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GOODS AND SERVICE TAX (GST): AS A NEW PATH IN TAX REFORMS IN INDIAN ECONOMY

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ABSTRACT

GST is a broad taxation policy that system that include all indirect taxes of central and state governments. Taxation is a kind of resource to the government for the revenue generation. There are different types of taxes prevailing in India like corporate tax and income tax, custom and excise duty. At present, the Government of India is going to replace Value Added Tax (VAT) with GST to minimize the complexity of multiple taxes. This paper highlights the impact of new taxation system on selected various Industries in India. The Government of India is not satisfied with the present tax system because it has some short comings. It is complex in nature, exclusion of services as well multiples tax burden. The government is going to implement GST from this financial year. This new tax system will give betterment in the growth level of Indian economy. In this research article, the concept of GST and reforms impact on India Economy has been discussed.

Key words: *Goods and Service Tax, Value Added Tax, Economy, Central Sales Tax.*

Introduction

"Tax" word is derived from Latin word "Taxare" which means 'To Assess'. In simple terms, it means to imply something wearisome or challenge. Indian tax system comprises of direct tax and indirect tax. The taxes directly paid to the government by the tax payer are called direct taxes. It is applied on organizations as well as individuals also. Examples are corporate, income and wealth tax. The taxes levied on the production of goods and services or sales of products and services. It is called indirect taxes. It applied in multiple levels like initially it is paid by intermediary to the government later add the tax amount to the goods and services and permits on the total amount to the final

user. Examples of such taxes are services tax, sales tax and excise tax. Total tax collection in India is 14.4 lakhs crore for 2015-16 year. The direct taxes occupy 55.6% and indirect taxes is 44.4% of the total taxes collected in that year. Indirect tax revenue has increased in the year 2015-16 due to rise in collection of service tax on banking and financial services as well as rise in the customs duty collection due to impact of machinery increase by 25-30% indicate rise and growth in the overall economic activities in the market (Dr. Hasmukh Adhia). But there is a problem with indirect taxation system on India. It is a complex and burden element in Indian economy. The CENVAT is levied on the products manufactures in India. Different definition identified with manufacturer for valuation of goods which is an obstacle for an effective tax system.

The constitution of India has bifurcated the power of tax assessment between state and central government. In case of service tax the central government has right to impose tax on it but in the matter of work contracts state government also has power to levy tax. This type of tax system create difficulties in revenue generation. Service sector is growing rapidly and central government has exclusive right to impose tax on services. The state government is losing its revenue by not levying tax of service under the state list.

Government tries to introduce tax reforms every time to come out of such difficulties. It is a changing patter of collection of taxes by the government as well as it is an improved tax administration which provide social and economic benefits. Tax reform is an important aspect in public administration for attaining certain social objections like redistribution of wealth and then reduction of inequalities. It is not only needed to raise revenue required to meet its ever growing expenses on social service and administration but also to reduce in equalities of income and wealth. In India, multiple tax system create cascading effect. Suppose a truck is moving stuff from Delhi to Chennai. It will go through around 8 states. It pays a variety of taxes during that time such as octroi, VAT, excise duties and so on. By the time, the truck reaches the destination in a couple of weeks, a huge amount of cost is indirectly added to the consumers. Each source of tax collection creates complexity, corruption and delay. Many developed economies like Sweden, Denmark, Germany, Japan, Switzerland have identified this problem and moved to single tax system called GST. It provides a common window for tax collection with just one place of tax collection without much delays and corruption. According to 366 (12A) of the Indian Constitution, 'GST is a tax applicable on all goods and services excluding liquor'.

Review of Literature:

Srinivas K. R (2016) in his article "Issues and Challenges of GST in India" he has mentioned that central and state governments are empowered to levy respective taxes as per the Indian constitution which is likely to change the complete scenario of present indirect taxation system.

GST will be a compressive indirect tax structure on manufacture, sales and consumption of goods and services throughout India, to replace the various indirect taxes levied by the both the governments.

Ekta Narula and Priyanshi Rastogi (2016) have explained that the main aim of GST is to streamline the existing indirect tax system with a single tax on consumption of goods and services manufacture and sales. It is accepted worldwide and around 140 countries of the world are following the GST law. It will be applied on goods and services at every stage of worth to be added to the goods which includes all indirect taxes of central and state government. Application of GST in India will result in the growth of economy and boost the overall GDP of the country.

Shakir Shaik et.al (2015) in their study he mentioned that the implementation of Good and Services Tax in India. According to him "GST will reduce litigation on classification issues. And also discussed that implementation of GST in the framework of India will lead to commercial benefits which were untouched by the Value Added Tax system and would essentially require to economic development. GST may usher in the possibility of a collective gain for industry, agriculture, trade and common consumers as well as for the central and state government"

Monika Sherawat and Upasana Dhanda (2015) explained that implementation of GST taxation policy it would be allotted equally among production and services with minimum tax rate which result in increased the tax base and minimized the exemptions. It is forecasted to help in establishing an effective and flexible tax administration.

Jaiprakash (2014) mentioned that it is tax reforms travel from CST through VAT to GST which ensure the greater uniformity in the tax system and it will reduce the application of multiple taxes on good and services. GST broaden its scope on international business which leads to the growth of the GDP of our nation.

Girish Garg (2014) has mentioned about Goods and Service Tax in his article. He expressed the concept of GST, its challenges, opportunities, features and impact on India, which concludes, GST as a biggest tax reforms in India that increases the tax collections and enhance overall growth of the economy.

Anshu Jain (2013) has stated about GST that it will be perfect for the industry to recognize and

apprehend some of important issues. Such important issues are imperative for implementation of measures to overwhelm the possible disturbances. It will help the nation to get growth in the economy.

R. Vasanthgopal (2011) in his paper "GST in India: A big leap in the Indirect Taxation System" mentioned a rational design of the GST and indicated a positive impact on several industries unbiasedly that can balance conflicting interest of various stakeholders, political commitment for a fundamental taxation reform with a constitutional amendment. He also opined that switching on to flawless GST would be a huge leap in the taxation system which gives a new incentive to India's economic change.

Rajesh Chadha et.al (2009) explained about new taxation system and its effect on the growth on India and global trade in their working paper. India has many tax regimes on all sectors. This leads to introducing inability on allocation of resources on domestic production. It mentioned that our country is unable to meet the competition of international requirements. Effective and efficient allocation of productive resources and reasonable tax system on the goods and services will impact the growth of the economy which can be fulfilled with Goods and service tax.

With the above reviews we can assume that GST is a tax reform which will change the scenario of the country as a support for this review study.

Objectives of the Study:

- To study the Goods and Services Tax structure in India.
- To analyze the effect of Goods and Services Tax on the India Economy.

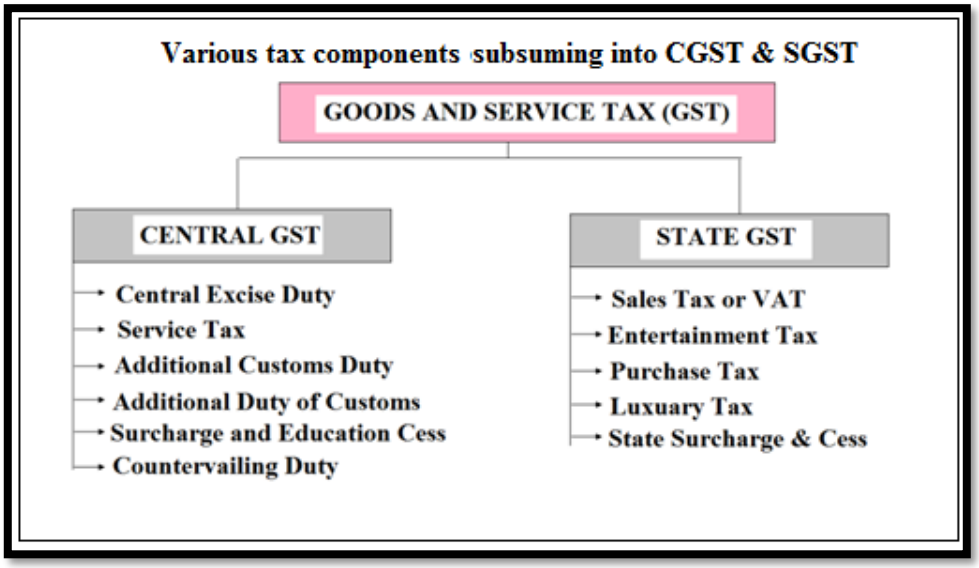
Base of GST:

Based on the national income computation methods new taxation policy categorized into the same. They are 'Gross income method, Production methods and Consumption method'. India follows consumption method of GST. It consider only final consumption of goods which eliminated the tax burden on multiple levels on products and services and it make the taxation system with ease of administration. It controls the due load to ultimate usage of products. It is not a destination drained among capital goods and further inputs.

Model of GST:

In order to bring the advantages to the nation, the Government of India is planning to implement the GST in to the below discussed pattern. This system is called Dual GST which is divided into 'Central Goods and Service Tax and State Goods and Service tax'. Apart from the current two elements another element has been summed i.e. Integrated Goods and Service Tax (IGST) is include the Central Goods and Services Tax and State Goods and Services Tax imposed on all inter-state business transactions with suitable requirements for stock transfer products as well as services.

Figure 1: Proposed Model of GST



Sources: Model GST Law, "Empowered Committee of State Finance Ministers, June 2016"

GST-"Destination Based Consumption Tax":

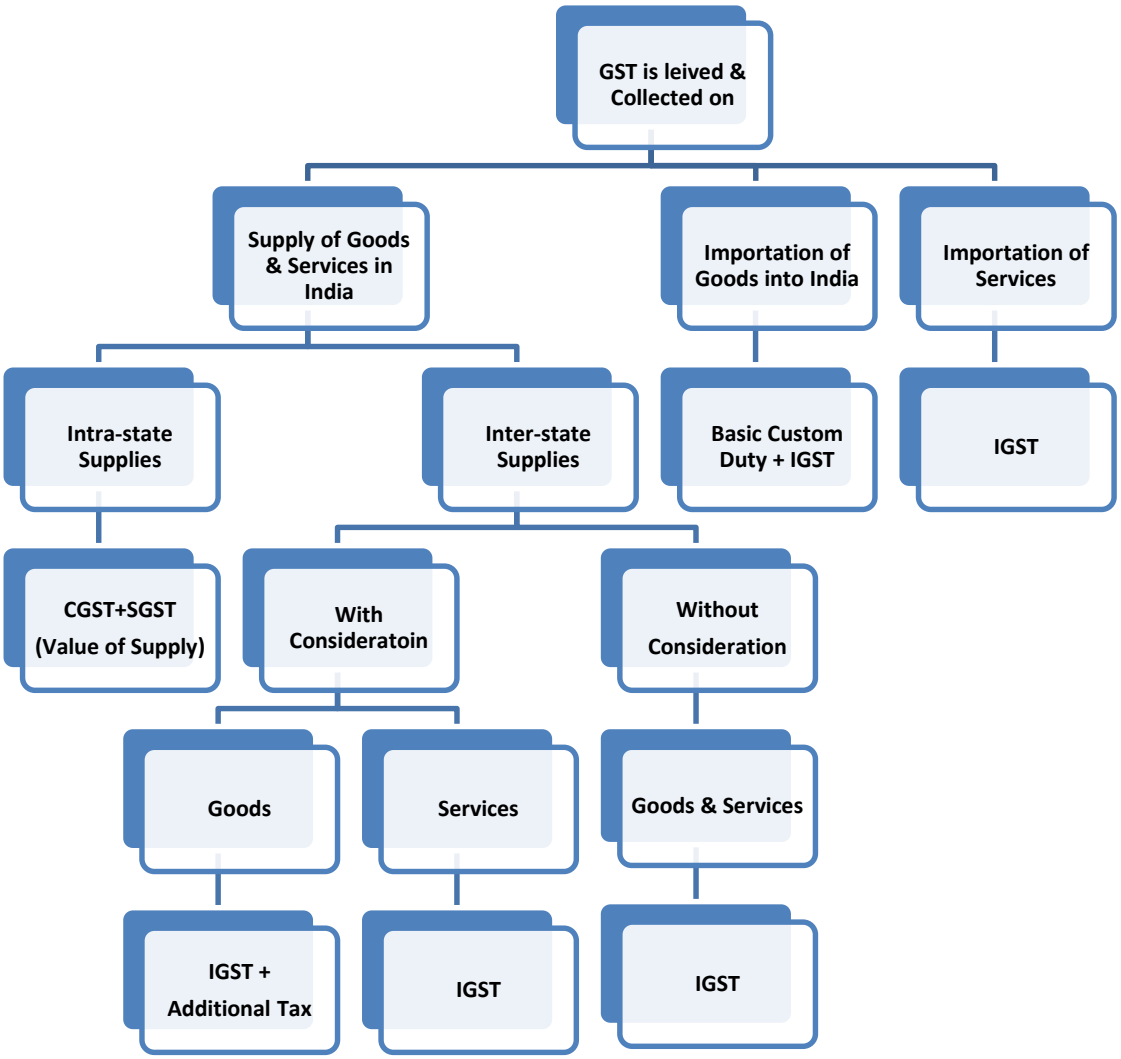
'GST in India is a destination based consumption tax' because it is totally levied on the final products which are consumed domestically. It is dependent on location of consumption. Another important element in destination based consumption tax is 'exports are not taxed but import as are taxed under destination principle in an economy'.

GST – Implementation in India:

With the amendment of constitution bill on GST has approved by the President of India in 2016. It is ratified by more than 50% of various state legislatures. Indian Government is totally dedicated to switch present tax system to new taxation structure by June 2017. Under new tax policy Excise duty of 12%, VAT of 14% on goods (Total tax is upto 26%), 12% service tax on services. So the rate

may anywhere between 12% and 26% of goods and services.

Figure 2: Sematic Representation of Details distributional structure of GST in India



Source: "An insight of Goods and Service Tax in India, ICAI."

- Central and State Government both together entitles to parallel to impose GST on all kinds of goods and services within the state. All kinds of goods and services are exposed to CGST as well as SGST on intra state supply.
- Inter- state transaction is called when it is the supply of goods and services between various states. It would be levied by the central government under integrated GST.

- Central Government would be impart IGST on goods and services in inter-state supply of goods and services but the total revenue will be shared between center and state government as per the guidelines of GST council.
- The tax revenue share appropriation between the central and states is 50:50 ratio (Except the IGST). This means that if a service is taxed at 20%, 10% will go to Central Government and 10% will go to the State Government.
- Entry tax is applicable by various state government in India when products enter for sales. It creates logistical difficulties for the supply chain. GST removes the imposition of entry tax across India.
- Revenue sharing between central and state government has been a historical hurdle on progress of the economy.

Rate of GST:

The current tax rates has been mentioned in the below table. We can estimate the exact rate and exact taxation area.

Table 1: Existing Tax Structure for Indirect taxes

Details	Goods	Services
Excise Duty	12.50% /6%/2%	--
Value Added Tax	12.50%/ 13.50 % / 14% / 5%	--
Central Sales Tax	2%	--
Local Tax	0.10% to 8%	--
Services Tax	---	15%

Source: GST Council Report, 4th Edition 2016

GST Council has announced five Tier tax structure which includes 0%, 5%, 12%, 18%, 28%. The below table is showing the distribution in detail.

Table 2: Proposed GST Tax Structure in India

Particulars	Rates	Reference
Nil Rate	0%	Food Grains
Lower / Concessional Rate	5%	Mass Consumption Products
Standard Rate 1	12%	Most Products
Standard Rate 2	18%	Most Products
Special Rate / Luxury Goods	28% + Cess	Luxury Items

Other Rates:		
Compounding Rate	1% / 2.50%	Section (9)
TDS/TCS	1%	Section 46/56

Sources: GST Council Report 4th Edition 2016

These rates are common between State and Central governments that gives complete view on GST implication. They are Lower rate, Standard rate, Special rate, Exempted rate, Zero rate. Good and services exports are to be Zero rated.

GST: Impact on India Economy

The current taxation structure is a main hurdle for growth of Indian economy as well as competitiveness. Tax hurdles in the form of entry tax, Central Sales Tax and input tax credit split the Economy of India. Indigenous manufacturer are less attractive with cascading effect of taxation implications. Several taxes creates complexity in business activities and increase cost of production. GST introduction is considered as an important condition for the growth in the economy in the present scenario which shows good impact on Indian economy.

- Removal of tax barriers and one country one tax system make India as a common platform lead to economies of scale in production. It will increase the business performances
- Uniform taxation structure will help faster and cheaper movement of goods across the country. It is a boost up to the Indian economy. According to the GST council the logistic sector is primarily divided into four segments i.e. transportation, warehousing, freight forwarding and value added logistics. Especially transportation contributes 60% of share followed by warehousing compromising industries and agriculture storage at 24.5% and other related business constitute the rest of the segments.
- According to the Care Rating Report logistic industry growth rate was 15-20% in 2015-16. The GST will boost this rate in the next year because it trim costs by 20% as per new taxation policies.
- New tax structure can massively reduce long and winding queues at boarder check-points reduces fuel losses and huge man hours. It reduces the inventory carrying cost and ultimately trims the manufacturing cost.
- It eliminates the cascading effect from imposing taxes on cost of production of goods and services which provide seamless credit throughout value chain. It is helpful for sectors which have long value chains from basic goods to final consumption stage with operations spread in multi-stages such as Consumer Durables, Pharma, FMCG, Automobiles and Engineering.

- GST NET will provide automated processing tax returns refund as well as it provide tax payments without human interventions. It reduces the existing tax evasion and corruption in the country.
- Unified Credit and Return Processing will be implemented for Build in check on business transaction decrease the scope of black money generation and it leads to effective use of capital. It is a good sign for progress of the economy.
- Built-in check on business transaction through unified credit and return processing will reduce scope for black money generation and leads to productive use of capital. It is a good sign for progress of the economy.
- Stable, predictable and transparent taxation system will boost domestic and foreign investment in the country which creating many job opportunities for the youth.
- It eliminates the double taxation on certain sectors like transportation, automobiles, FMCG, pharmacy, cement etc.
- At present the tax rate is 15% on services. Services tax rate increase by 2%-3% from the current level. It shows contra effect on service industry.
- GST is a simple taxation structure which increase problem of procedural and documentary compliances. A person who will pay tax is providing services from several states will have to take registration and file returns from all such states.
- Current Central Sales Tax or Value Added Tax payable on sale. It is not on stock transfer. As an effect of GST business who maintains high inventory of goods in different states will be adversely affected as they have pay full rate on stock transfer from one state to another. It shows adverse effect on cash flow and working capital of a business concern.
- Another important aspect of GST is that not all the indirect taxes will subsumed as into it. Stamp duty, electricity duty, excise duty, VAT on alcoholic beverages, petroleum products etc. Industries like plastic and polymers, fertilizers, metals, air transport, real estate are using above sectors output for their production and service processes as a inputs. These industries will not get benefit with GST.
- The existing tax rate of FMCG, Pharma, Consumer Durables, Automobiles and Logistic and Warehousing Industries reduces nearly 6-20% in new tax system, it benefits those industries for sustainable growth.
- A growth in the trade imports and exports will result in the strengthening of the currency. However, if we see the current scenario we find that the various duties levied by the Indian Constitution on the import and exports hinder it and decreases country's competencies in the global market. GST, if implemented in an empirical way will suspend the major barriers of taxation and also decrease the loss of tax credit.
- GST will play a major role in amendments of its levying on Imports. All the goods imported to India will be levied GST based on destination criteria. While the duty levied on services imported from other nations will be on reverse charge method. The imports in India will

be considered as Inter State Supply under Model GST Law and will bring Integrated Goods and Service Tax along with surcharges.

- A huge burden of GST will be relieved of in Exports by Zero Rating. Presently the foreign trade policy, exports enjoy tax exemptions at state as well as central level, but GST structure imposes Centre and State administers the CGST and SGST separately. Increase in the rates will lead to increase in accumulation of credits and will impact cash flows.
- The effect of GST on inflation is adverse in the short term initially which will be transitory in nature. Lower tax rate on logistic cost, productivity gains and higher investment in near future structurally reduce inflation.
- People can get the domestic products at lower prices as the cascading effect will reduce the cost of production. This system make customer to understand the taxes levied on a particular product.
- Market is expecting on growth that GST is expected to bring in. Morgan Stanley point out that the overall effect on exports, equal distribution of resources, betterment in improving efficiency of local manufacturing is likely to improve overall growth of the economy. According to the National Council of Applied Economic Research (NCAER) GDP growth could be 0.9% to 1.7%.

Conclusion:

GST is a single taxation system, applied to whole nation instead of various taxes like Central Sales tax, Excise tax, VAT, Service tax, Entertainment tax etc. It is a single taxation system the country for various goods and services. It will consider that to fetch together all the state economies with a unique tax system throughout the country. This concept avoids the duplication of taxes which will change the pace of our country. Applicability of GST gives great reforms in indirect tax system. In order to implement this taxation policy every political parties should adhere on one word. GST is applicable for nearly 140 countries and it is the precisely preferred structure of indirect tax for all countries. France was taken initiation for implementation of GST in the world. All kinds of business people are ready to accept this system because of its contribution to economic growth of a nation. The tax rate system reaches about 16% - 18% which is much lesser compared to current tax rates i.e. 35% - 40%. So GST is a taxation policy that is acceptable by the government for new reforms in our country.

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