

GST A New Tax Reforms in India- Implementing Towards Sustainable Development of the Economy

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Abstract

A developing economy like India necessities sufficient resources to finance the developmental activities that are comprehensively and achieves all levels of the society and most of the finances from taxation. Presently, the tax structure of our country is very complex. To overcome these complexities of our taxation system, the government constantly changing the taxation system to rationalize tax administration and generate more revenues for social protection, infrastructure, and several other developmental activities. That's the main reason, the government to implement or move towards the GST is an indicator of our evolved taxation system. After passing the 101st Constitutional Amendment (GST) Act, the highly anticipated tax products GST appears to be an actuality on 1st July 2017. To ensure a smooth transition, government and all related nodal agencies like Goods and Services Tax Council, GSTN etc., have been regularly making decision to resolve the problems encountered being at different levels. To simplify the difficulties faced by indirect taxation system and create a common taxation system throughout the nation and decreasing the barriers between states, the dual structure Goods and Service Tax (GST) was passed by parliament. This system has a uniform rate of tax for all the states. This paper is designed specifically to provide an in-depth knowledge of GST and what challenges the economy faces in implementing the GST at this time in a very practical and streamlined manner.

Keywords: Indirect Tax, GST, CGST, SGST, IGST.

JEL Classification: H20, H25, H26, H71.

1. Introduction

Tax system and policies assume to be a supreme part of the economy through their effect with respect to both effectiveness and equity. A good taxation reforms strategy should keep in views of income distribution and produce more tax revenue to support government expenditure on social and developmental, infrastructure advancement, public service and overall development of the economy. Analysis of tax may be extended to the international competitiveness of the adversely influenced the manufacturing sectors of the economy. This result in the loss of income will affect the economy. however, the Indian economy is the biggest democratic economy across globally which follows the federal taxation system for levy of various taxes and it will move on the path of tax reforms since the mid of 1980. Different type of indirect taxes is collected by both central and state government at the different point of time. The Central govt and as well as State government are entitled to levy a corresponding tax in accordance with the Constitution of India.

The Goods and Service Tax (GST) is a comprehensive tax levied on manufacturing and sales of products, consumption of goods and services at a national level. It is the tax on value-added products and services to each assessment practice that has a complete and continuous chain of benefits, from the producer/service provider's point of view at the retail level, where only the final consumer has to pay the taxes. GST was discussed first time in India on 1st July 1999 at the time of "Vajpayee" (NDA government) by the setting of an empowered committee. But an announcement to GST for the first time was by P. Chidambaram (UPA govt), the Finance Minister, during 2007-08 union budget. The effect of GST as of April 1, 2010, and that. At its request, the Committee of State Finance Ministers will work with the central government to prepare a roadmap for the introduction of the GST in India. The proposed Goods and Services Tax in India is to reform the current structure of single indirect taxation. The tax reform of the proposed GST is a long awaited and much anticipated in which India should smooth out contraction in the existing system of indirect taxes. In India, the taxation system was constantly changing to rationalize tax administration and generate more revenues for social protection, infrastructure, and several other activities. After passing of the 101st Constitutional Amendment (GST) Act 2016, the highly-anticipated tax products Goods and Services Tax (GST) appears to be an actuality in 2017. At first in the year 1954 France was adopted GST system and later it was adopted by so many countries into their taxation policy. Different nation/country has different GST framework but in India has been adopted dual GST system like, state goods and service tax (SGST) and central goods and service tax (CGST) will be collected on the taxable value of the transaction. The Central Goods and Service Tax (CGST) will include Central Excise Duty, Service Tax, Additional Customs Duty, VAT, Central Sales Tax, Entertainment Tax, Luxury Tax, Octroi, Lottery Taxes, Electricity Duty, state surcharges related to Supply of Goods and Services and purchase tax at the State Level. To ensure a smooth transition, government and all related nodal agencies like Goods and Services Tax Council, GSTN etc., have been regularly making the decision to resolve the problems encountered being at different levels. With the introduction of the goods and services tax at the state level, the extra load of the CENVAT, as well as service tax, would be eliminated and the major central and state taxes would be included in the GST, plummeting the multiplicity of Taxes. Thus, it marks a key improvement over the previous taxation system of Value Added Tax.

The remainder of this paper is organized as follows: Section 2 provides a brief review of the literature regarding the history and implementation of GST along with objective. Section 3 describes the methodology and design of research. Section 4 provides the empirical study the concept of GST while Section 5 concludes the research.

2. Literature Study

Pooder & Ehtisham, (2009) and (Vasanthgopal, 2011) studied on GST on intergovernmental consideration in India and conclude that implementation of GST will help to make the transparent indirect system and increase the productivity of the economy and it totally depends upon the design and structure of the GST.

According to the (Garg, 2014), (Gupta, 2014), (Neha & Sharma, 2014) and (Saha, 2014) implementation of the GST in India will help to reduce the burden of the tax, tax conflicts between states, economic distortion and cascading effect on tax. Implementation of the GST in India will help the infrastructure and logistics development of the economy.

Sehrawat & Dhande, (2015), Chaurasia et.al., (2016), and Siddiqui, (2016) mentioning that implanting of GST will create more employment opportunities and GDP growth and it will help the growth of GDP 1% to 2% and reducing the logistic cost by 15% and also have a positive impact on the economy. It can also help to increase the country's income through the combination of all indirect taxes in one head, reduction in operational and logistic cost, the flow of credit. Whereas according to the (Mawuli, 2014), (Seth & Dhasmana, 2015) GST will not be good for poor countries and provide widespread growth to poor countries and says that the manufacturing sector bearing losses for some year of implementation of GST and the growth of GDP will slow down. According to the report of (122nd constitutional amendment bill, 2014) and (GST, 2015) report provides the brief details about the goods and service tax and its mechanism, comparison between GST with current indirect taxation and the comparison between GST Bill 2011 and GST Bill 2014.

Srinivas, (2016) has mentioned that the central and state govt is entitled to collect the relevant taxes as per the Indian constitution, which can change the whole scenario of the current indirect taxation system and it will be a compressive indirect tax structure on manufacture, sales, and consumption of goods and services throughout India, to replace the various indirect taxes in to a single tax structure levied by the both the governments.

The main specific objectives of the paper are:

- i. To cognize the concept of GST.
- ii. To examine the salient features of Goods and Services Tax and challenges in implementing GST.
- iii. To know the impact of GST on Indian Economy and challenges in implementing GST.

3. Research Methodology & Design:

The study is based on the secondary sources that are from various online sources, government official websites, repeated journal articles, related to GST. Quantitative data has been used for analyzing the concept of GST and its impact on Indian business sector and economy.

4. The Empirical Study of the Concept of GST.

The present structure of Indirect Taxes is very complex. Introduction of a GST is to replace the existing multiple taxation system into a single taxation system of both center and states. There are several indirect taxations collected by both center and state government. We pay VAT and service tax when purchasing any goods and receiving any service and there are also several taxes are collected by both central and state like Excise duties, Import Duties, Luxury Tax, Central Sales Tax etc. in 1954, France is the first country implemented GST in their taxation system and later the concept of GST was speeded internationally. Currently, more than 160 countries will have adopted the GST concept into their taxation system but in India, it is still a pending issue. In India, due to non-consensus between central and state government, the Empowered Committee of the State Finance Ministers on 10.11.2009, 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. the proposal is to introduce a Dual GST regime i.e. Central and State GST. Only Brazil and Canada have dual GST model (Just like India is going to implement Dual GST Model). A dual GST is proposed whereby a Central Goods and Services Tax (CGST) and State Goods and Services Tax (SGST) will be levied on the taxable value of every transaction of supply of goods and services. GST was first introduced during the 2007-08 budget session. On 17th December 2014, the current Union Cabinet ministry approved the proposal for introduction GST Constitutional Amendment Bill. On 19th of December 2014, the bill was presented on GST in Lok Sabha. The current central government is very determined to implement GST Constitutional Amendment Bill. GST is a tax reform, the implementation of GST is going to impact every sphere of business activity and economy in the face of increasing international competition consequent to globalization and liberalization, The implementation of GST have several impact on different business activities and also the different areas of the economy, like supply chain, IT, logistics, pricing, margins, working capital, Manufacturing Industry, Factors of Production, Employment, MSME, Exim trade, housing, Poverty Reduction Poverty Reduction, GDP, government revenue, and agriculture etc. as a number of business decisions taken based on the current tax structure may no longer be relevant in the new GST regime. The current section is again divided into several subsections like.

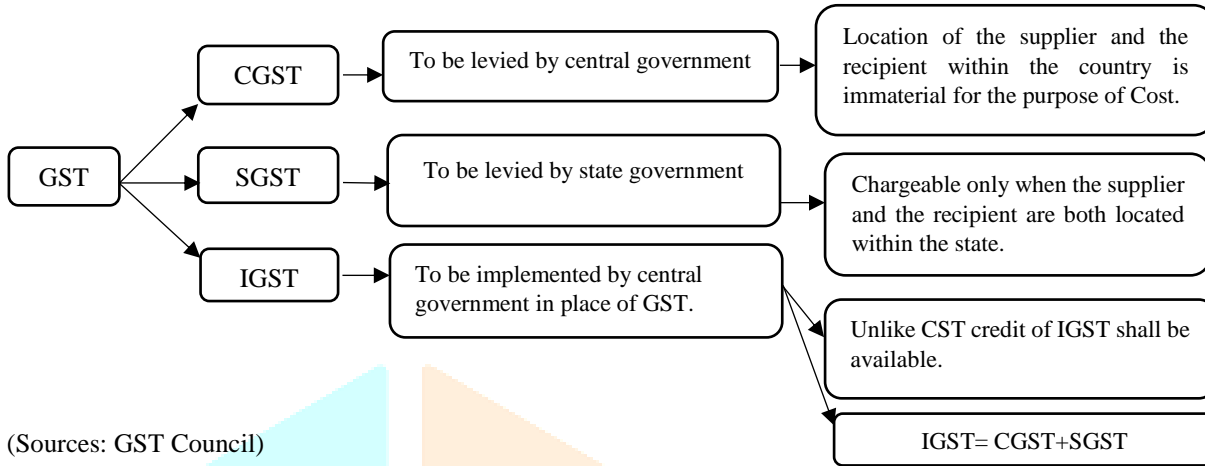
4.1 Proposed Rate Structure of GST in India.

The rate of long-delayed GST has been announced by the finance minister along with the GST Council. The current GST structure has four types of rate slabs these are 5%, 12%, 18% and 28 % for different items or services and earlier it was proposed

6%, 12%, 18%, and 28%. The 5% GST rate is applicable on items of mass consumption used by common people. 12% is applicable for processed goods, 18% is applicable for soaps, oil, toothpaste, refrigerator, smartphone and 28% is applicable for white goods. There are also another two rates that are 0% and 28% plus Cess. The zero percent rate tax won't be any tax on almost 50% of items in the Consumer Price Index basket, including grains used by the common man. In case of luxury cars, pan masala, tobacco, and aerated drinks 28% plus Cess will be collected.

4.2 Applicability and Mechanism of Goods and Service Tax

Figure No -4.1 Applicability and Mechanism of GST



(Sources: GST Council)

GST is a tax based on consumption on goods and services in the place where actual consumption occurs. It is levied on value-added goods and services at each stage of the sale or purchase of the supply chain. The GST paid on purchases of goods and services can be offset by the amount payable for the supply of goods or services. The manufacturer or wholesaler or retailer will pay the applicable GST rate but will claim back through tax credit mechanism. But being the last person in the supply chain, the end consumer has to bear this tax and so, in many respects, GST is like a last point retail tax. GST is going to be collected at the point of Sale. The current indirect tax system like vat and service tax structure does not allow a business person to take tax credits. There are a lot of chances that double taxation takes place at every step of the supply chain. This may set to change with the implementation of GST. The government of India is opting for Dual System GST. This system will have two components which will be known as

- i. Central Goods and Service Tax (CGST)
- ii. State Goods and Service Tax (SGST) and
- iii. Integrated GST (IGST)

The current taxes like Excise duties, service tax, customs duty etc. will be merged under CGST. The taxes like sales tax, entertainment tax, VAT and other state taxes will be included in SGST.

4.3 Features of Goods and Services Tax.

Indian GST will have followed the dual GST model i.e. Central GST & State GST. Both center and state levied the GST across the value chain on the supply of all the goods and service except exempted goods and services, goods which are outside the purview of GST and treated it separately. Tax paid against the central GST will get input tax credit against the payment of central GST and tax paid against the state GST will get input tax credit against the state GST and there is no cross-utilization of credit. Therefore, for input tax credit of the exporter/taxpayer shall maintain separate books of account for utilization of the credit. On inter-State supply of goods and services Centre will levy IGST. In that case center, additional 1% tax will be collected based on origin to be levied on the inter-State supply of goods will be non-creditable in GST chain. This tax will be collected for two years as per the recommendation of GST council. The taxpayer of this GST system would be allotted a PAN and Adhaar linked 13-digit GSTIN identification number.

GST is applicable to all taxable goods except some exempted goods. Exempted goods and service includes alcohol for human consumption, petroleum products, tobacco products, electricity, customs duty, real estate. Central taxes like, Central Excise Duty, Additional Excise duty, Service tax, Additional Custom duty and Special Additional duty and State level taxes like, advertisement taxes, taxes on lottery gambling, Luxury Tax, Entertainment tax, Octroi, VAT, Sales Tax, Central Sales tax, Entry tax, Purchase tax, and will include in GST. The Provisions relating to removal of Octroi or entry tax across India will be made. Entertainment tax, imposed by States on the movie, theater, etc. will be included in GST, but taxes on entertainment at panchayat, municipality or district level to continue. GST may be levied on the sale of newspapers and advertisements and this would give the government's access to substantial incremental revenues. Stamp duties, typically imposed on legal agreements by the state, will continue to be levied by the States.

4.4 Benefits of implementation of GST

Indian economy will create a revolutionary impact on the successful implementation of the GST. It will help to increase the accountability, uniformity, efficiency, and transparency of indirect taxation system of the central and state GST and a radical step towards India's transformation into a common market, was launched on 1st July 2017 by the President of India and Prime Minister of India in a formal function in the Central Hall of Parliament. Prime Minister Shri. Narendra Modi, at the launch event, said GST was not just about taxation reform that would help businesspersons by putting an end to tax terrorism but is a measure

that will help in the fight against corruption and black money. Here's how GST will help the common man and economy. The Goods & Service Tax or GST is one of the biggest fiscal reforms in India since Independence. All businesses, small or large, will be impacted by this new indirect tax regime. Some of the benefits of GST to the Indian economy are:

4.4.1 Removing Cascading Effect on Taxation

Implementation of GST will help the removal of the cascading effect on indirect taxation system. Under the current tax regime, the service tax paid on input services cannot be set off against output VAT. Under GST, the input tax credit can be availed smoothly across the spectrum of goods and services, thus reducing the tax burden on the end user and removing cascading effect.

4.4.2 Higher Threshold for Registration

As per the VAT structure, any business with a turnover of more than Rs. 5 lakhs (in most states) is liable to pay VAT (different rates in different states). Similarly, for service tax, service providers with turnover less than Rs. 10 lakhs are exempted. Under GST this threshold limit has been increased to Rs. 20 lakhs thus exempting many small traders and service providers.

4.4.3 Composition Scheme for Small Businesses

GST also has an optional scheme of lower taxes for small businesses with a turnover of Rs. 20 to 50 lakhs. It is called the composition scheme. It has now been proposed to be increased to 75 lakhs. This will bring respite from tax burdens to many small businesses.

4.4.4 Simpler online procedure under GST

The entire GST process – starting from registration to filing returns and payment of GST tax – is online. Startups do not have to run around to tax offices to get various registrations under excise, VAT, service tax.

4.4.5 Defined Treatment for E-Commerce

Many Indian businesses provide goods and services through the internet. Earlier, there were no specific provisions for treatment of the e-commerce sector. Currently, For the first time, GST clearly maps out the provisions applicable to the e-commerce sector and since these will apply all over India, there should be no complication regarding the inter-state movement of goods anymore.

4.4.6 Increased Efficiency in Logistics

To avoid the current CST and state entry taxes on inter-state movement the logistics industry had to maintain multiple warehouses across states and to increase their operating costs. Most of the times, these warehouses were forced to operate below their capacity. After GST, these restrictions on inter-state movement of goods will be lessened and the logistics sector might start consolidating warehouses across the country. As an outcome of GST, warehouse operators and e-commerce players have already shown interest in setting up their warehouses at strategic. Reduction in unnecessary logistics costs will increase profits for businesses involved in the supply of goods through transportation.

4.4.7 Regulating the Unorganized Sector

Certain industries in India like construction and textile are largely unregulated and unorganized. GST has provisions for online compliances and payments and availing of input credit only when the supplier has accepted the amount, thereby bringing accountability and regulation to these industries.

4.5 Challenges in Implementing GST.

The tax on goods and services is the largest indirect tax reform in India since the economy began to be heard 25 years ago, it finally seems to be coming true. The 122nd constitutional amendment bill comes up in Rajya Sabha on the back of a broad political consensus and driven by the good wishes of Congress, who hold crucial cards on its passage. GST bill must be changed from the level of management, the integration of information technology must occur, sound infrastructure is necessary, state governments must be compensated for the loss of revenue and many others. Since it is a consumption-based tax, states with the highest consumption of goods and services will have better incomes. Therefore, the cooperation of state governments with the central government would be one of the key factors for the successful implementation of the GST. GST will help to eliminate the multiplicity of taxation and simultaneously reduce the paperwork and clean up the current mess that is brought by existing indirect tax laws and finally it will help to ultimate consumer to reducing their average tax burdens and reduce tax corruption.

4.6 Impact of GST on Indian Economy

After successful implementation of GST will have several impacts on the economy and different sector of companies. Implementation of GST will help to trade and huge savings in logistics costs for companies in India. Some of the company will pay a higher rate of tax as compared to the current tax rate and some of the company will pay less rate of tax as compared to the current tax rate. The impact of GST is mixed in Indian economy.

4.6.1 Technology

Multilevel taxation system will have eliminated and permit deeper diffusion of digital services. But in case of it industry, it will have a negative impact because it industry has several centers who are working together to service a single contract. According to the GST Act, each company has generated a separate invoice to every contact party.

4.6.2 FMCG

FMCG industry 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 produce a significant reduction in taxes, rationalization warehouse, and reduction of overall tax rates. Whereas in case of beverages and tobacco products it will be a negative impact. the rate of GST will have increased to 20%.

4.6.3 E-Commerce

Single unified market across India and allow free movement and supply and transportation of goods in every part of the country. It will also have eliminated the entry tax and excise duty where as per the TCS guidelines in the GST regime will increase administration, documentation workload for e-commerce firms and push up costs.

4.6.4 Telecom

After successful implementation of GST will reduce the mobile handset price. Manufacturers are also likely to pass on to consumers cost benefits they will get from consolidating their warehouses and efficiently managing inventory. For handset manufacturing company, it will help to smooth running of the business because they could not need to further configure the state entities and specific actions transfer massively investing in creating in warehouse logistics in each state. The negative impact of GST in the telecom industry is that the data and the call rates will go up.

4.6.5 Automobiles

On-road price of vehicles will have dropped after implementation of the GST and the demand for the commercial vehicle may be hit in the medium term. GST will subsume local taxes, reduce time at checkpoints, ease of logistical obstacles. With the increase in fleet productivity, operators cannot feel the need to expand in the medium term.

4.6.6 Media

Cable service provider, DTH, the multiplex player is levied service tax as well as entertainment tax. Goods and service tax will bring major changes and uniformity in business due to the low tax rate. Multiplex chains will save revenue, as there will be a more uniform tax, unlike high current rate of entertainment taxes imposed by different states. For that ticket price will be reduced. In other ways, it will have a negative impact on the film producer and studios that currently pay service tax. Film producer and studios will be able to claim credit for that reasons the overall cost will be reduced.

4.6.7 Insurance and Airlines Industry

Insurance policies: life and general insurance policy cost will be increased after implementation of the GST. Airlines fares will also increase because of high GST slab rate.

4.6.8 Cement Industry

After GST, the cement cost will be reduced. Because currently the cement industry will be paid 25% and after GST it will be 18% and simultaneously the transportation cost will be reduced.

Table No -4.1 Sector Wise Impact of GST

Sector	Change in tax rate	Availability of input credit	Unorganized to organized	Supply Chain Mgt.	Overall
Auto - Batteries	●	●	●●●	●	●●●
Consumers - Retail	●	●●●	●	●	●●●
Logistics	●	●	●●	●●	●●●
Media - Multiplex	●●●	●●●	●	●	●●●
Auto - Two-wheeler/ Four-wheeler	●●	●	●	●	●●
Consumers: FMCG – Ex Alcohol and cigarette	●	●	●	●	●●
Capital Goods: Light Electrical	●	●	●●	●	●●
Media - Pay TV Distributor	●	●	●	●	●●
Cement	●●	●	●	●	●●
Metals	●	●	●	●	●
Pharma	●	●	●	●	●
Capital Goods: Industrial	●	●	●	●	●
IT	●	●	●	●	●
Media - Pay TV Broadcasters	●	●	●	●	●
Textiles	●	●	●	●	●
Telecom	●	●	●	●	●
Auto - CV	●	●	●	●●	●●
Media - Print Media	●●	●	●	●	●●
Consumers - Cigarette	●●●	●	●	●	●●●

Note: Highly Negative: ●●●; Negative: ●●; Slightly Negative: ●; Neutral: ●; Slightly Positive: ●; Positive: ●●; Highly Positive: ●●●

(Sources-12th Annual Global Investor Conference)

5. Conclusion

Taxation policy of the government plays an important role in economic development and build up the nation. Good and simple taxation system generate more revenue and support to government expenditure on infrastructure development and public service. The introduction of the GST will be a significant step towards indirect tax reforms in India. GST will have a positive effect on the manufacturing sector, GDP growth, exports, and employment generation and negative impact on basically service sector because of the proposed GST rate is higher than the current service tax rate. However, the implementation of the GST will be too delayed because of the conflict between state and center on issues related to the limitation of fiscal autonomy of states, constitutional amendments. one thing we can say that after the successful implementation of the GST will bring inclusiveness, excellence, innovation, accountability, uniformity, efficiency, and transparency in indirect taxation mechanism in the long run. For that, the ultimate consumer, as well as the business and industry will be benefitted.

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