
Implications & Impact of Good and Service Tax in India

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Abstract

This paper is an analysis of what the impact of GST (Goods and Services Tax) will be on Indian Tax Scenario. Here stated with a brief description of the historical scenario of Indian taxation and its tax structure. Then the need arose for the change in tax structure from additional to GST model. GST has be detailed discuss in this paper as the background, silent features and the impact of GST in the present tax scenario in India. The Goods and Services Tax (GST) is a value added tax to be implemented in India, the decision on which is pending. GST is the only indirect tax that directly affects all sectors and sections of our economy. Ignorance of law is no excuse but is liable to panel provisions, hence why not start learning GST and avoid the cost of ignorance. Therefore, we all need to learn it whether willingly or as compulsion. The goods and services tax (GST) is aimed at creating a single, unified market that will benefit both corporate and the economy. The changed indirect tax system GST Goods and service tax is planned to execute in India. Several countries implemented this tax system followed by France, the first country introduced GST. Goods and service tax is a new story of VAT which gives a widespread setoff for input tax credit and subsuming many indirect taxes from state and national level. The GST Implementation is not yet declared by government and the drafting of GST law is still under process and a clear picture will be available only after announcement of Implementation.

India is a centralized democratic and therefore the GST will be implemented parallel by the central and state governments as CGST and SGST respectively. The objective will be to maintain a commonality between the basic structure and design of the CGST, SGST and SGST between states .In this article, I have started with the introduction, in general of GST and have tried to highlight the objectives the proposed GST is trying to achieve. Thereafter, I have discussed the possible challenges and threats; and then, opportunities that GST brings before us to strengthen our free market economy.

About Taxation

Meaning of Tax

The word tax is derived from the Latin word 'taxare' meaning to estimate. A tax is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority" and is any contribution imposed by government whether under the name of toll, tribute, impost, duty, custom, excise, subsidy, aid, supply, or other name." The first known system of taxation was in Ancient Egypt around 3000 BC-2800 BC in the first dynasty of the Old Kingdom.

In India, the tradition of taxation has been in force from ancient times. It finds its references in many ancient books like 'Manu Smriti' and 'Arthashastra'. Setting up of administrative system and taxation system was first done by the Britishers. Broadly, there are two types of Taxes viz. Direct and Indirect taxes. Taxes in India are levied by the Central Government and the State Governments. Some minor taxes are also levied by the local authorities such as Municipality or Local Council. The authority to levy tax is derived from the Constitution of India which allocates the power to levy various taxes between Centre and State. Major milestones in Indirect Tax reform 1974 Report of LK Jha Committee suggested VAT1986 Introduction of a restricted VAT called MOD VAT1991 Report of the Chelliah Committee recommends VAT/ GST and recommendations accepted by Government1994 Introduction of Service Tax.

About GST-Introduction of the Value Added Tax (VAT) at the Central and the State level has been considered to be a major step in the globe of indirect tax reforms in India. If the VAT is a major improvement over the pre-existing Central excise duty at the ices Tax (GST) will indeed be an additional important perfection—the next logical step—towards a wide spread indirect tax reforms in the country. Initially, it was conceptualized that there would be a national level goods and services tax, however, with the release of First Discussion Paper by the Empowered Committee of the State Finance Ministers on 10.11.2009, it has been made clear that there would be a "Dual GST" in India, taxation power—both by the Centre and the State to levy the taxes on the Goods and Services. Almost 150 countries have introduced GST in some form. While countries such as Singapore and New Zealand tax virtually everything at a single rate, Indonesia has five positive rates, goods and the provision of repairs, replacement and processing services. GST rates of some countries are given Table 1.

World over in almost 150 countries there is GST or VAT, which means tax on goods and services. Under the GST scheme, no distinction is made between goods and services for levying of tax. In other words, goods and services attract the same rate of tax. GST is a multi-tier tax where ultimate burden of tax fall on the consumer of goods/ services. It is called as value added tax because at every stage, taxis being paid on the value addition. Under the GST

scheme, a person who was liable to pay tax on his output, whether for provision of service or sale of goods, is entitled to get input tax credit (ITC) on the tax paid on its inputs.

Table 1

Country	GST Rate (%)
Australia	10
France	19.06
Canada	5
Germany	19
Japan	5
Singapore	19
Sweden	5

Goals of GST

One of the main objectives of GST would be to eliminate the cascading impact of taxes on production and distribution cost of goods and services. The exclusion of cascading effects i.e. tax on tax will significantly improve the competitiveness of original goods and services which leads to beneficial impact to the GDP growth. It is felt that the GST would serve a superior reason to achieve the objective of stream lining indirect tax regime in India which can remove cascading effects in supply chain till the level of final consumers only when all such above mentioned indirect taxes are completely included in GST. It is understood that alcohol, tobacco and petroleum products will not be enclosed by GST as alcohol and tobacco are considered as Sin Goods, and governments do not like to allow free trade on these.

Challenges

➤ With Respect to Tax Threshold

The threshold limit for turnover above which GST would believed will be one area which would have to be strictly look dat. First of all, the threshold limit should not be so low to bother small scale traders and service providers. It also the allocation of government resources for such a petty amount of revenue which may be much more costly than the amount of revenue collected. The first impact of setting higher tax threshold would naturally lead to less revenue to the government as the margin of tax base shrinks; second it may have on such small and not so developed states which have set low threshold limit undercurrent VAT regime.

➤ With Respect to Nature of Taxes

The taxes that are generally included in GST would be excise duty, countervailing duty, cess, service tax, and state level VATs among others. Interestingly, there are numerous other states and union taxes that would be still out of GST.

➤ **With Respect to Number of Enactments of Statutes**

There will be two types of GST laws, one at a central level called 'Central GST (CGST)' and the other one at the state level- 'State GST (SGST)'. As there seems to be different tax rates for goods and services at the central level and at the state level, and further division based on necessary and other property based on the need, location, geography and resources of each state.

➤ **With Respect to Rates of Taxation**

It is true that a tax rate should be devised in accordance with the state's necessity of funds. Whenever states feel that they need to raise greater revenues to fund the increased expenditure, then, ideally, they should have power to decide how to increase the revenue.

➤ **With Respect to Tax Management and Infrastructure**

It depends on the states and the union how they are going to make GST a simple one. Success of any tax reform policy or managerial measures depends on the inherent simplifications of the system, which leads to the high conformity with the administrative measures and policies.

Opportunities

➤ **An End to Cascading Effects**

This will be the major contribution of GST for the business and commerce. At present, there are different state level and central level indirect tax levies that are compulsory one after another on the supply chain till the time of its utilization.

➤ **Growth of Revenue in States and Union**

It is expected that the introduction of GST will increase the tax base but lower down the tax rates and also remove the multiple point. This will lead to a higher amount of revenue to both the states and the union.

➤ **Reduces Transaction Costs and Unnecessary Wastages**

If government works in an efficient mode, it may be also possible that a single registration and single compliance will suffice for both SGST and CGST provided government produces effective IT infrastructure and integration of such infrastructure of state level with the union.

➤ **Eliminates the Multiplicity of Taxation**

One of the great advantages that a taxpayer can expect from GST is the elimination of multiplicity of taxation. The reduction in the number of taxes applicable in a chain of 5 transactions will help to clean up the current mess that is brought by existing indirect tax laws.

➤ **One Point Single Tax**

Another feature that GST must hold is it should be 'one point single taxation'. This also gives a lot of comforts and confidence to business community that they would focus on business rather than worrying about other taxation that may crop at later stage. This will help the business community to decide their supply chain, pricing modalities and in the long run helps the consumers being goods competitive as price will no longer be the function of tax components but function of sheer business intelligence and innovation.

➤ **Reduces Average Tax Burdens**

Under GST mechanism, the cost of tax that consumers have to bear will be certain, and GST would reduce the average tax burdens on the consumers.

➤ **Reduces the Corruption**

It is one of the major problems that India is over whelmed with. We cannot expect anything substantial unless there exists a political will to root it out. This will be a step towards corruption free Indian Revenue Service.

Justification of GST

The introduction of GST at the Central level will not only include comprehensively more indirect Central taxes and integrate goods and service taxes for the purpose of set-off relief, but may also lead to revenue gain for the Centre through widening of the dealer base by capturing value addition in the distributive trade and increased compliance. In the GST, both the cascading effects of CENVAT and service tax are removed with set-off, and a constant chain of set-off from the original producer's point and service provider's point up to the retailer's level is established which reduces the burden of all cascading effects. This is the real meaning of GST, and this is why GST is not simply VAT plus service tax but an improvement over the previous system of VAT and disjointed service tax. Moreover, with the introduction of GST, burden of Central Sales Tax (CST) will also be removed. The GST at the State-level is, therefore, justified for-

- a) Additional power of levy of taxation of services for the States.
- b) System of comprehensive set-off relief.
- c) Subsuming of several taxes in the GST.
- d) Removal of burden of CST.

Dual GST

Dual GST means, the proposed model will have two part called 1. CGST-Central goods and service tax for levied by central Govt. 2. SGST-State goods and service tax levied by state Govt. There would have multiple statute one CGST statute and SGST statute for every state.

Advantages of GST

1. GST provide comprehensive and wider coverage of input credit setoff, you can use service tax credit for the payment of tax on sale of goods etc.
2. CST will be removed and need not pay. At present there is no input tax credit available for CST.
3. Many indirect taxes in state and central level included by GST, You need to pay a single GST instead of all.
4. Uniformity of tax rates across the states.
5. Ensure better compliance due to aggregate tax rate reduces.
6. By reducing the tax burden the competitiveness of Indian products in international market is expected to increase and there by development of the nation.
7. Prices of goods are expected to reduce in the long run as the benefits of less tax burden would be passed on to the consumer.

Indirect Taxes Included Under GST

The following indirect taxes from state and central level is going to integrated with GST.

State Taxes

1. VAT/Sales tax.
2. Entertainment Tax (unless it is levied by local bodies).
3. Luxury tax.
4. Taxes on lottery, betting and gambling.
5. State cesses and surcharges in so far as they relate to supply of goods and services.
6. Entry tax not on in lieu of octroi.
7. Purchase tax.

(This is not sure still under discussion)

Central Taxes

1. Central Excise Duty.
2. Additional Excise Duty.
3. The Excise Duty levied under the medical and Toiletries Preparation Act.
4. Service Tax.
5. Additional Customs Duty, commonly known as countervailing Duty (CVD).
6. Special Additional duty of customs-(SAD).
7. Surcharges.
8. Cesses.

The above taxes dissolve under GST; instead only CGST & SGST exists.

Impact of Goods and Service Tax

Food Industry

The application of GST to food items will have a significant impact on those who are living under subsistence level. But at the same time, a complete exemption for food items would drastically shrink the tax base. Food includes grains and cereals, meat, fish and poultry, milk and dairy products, fruits and vegetables, candy and confectionary, snacks, prepared meals for home consumption, restaurant meals and beverages. Even if the food is within the scope of GST, such sales would largely remain exempt due to small business registration threshold. Given the exemption of food from CENVAT and 4% VAT on food item, the GST under a single rate would lead to a doubling of tax burden on food.

Housing and Construction Industry

In India, construction and Housing sector need to be included in the GST tax base because construction sector is a significant contributor to the national economy.

FMCG Sector

Despite of the economic slowdown, India's Fast Moving Consumer Goods (FMCG) has grown consistently during the past three–four years reaching to \$25 billion at retail sales in 2008. Implementation of proposed GST and opening of Foreign Direct Investment (F.D.I.) are expected to fuel the growth and raise industry's size to \$95 Billion by 2018/19.

Rail Sector

Those above threshold limit will need to be within framework of GST Possible downward changes in the threshold in some States consequent to the introduction of GST may result in obligation being created for some dealers. In this case considerable assistance is desired. In respect of Central GST, the position is slightly more complex. Small scale units manufacturing specified goods are allowed exemptions of excise up to Rs. 1.5 Crores. These units may be required to register for payment of GST, may see this as an additional cost.

Conclusion

GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. GST is leviable on all supply of goods and provision of services as well combination thereof. All sectors of economy whether the industry, business including Govt. departments and service sector shall have to bear impact of GST. All sections of economy viz., big, medium, small scale units, intermediaries, importers, exporters, traders, professionals and consumers shall be directly affected by GST. One of the biggest taxation reforms in India the Goods and Service Tax (GST) is all set to integrate State economies and

boost overall growth. GST will create a single, unified Indian market to make the economy stronger. Experts say that GST is likely to improve tax collections and Boost India's economic development by breaking tax barriers between States and integrating India through a uniform tax rate. Under GST, the taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions.