and services used in manufacturing process. The manufacturer will then pay net GST of Rs. 3 (13-10) after setting-off Rs. 10 as GST paid on his inputs (i.e. Input Tax Credit) from gross GST of Rs. 13. The manufacturer sells the goods to the wholesaler.

Wholesaler:

When the wholesaler sells the same goods after making value addition of Rs. 20, he pays net GST of only Rs. 2(15-13), after setting-off of Input Tax Credit of Rs. 13 from the gross GST of Rs. 15 to the manufacturer. The wholesaler sells the goods to retailer.

Retailer:

When the retailer sells the same goods after value addition of Rs. 10, he has to pay net GST of only Rs. 1 (16-15), after setting-off Input Tax Credit of Rs. 15 from his gross GST of Rs. 16 to the wholesaler. The retailer sells the goods to consumer.

Thus the manufacturer, wholesaler and retailer have to pay only Rs. 6 (i.e. Rs. 3+ Rs. 2 +Rs. 1) as GST on the value addition along the entire value chain from producer to the retailer after setting-off GST paid at the earlier stages.

So finally consumer has to pay $160+160*10\% = 176$ Rs. For goods he bought or services he has hired/enjoyed.

XII. IMPACT OF GST ON INDIAN ECONOMY

Like every coin has two sides; even GST will probably have its own Positives and negative impacts:

XIII. BENEFITS OF PROPOSED GST

1. The main reason to implement GST is to abolish the cascading effect on tax. A product on which excise duty is paid can also be liable to VAT. Suppose a product A is manufactured in a factory. As soon as it releases from factory, excise duty has to be paid to central government. When the product A is sold in same state then VAT has to be paid to the State Government. Also no credit on excise duty paid can be taken against output VAT. This is termed as cascading effect since double taxes is levied on same product.
 2. GST will lead to more transparent and neutral manner to raise revenue.
 3. Price reduction as credit of input tax is available against output tax.
 4. Simplified and cost saving system as procedural cost reduces due to uniform accounting for all types of taxes. Only three type of account; CGST, SGST & IGST have to be maintained.
 5. GST is structured to simplify the current indirect system. It is a long term strategy leading to a higher output, more employment opportunities and economy boom.
 6. It is beneficial for both economy and corporations. The reduced tax burden on companies will reduce production cost making exporters more competitive.
 7. GST will reduce transaction costs for taxpayers through simplified tax compliance.
 8. It will result in increased tax collections due to wider tax base and better conformity.
- Overall introduction of Goods and Services Tax (GST) will be panacea for Indian economy. Studies show that this would instantly spur economic growth. Introduction of

GST would also make Indian products competitive in the domestic and international markets. From the consumer point of view, the biggest advantage would be in terms of a reduction in the overall tax burden on goods, which is currently estimated at 25%-30%. Last but not the least, this tax, because of its transparent character, would be easier to administer.

XIV. BENEFITS OF GST TO VARIOUS STAKEHOLDERS

Proposed GST will offer following benefits to its various stakeholders;

For the Centre and the States:

According to experts, by implementing GST, India will gain \$ 15 Billion a year. This is because it will promote more exports, create more employment opportunities and boost growth.

For individuals and companies:

In the GST system, taxes for both Centre and State will be collected at one point of sale. Both will be charge on manufacturing cost. Individuals will be benefited by this as prices are likely to come down. Lower price mean more consumption, more consumption means more production and thereby helping in the growth of the companies.

XV. NEGATIVE ASPECTS OF PROPOSED GST

There are following negative aspects of Goods and Services Tax (GST):

Majority of dealers are not covered with the central excise but are only paying VAT in the state. Now all the VAT dealers will be required to pay Central Goods and Services Tax (CGST).

GST is referred as single taxation system in India but in reality it is a dual tax in which both state and centre collects separate tax on single transaction of sale & service.

However GST has some negative aspect but at the end it will boost economy.

XVI. CHALLENGES IN IMPLEMENTATION OF GST

There are following challenges in implementing GST throughout the country:

State reluctant to implement GST:

Under GST the taxes would be levied on the basis of destination principle (i.e. taxed in state where goods & services are sold /rendered) and state government is fearful of losing money. Central government should come up with revenue sharing model to solve state's grievances.

Legislative challenge/ Federal character:

India is a federal democratic country where both Centre and State Government Exists. Any change in the taxation powers of federal or state government requires amendments of Indian Constitution by two third majorities of its members present and it is also to be ratified by more than 50% state legislative assemblies. Centre Government has already amended "The Constitution (One Hundred and Twenty Second Amendment) Bill, 2014" in Lok Sabha. Now it has to be approved by Rajya Sabha. Central Government should take all opposite parties into confidence and get this Bill passed by Rajya Sabha. Moreover State governments should be convinced to adopt GST bill in their respective states.

Infrastructure:

IT infrastructure is a key component for success of GST. Without a well-designed and well-functioning IT system, the benefits of GST will remain elusive. In case of VAT also Centre had broad IT infrastructure, but it was a major issue with the states. Therefore both Centre and State needs to develop a High standard IT infrastructure to get the fruits of Goods and Services Tax.

Rate of Tax:

The major challenge in implementing GST is to determine the rate of tax. GST rate should be such rate which generates at least the same revenue to the state and Centre as generated in current tax structure. Till now there has been no official announcement regarding GST rates in India but Finance Minister said that GST Rate should be around 18%.

XVII. GOODS AND SERVICES TAX (GST) AROUND THE WORLD

France was the first country to introduced GST in 1954. Till now more than 150 countries have adopted Goods and Services Tax successfully. Following table shows the country adopting GST with the rate of GST.

COUNTRY	YEAR OF IMPLEMENTATION	CURRENT RATE IN %
AUSTRALIA	2000	10
FRANCE	1954	19.6
BELGIUM	1971	21

NEW ZEALAND	1986	15
SWEDAN	1969	25
GERMANY	1968	19
DENMARK	1967	25
SINGAPORE	1993	7
THAILAND	1992	7
INDONESIA	1984	10

Table 2

Source: gst.customs.gov.my

27 % rate of GST has been proposed in India. But Mr. Arun Jaitley (Finance Minister) in Lok Sabha said that 27% will be too high the actual figure will be decided by GST council and it should be around 18%.

XVIII. CONCLUSION

The concept of GST was proposed in India few years back. Its implementation is still in progress but with the arrival of new Government we can hope for its speedy review and application in real world. The new Government is in favour of GST and it is very much justifiable because we saw in this paper, that the concept of GST has many positive implications. If we sum up few we can easily say that GST will make Indian tax system least complicated and most efficient. And the step has been taken by the new government by introducing the bill in the Lok Sabha.

The said bill has got the approval of Lower House of parliament i.e. Lok Sabha. Now the bill is pending with the Upper House i.e. Rajya Sabha where Government has no clear majority and it is relying on the support of opposition parties to get bill passed.

Government should be very clear with the fact that for smooth working of GST, the Information Technology/ Infrastructure should also be properly developed throughout India. Government should take the state government into confidence to implement the GST. Moreover every effort should be taken so that no item left without coming into the preview of GST otherwise the core purpose of introducing GST will get fail. Some parties are opposing the proposed GST with certain objections & willing to see it passed with some amendments. So it's better to discuss and settle down those objections to come up with healthy GST.

SCOPE OF FURTHER STUDY

Once GST will be introduced and implemented throughout the country then few years later, a detailed research shall be conducted to see the overall performance of GST. Then a comparison will be possible between current taxation system and proposed GST. This research will help in ascertaining the progress of economy.

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