INTERNATIONAL RESEARCH JOURNAL OF INDIA

ISSN 2454-8707 VOLUME-II,ISSUE-III, NOV-2016 IMPACT FACTOR-1.3652 (JIIF)

GOODS AND SERVICES TAX (GST) IN INDIA: A STEP TOWARDS SUSTAINABLE ECONOMIC DEVELOPMENT

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ABSTRACT

The success of any program will probably be judged in future through its power to transform the lifestyles and welfare state of human beings and their ability to reduce inequality in our society. Our policy makers have deliberated a sequence of taxation to curb on this problem which we are facing since independence. GST plan is one of them which have focus on welfare state of people. This paper is an evaluation of what the impact of GST (Goods and Services Tax) will likely be on Indian Tax system. Goods and Services Tax is a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. It replaces 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 sectors and sections of our economy. The heritage, silent facets and the impact of GST in the present tax scenario in India has been discussed in this paper. The goods and services tax (GST) is aimed at creating a single, unified market that will benefit both corporate and the economy. A couple of countries implemented this tax system followed by France, the first country introduced GST. Goods and service tax is a new story of VAT which offers a widespread set off for input tax credit and subsuming many indirect taxes from state and national level. 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 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. Thereafter, I have discussed the possible challenges and threats and opportunities that GST brings before us to strengthen our free market economy.

KEYWORDS

GST, VAT, Input tax credit (ITC), CGST and SGST.

1. INTRODUCTION

India as world's one the biggest democratic country follows the federal tax system for levy and collection of various taxes. Various types of indirect taxes are levied and collected at distinct factor 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 most important development over the pre-existing central excise duty at the central level and the sales tax system at the state level. Now the Goods and Services Tax (GST) might be additional giant 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.

Introduction of the Value Added Tax (VAT) at the Central and the State level has been viewed to be a foremost step – a main step forward – within the globe of indirect tax reforms in India. If the VAT is a main development over the pre-existing Central excise duty at the national level and the sales tax system at the State level, then the Goods and Services Tax (GST) will indeed be an additional predominant perfection – the next logical step – in the direction of a popular indirect tax reforms within the country. At the outset, it was conceptualized that there can 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 can be a "Dual GST" in India, taxation power – both by the Centre and the State to levy the taxes on the Goods and Services. Nearly 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, a zero rate and over 30 categories of exemptions. In China, GST applies only to goods and the provision of repairs, replacement and processing services. GST rates of some countries like Australia, France, Canada, Germany, Japan, Singapore, Sweden, New Zealand are Rate of GST 10%, 19.6%, 5% ,19% ,5%, 7%, 25%, 15% respectively . 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, tax is 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. (Garg)

2. OBJECTIVES OF THE 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 streamlining 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.

- The study has been geared towards achieving the following objectives:
- To understand the concept of Goods and Services Tax;
- To understand the evolution of GST in India;
- To examine the salient features of Goods and Services Tax; and
- To know the impact of GST on Indian Economy and challenges in implementing GST.

3. MEANING, ORIGIN AND TYPES OF GST

The presentation of VAT was one of the significant changes in roundabout expenses in India at the state and Central level. On the off chance that that was the significant changes in circuitous expenses then

GST would be progression over the current existing framework. Products and Enterprises Tax (GST) is a wide based and a solitary complete assessment demanded on merchandise and ventures expended in nation. Products and Ventures Tax (GST) is an exhaustive duty collect on make, deal and utilization of merchandise and enterprises at the national level. GST is like the VAT framework which is an esteem included duty merchandise with an Input Tax Credit (ITC) system yet GST additionally incorporates administrations. Along these lines GST would be relevant on supply of products and enterprises as against the present idea of expense. GST is an esteem included duty merchandise and ventures that is paid by the last buyer while the retailer will assume praise of the assessment he has paid while purchasing products for retailing. So in this every one of the administrations of retailer or the chain behind him is burdened separated from the genuine estimation of creation of that great. This can be better comprehend with the assistance of an illustration, assume that there is a chain of maker, discount merchant and the retailer and the GST is 10%. Assume the maker buys the data sources worth Rs. 100 for delivering a decent worth Rs. 140. He will pay net GST of Rs. 4 by assuming the expense acknowledgment of Rs. 10 paid on the information sources. Essentially the distributer who purchases this great and offers it for Rs. 150 will pay net GST of Rs. 1 and the retailer who offers it for Rs. 170 will pay net GST of Rs. 2 by assuming the assessment praise for his buy which comes to be Rs. 15. In alternate words the GST is planned as an esteem included expense, which implies beginning from the producer to the distributer and after that retailer, every individual will pay charge just on the esteem expansion done by him. In this way, assume a producer buys inputs worth Rs. 40 and after that creates a decent worth Rs. 100, then with a 10 % GST rate, his expense risk will end up being just Rs. 6 (10 % of 60). This is on the grounds that he gets the chance to set-off the expense paid on the contributions against the duty he pays on the last products created. Ex-CAG Mr. Vinod Rai in his inaugural deliver to the National Conference on GST depict the idea as "An incorporated plan of tax assessment that does not separate amongst products and enterprises and is a piece of the proposed impose changes that middle on developing an effective and fit utilization charge framework in the nation. " GST was started in France in 1954 and today it has spread to more than 150 nations. The assessable occasion for the GST will be the supply of merchandise and the supply of administrations. The current assessable occasions, for example, fabricate, offer of merchandise and rendering of administrations won't be significant for GST. GST is of two sorts: (a) Single GST and (b) Dual GST. Numerous nations have bound together GST. Be that as it may, in nations like Brazil and Canada there is double framework wherein GST is exacted both by the Central Government and the State Governments. In India because of government structure there might be double GST framework.

This will include

- Central GST (CGST) which is imposed by the Center.
- State GST (SGST) which is imposed by the State.
- Integrated GST (IGST) which is imposed by the Central Government on between state supply of products and ventures.

4. SALIENT FEATURES OF GST MODEL

Followings are the striking elements of GST Model:

- The GST might have two parts: one required by the Center (hereinafter alluded to as Central GST), and the other collected by the States (hereinafter alluded to as State GST). Rates for Central GST and State GST would be endorsed suitably, reflecting income contemplations and adequacy.
- The Central GST and the State GST are to be paid to the records of the Center and the States independently.
- The Central GST and the State GST would be material to all exchanges of products and ventures made for a thought with the exception of exempted merchandise and enterprises, products which are outside the

domain of GST.

✷ Since the Central GST and the State GST are to be dealt with independently; charges paid against the Central GST might be permitted to be assumed as info duty acknowledgment (ITC) for the Central GST and could be used just against the installment of Central GST. A similar guideline will be pertinent for the State GST.

✷ The organization of Central GST to the Center and for State GST to the States would be given.

✷ To the degree possible, uniform technique for gathering of both focal GST and the State GST would be endorsed in the individual enactment for the Central GST and the State GST.

✷ The citizen would need to submit periodical returns, in like manner arrangement beyond what many would consider possible to both the Central GST power and to the concerned State GST powers.

✷ Each citizen would be assigned a PAN-Linked citizen Identification number with a sum of 13/15 digits. This would align the GST PAN-Linked framework with the predominant PAN-Based framework for Income Tax, encouraging trade and citizen consistence.

UNDERSTANDING OF OPERATION OF GST

Let us understand the working of GST of a manufactured commodity from point of view of a Manufacturer, wholesaler, retailer and final consumer:
(Assume GST Rate@10%)

Stage	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
Wholeseller	130	20	150	10%	15	13	15-13=2
Retailer	150	10	160	10%	16	15	16-15=1

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.

5. BENEFITS OF GST

GST has been envisaged as an efficient tax system, neutral in its application and distributionally attractive. The advantages of GST are:

- 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.

GST will lead to more transparent and neutral manner to raise revenue.

- Price reduction as credit of input tax is available against output tax.
- 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.
- GST is structured to simplify the current indirect system. It is s long term strategy leading to a higher output, more employment opportunities and economy boom.
- It is beneficial for both economy and corporations. The reduced tax burden on companies will reduce production cost making exporters more competitive.
- Automation of compliance procedures to reduce errors and increase efficiency.
- GST will reduce transaction costs for taxpayers through simplified tax compliance.
- Wider tax base, necessary for lowering tax rates and eliminating classification disputes.
- Elimination of multiplicity of taxes and their cascading effects.
- Rationalization of tax structure and simplification of compliance procedures.
- Harmonization of center and state tax administrations, which would reduce duplication and compliance costs.

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.

6. IMPACT OF GST IN VARIOUS SECTORS

GST will transform India into one basic market, prompting to more prominent simplicity of working together and enormous funds in coordinations costs from organizations over all segments. A few organizations will acquire as the GST rate will be lower than the present expense rates they pay, others will lose as the rate will be higher than the present powerful rate. While the rate of GST is up in the air, business onlookers have expected a 18% rate prescribed by an administration board in having their effect counts. ET takes a gander at the feasible effect crosswise over segments.

6.1 IMPACT ON TECHNOLOGY

Positive

GST will eliminate multiple levies. It will also allow deeper penetration of digital services.

Negative

IT companies can have several delivery centers and offices working together to service a single contract. With GST, companies might require each centre to generate a separate invoice to every contracting party. Duty on manufactured goods is going to go up from existing 14-15% to 18%, which means the cost of electronics from mobile phones to laptops- will rise.

6.2 IMPACT ON FMCG

Positive

Companies could generate substantial savings in logistics and distribution costs as the need for multiple sales depots will be eliminated. FMCG companies pay nearly 24-25% including excise duty, VAT and entry tax. GST at 17-19% could yield significant reduction in taxes. Warehouse rationalisation and reduction of overall tax rates, is expected to generate saving which could cumulatively range between 200-300bps.

Key beneficiaries: Hindustan Unilever, Colgate, GSK, Asian Paints

Negative

If the recommended 40% "sin/demerit" GST for aerated beverages and tobacco products is levied, then prices may increase by over 20%. Food companies: many see increase in effective tax as many companies enjoy concessional rate of excise.

6.3 IMPACT ON E-COMMERCE

Positive

GST will help create a single unified market across India and allow free movement and supply of goods in every part of the country. It will also eliminate the cascading effect of taxes on customers which will bring efficiency in product costs.

Negative

The tax collection at source (TCS) guidelines in the GST regime will increase administration, documentation workload for ecommerce firms and push up costs.

6.4 IMPACT ON TELECOM

Positive

Handset prices likely to come down/even out across states. Manufacturers are also likely to pass on to consumers cost benefits they will get from consolidating their warehouses and efficiently managing inventory. For handset makers, GST will bring in ease of doing business as they may no longer need to set up state specific entities and transfer stocks to them and invest heavily into logistics of creating warehouses in each state across the country.

Negative

Call charges, data rates will go up if tax rate in the GST regime exceeds 15%. Tower firms won't be able to set off their input duty liabilities if petro-products continue to stay outside GST framework. Negative for Bharti Airtel, Idea and Reliance Comm.

6.5 IMPACT ON AUTOMOBILES

Positive

On-road price of vehicles could drop by 8%, as per a report by Motilal Oswal Securities. Lower prices can be construed as indirect stimulus to boost volumes. Key beneficiaries: Maruti Suzuki, M&M; Eicher Motors' margins may expand.

Negative

Demand for commercial vehicles may be hit in the medium term. GST will subsume local taxes, reduce time at check-posts, ease logistics hurdles. With fleet productivity increasing, operators may not feel the need to expand mid-term.

6.6 IMPACT ON MEDIA

Positive

DTH, film producers and multiplex players are levied service tax as well as entertainment tax, GST will bring major change and uniformity in businesses. Taxes could go down by 2-4%.

Multiplex chains will save on revenues as there will be a more uniform tax, unlike current high rate of entertainment tax levied by different states. It may lower the average ticket price, and increase the footfalls in multiplexes.

GST will be a big boon to film producers and studios that currently pay service tax on most of their cost, but cannot charge input credit on creative services (payments to artists etc) as they fall under the negative list. Under GST, they will be able to claim credit of these services also, which will help is lowering the overall cost.

Key beneficiaries: Dish TV, PVR.

Negative

Insurance policies: life, health and motor will begin to cost more from April 2017 as taxes will go up by up to 300 basis points.

6.7 IMPACT ON CEMENT

Positive

The effective rate of tax for cement companies is now 25%. If GST rates are fixed at 18-20% then the overall tax incidence will be lower GST IS expected to lead to savings in transportation cost, which currently comprises up to 20-25% of total revenue. One common market will bring down the number of depots in the country. Ultratech states that its depots will come down to 100 from 550 at present.

Key beneficiaries: Pan India players such as UltraTech, ACC, Ambuja and Shree Cement.

7. MAJOR COMPENSATION OF GST

Initially, It offers goodbye to falling impacts. This will be the real commitment of GST for the business and trade. At present, there are diverse state level and focus level roundabout assessment requires that are mandatory in a steady progression on the production network till the season of its use.

Second, it helps in Revenue Growth of States and Union. It is normal that the presentation of GST will build the assessment base however lets down the expense rates furthermore expels the various point. This will prompt to higher measure of income to both the states and the union.

Third, it leads in lessening of exchange expenses and superfluous wastages. On the off chance that administration works in a proficient mode, it might be likewise conceivable that a solitary enrollment and single consistence will suffice for both SGST and CGST gave government produces compelling IT foundation and combination of such framework of states level with the union.

Fourth, it remunerates in wiping out the assortment of tax assessment. One of the colossal focal points that a citizen can anticipate from GST is disposal of variety of tax collection. The decrease in the quantity of tax collection appropriate in a chain of exchange will tidy up the present wreckage that is brought by existing roundabout assessment laws.

Fifth, it diminishes normal taxation rates of customers. Under GST component, the cost of expense that shoppers need to hold up under will be sure and GST would lessen the normal taxation rates on the purchasers.

To wrap things up, it helps in dispensing with of the debasement in the general public. It is one of the real issues that India is overpowered with. We can't expect anything considerable unless there exists a political will to find it. This will be a stage towards defilement free Indian Revenue Service.

8. MAJOR THREATS AND CHALLENGES OF GST

To begin with, as far as possible for turnover above which GST would be required will be one range which would need to be entirely taken a gander at. Above all else, as far as possible ought not be so low to trouble little scale merchants and administration suppliers. It likewise expands the allotment of government assets for such a frivolous measure of income which might be a great deal more exorbitant than the measure of income gathered. The primary effect of setting higher assessment edge would actually prompt to less income to the administration as the edge of duty base psychologists; second it might have on such little and not all that created states which have set low edge confine under current VAT administration.

Second, the duties that are for the most part incorporated into GST would be extract obligation, countervailing obligation, cess, benefit assessment, and state level VATs among others. Curiously, there are various different states and union charges that would be still out of GST.

Third, there will two sorts of GST laws, one at an inside level called 'Focal GST (CGST)' and the other one at the state level - 'State GST (SGST)'. As there appears to have changed expense rates for merchandise and enterprises at the Central Level and at the State Level, and further division in view of important and other property in light of the need, area, topography and assets of every state.

Fourth, the reality of the matter is that an assessment rate ought to be conceived as per the state's need of assets. At whatever point states feel that they have to raise more noteworthy incomes to support the expanded use, then, in a perfect world, they ought to have energy to choose how to build the income. To wrap things up, It relies on upon the states and the union how they will make GST a straightforward one. Accomplishment of any duty change arrangement or administrative measures relies on upon the intrinsic disentanglements of the framework, which prompts to the high congruity with the managerial measures and strategies.

9. CONCLUSION

The thought of GST was proposed in India few years back. Its implementation is still in progress however with the advent of new Government we can hope for its rapid overview and application in real world. The new Government is in favor of GST and it is very much justifiable in view that we saw in this paper, that the concept of GST have many positive implications. If we sum up few we can easily say that GST will make Indian tax system least complicated and most efficient. GST is the essentially 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... probably the greatest taxation reforms in India – the Goods and Service Tax (GST) -- is all set to integrate State economies and boost towards sustainable development of the economy. GST will create a single, unified Indian market to make the financial system more suitable.

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