

MECHANISM OF GST IN INDIA: AN OVERVIEW

Manoj Kumar Behera
Asst. Professor
P.G.Department of Commerce
VikramDev (Autonomous) College, Jeypore, Odisha.

Abstract:

The most important tax reforms i.e., GST has implemented successfully in the recent time in India though it was supposed to implemented in long back. This new taxation system includes all the indirect forms of taxes prevails in the state and central government's like VAT, service taxes, sales taxes and excise duty etc. this new form of taxation is being considered as an important tool to make whole economy into combined national market and also expected to play the vital role in the growth of India in coming years. This reforms is going to affect the manufacturing sector and also to the consumption level of the goods and services in the country. The paper is primarily focus on the mechanism of GST in the country and further explores the various benefits and challenges of GST faced by India. For this the author reviewed the research articles from various known databases like Google scholar, emerald, and science direct etc.

Indexed terms: GST, CGST, IGST, SGST, TAXATION.

I. Introduction:

As it has been expected from the stake holders towards the tax reforms in the country is likely to change the current scenario of indirect taxation. In the history of taxation in India, this is the biggest reform in taxation system since 1947. GST i.e. goods and services tax is not the new concept to the world. Before India, there are more 140 countries have implemented GST in their respective economies (R.Vasantagopal, 2011). Some countries are following the unified GST whereas others like Brazil and Canada implemented the dual GST system. That means the tax is imposed both by the state and central. Now India has also implemented the dual GST system where, both state and central are imposing the taxes like central GST (CGST) and state GST (SGST). GST is expected to help the country to solve the complicated indirect tax system prevails in India which has been imposed separately by the state government and central government separately. By GST the taxation system can be treated as unified tax system by considered all the indirect taxes comes under one umbrella (A.Bagchi,2006) and create a unified market by providing a single tax rate. According to the experts, the GST will interrupt all the tax barriers between the states and central, this helps the economy to grow effectively.

II. Literature Review:

According to A.Bagchi (2006), taxation at central level is not practical and also not acceptable by India. This brings difficulties in single national VAT. Another option to make a unified tax for goods and services is to implement the dual GST in India. This may leads to uniformity of taxes throughout the country. For this central government and state governments has to accept the tax rates. But there is no clear indication in the constitution that who will fix the tax rate.

In the year 2008 Chadha et.al has studied the impact of GST on India's growth by using equilibrium model. From this he stated that, the GDP would be increase up to 1.7percent. it also helps exports to increase from 3.2% to 6.3% and similarly the import value will increase between 2.4 to 4.7 %. GST also helps in increase the gain in different factors of productions like land, wage rage, capital etc.

E.Ahmed&S.Poddar (2009) stated in their study that, GST implementation in India will provide the simpler tax system in India leads to a transparent taxation. This helps in growth in economy by increase in productivity. But the success of GST will be depends on the design of the GST.

R.Vasanthagopal (2011) concluded in his study that, as India is changing its taxation system from a complicated indirect tax to seamless GST. It will help India to grow its economy positively. Because of the success of GST can be calculated on the acceptance of the system in more than 130 countries in the world.

A.Mawuli (2014) stated in his study that GST is not good for the poor economy countries and will not help in the growth of the economy. If any country wanted to implement the GST then the minimum rate of GST should be less than 10%.

Jaiprakash (2014) mentioned in his paper that, the GST will bring wide range of the tax setoff for the industries, trade houses, and agriculture and also for the consumers by implementing GST at the central and state level. Result of which all the industries are quite encouraged towards the implementation of GST and its impact on the growth of economy is favourable.

N.Kumar(2014), concluded that, the implementation of GST in India is helping to remove the economic distortion by current taxation system and also help to solve the unbiased tax structure.

S.Venkadasalam (2014) has studied the effect of GST on the national growth of various ASEAN states. In his study he stated that the household consumption and government consumption are significantly related to the GDP. The effect of GST implementation are different from countries to countries like in Philippines & Thailand the GST shows the significant negative relation with the growth whereas the countries like Singapore has a significant positive effect on the growth.

Pinkiet.al(2014) stated in their study that, the implementation of GST will benefit to the state government as well as the central government and also beneficial for the consumers. At the same time the success of the GST is depends up on the adequate IT infrastructure in both state and centre.

Garg (2014) also stated in his research paper that GST will be beneficial for the economic development of India by integrating all the indirect taxes into one head as GST. This will help all the industries including government and private sector as well as the traders and consumers. This will increase the tax collection in the country and maintain a uniform tax rate throughout the country.

N.Gupta (2014), concluded that the GST frame work will be beneficial by considering the aspect of taxation which is not considered by the old taxation system i.e VAT system. This leads to the economic development of the country.

N.Kumar (2014) said that the implementation of GST in India will help the country to remove the economic distortion by the existing taxation system and also encourage to an unbiased tax structure in the country.

M.Sehrawat et, al. (2015) stated that GST will bring hike in the GDP in the long run and also it will help the country to increase the output, this leads to create more employment generation and flourish the GDP by 1 to 1.5%.

A.Khuranaet, al (2016) says, GST will provide a broad coverage of tax credit setoff and other several taxes. He emphasise on the efficient formulation of GST by which the state and centre both can generate revenue and improve the tax compliances in the country. In support of this P.Chaurasiaet, al (2016) stated that, GST will be helpful for the economic development of India by improving the country's GDP by at least 2%.

According to M. Poonam (2017) stated that, the burden of tax on the consumers will be reduce approximately to 25-30 percent because the implementation of GST. This will be a transparent tax system for the stakeholders, this leads to easier administration for both the centre and state governments.

III. Research Objectives:

- To understand the concept of GST
- To study the mechanism of GST in India
- To elucidate the benefit and challenges of GST in India

IV. Research methodology:

The study has been conducted on the basis of the secondary data collected from the various known online databases like GOOGLE SCHOLAR, EBSCO, EMERALD, SCIENCE DIRECT etc. and also gone through various articles collected from various offline sources like libraries, journals, newspapers and magazines etc. descriptive type of research design has been used in the study to achieve the research objectives.

V. Mechanism of GST in India:

India has implemented a dual GST system, where tax has been imposed by both centre and states at the same time. In this system centre has the power to control over the intra state sales and state will allowed to tax services. GST in India is based on the basic modules like; its components, applicability and the payment of taxes. The basic components of GST in India are CGST (central goods and service tax), levied and collected by the central government and SGST (state goods and service tax) levied and collected by state government authorities/union territories with state legislature. UTGST(union territory goods and service tax) is levied and collected by the union territories without state legislatures and IGST(integrated goods and service tax) is collected in case of inter- state transactions. Moreover, this the sum of CGST and SGST/UTGST levied by the centre for all the inter-state transactions. Under the GST system all the goods and services are sold in India. There are some goods are not considered under its purview so they are exempted from tax in India. The taxes are being paid separately for state and centre.

GST rate has been fixed on the goods and services differently according to their characteristics and specific places/region in the country. To understand the mechanism, we considered different situation of business like;

- Inter- state transactions
- Intra- state transactions

5.1 Intra-state transactions:

The business transactions between the two parties with in the same state will be treated as intra-state sales. To illustrate the mechanism of GST, how the taxes are levied, collect and shared between the state and the centre by assuming GST rate at 16%.

5.1.1 Case-1: sale and resale in one state

In this case the local supplier/business would charge the dual GST ie, CGST and SGST at a specified rate of GST on the supply of goods locally. For an example, Mr A of Mumbai supply the goods of worth Rs.10000 to Mr. B of Pune.

Table 1.Calculation of GST in case of Supply of goods from A to B:

| | |
|--|-----------|
| Value of goods or service supplied | Rs. 10000 |
| Add: CGST @ 8% | Rs. 800 |
| Add: SGST@8% | Rs. 800 |
| Total price charged by A from B would be | Rs. 11600 |

In this case the total charge of CGST and SGST on B will be remitted to the respective account of centre and state respectively by Mr A. As Mr A is the first supplier so he does not have the credit of any taxes such as CGST, SGST or IGST.

5.1.2. Case-2: resale of goods from B to C in the same state:

Here B is reselling the goods to C of Nagpur at a sale price of Rs. 200. In this case B will have the credit of CGST and SGST paid by him to the supplier(Mr A). Same can be utilising by B for setoff against the taxes

payable by C on the purchase of goods. As the selling price of the goods increased by the value addition leads to increase in the taxes. Some taxes would be setoff against the credit and remaining would be going to the respective governments is shown in the figure.

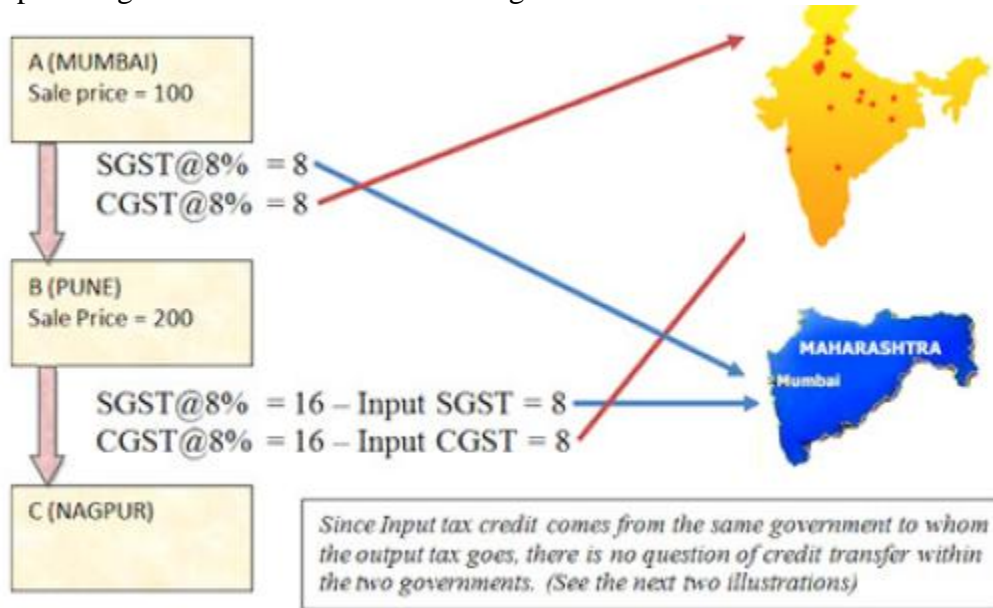


Figure-1 Source: <https://www.quora.com/How-will-the-goodsand-sevices-tax-GST-work-...>

Table 2 Calculation of GST for the supply of goods from B to C

| | |
|--|-----------|
| Value of goods or service supplied | Rs. 20000 |
| Add: CGST @ 8% | Rs. 1600 |
| Add: SGST@8% | Rs. 1600 |
| Total price charged by A from B would be | Rs. 23200 |

Table 3 Calculation of CGST, SGST and IGST payable by B to government

| | CGST | SGST |
|--|----------|----------|
| Taxes payable | Rs. 1600 | Rs. 1600 |
| Less: credit of CGST and SGST | Rs. 800 | Rs. 800 |
| Taxes payable to the respective government | Rs. 800 | Rs. 800 |

Table 4 Statement of revenue of State and Central Government

| Transactions | Revenue to state govt. | Revenue to Central Govt. |
|-----------------------------|------------------------|--------------------------|
| Transactions between A toB | Rs. 800 | Rs. 800 |
| Transactions between B to C | Rs. 800 | Rs. 800 |
| Total Taxes collected | Rs. 1600 | Rs. 1600 |

5.2 Inter-state transactions:

In this case, the IGST will be levied and collected for the supply of goods from one state to another state at a specified tax rate. Assuming the IGST rate is 16%.

5.2.1 Case-1: supply of goods by A of Indore to B of Bhopal

Here, the supply of goods is within the same state. So CGST and SGST will be levied and collected by A will be remitted to the state and central government as shown in the figure given below. The taxes can be calculated as follows:

Table 5 Supply of goods from A (Indore) to B (Bhopal):

| | |
|--|-----------|
| Value of goods or service supplied | Rs. 10000 |
| Add: CGST @ 8% | Rs. 800 |
| Add: SGST@8% | Rs. 800 |
| Total price charged by A from B would be | Rs. 11600 |

5.2.2 Case-2: supply of goods by B of Bhopal to C of Lucknow

Here, the transaction is between two different states. Hence it is an interstate transaction. Therefore, IGST will be levied and collected by the central government. Here, B can claim the credit of both CGST and SGST against the IGST payable by C for the supply of goods to him by B. here the credit has been available against the IGST but the amount of SGST is not going to the account of central government. This amount is a loss for central government, so the state government will compensate that amount by transferring the credit amount to the central government account.

Table 6 Calculation of IGST in case of Supply of goods from B to C

| | |
|--|-----------|
| Value of goods or service supplied | Rs. 20000 |
| Add: IGST @ 16% | Rs. 3200 |
| Total price charged by B from C for interstate supply of goods | Rs. 23200 |

Table 7 Calculation of IGST payable to government

| | |
|---|----------|
| Total IGST payable | Rs. 3200 |
| less: credit of CGST | Rs. 800 |
| less: credit of SGST | Rs. 800 |
| Total IGST payable to the central govt. | Rs. 1600 |

The IGST charged on C of Lucknow state for the supply of goods by B of Bhopal will be remitted to the account of central government by B. the SGST credit of Rs. 800 utilised by B will be transfer to the central government.

5.2.3. Case-3 supply of goods from C of Lucknow to D of Lucknow

In this situation B will avail the credit of IGST and can set off the same against the CGST and SGST payable by D on the supply of goods to him. But we know that IGST is not related to the state government, so it is a loss to the state government by claiming the credit of IGST against the SGST. To compensate this loss, the central government will transfer this credit amount to the state government.

Table 8 Calculation of GST on the supply of goods from C to D (intra state)

| | |
|--|-----------|
| Value of goods or service supplied | Rs. 24000 |
| Add: CGST @ 8% | Rs. 1920 |
| Add: SGST@8% | Rs. 1920 |
| Total price charged by C from D would be | Rs. 27840 |

Table 9 Calculation of CGST and SGST

| | CGST | SGST |
|--|----------|----------|
| Taxes payable | Rs. 1920 | Rs. 1920 |
| Less: credit of IGST | Rs. 1920 | Rs. 1280 |
| Taxes payable to the respective government | nil | Rs. 640 |

From the above table, it shows that the central government will transfer IGST credit of Rs. 1280 (3200-1920) utilised in the payment of SGST to the state government of Lucknow state. Now let's see the revenue earned by the state government of Bhopal and Lucknow and the central government.

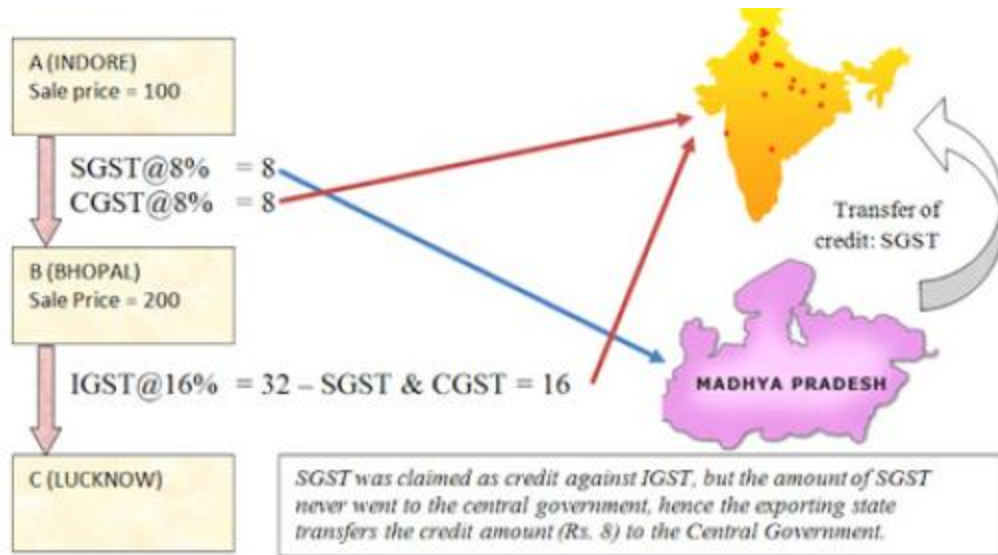


Figure 2 Source: <https://www.quora.com/How-will-the-goodsand-sevices-tax-GST-work-...>

Table 10 Statement of revenue earned by the states and central government

| Transactions | Central govt. | State govt. of Bhopal | State govt. of lucknow |
|--|---------------|-----------------------|------------------------|
| Transaction between A and B | 800 | 800 | nil |
| Transaction between B and C | 1600 | -- | -- |
| Transfer by exporting state to center | 800 | (800) | -- |
| Transaction between C and D | -- | -- | 640 |
| Transfer by center to state govt. of lucknow | (1280) | -- | 1280 |
| Total | 1920 | nil | 1920 |

From the above tables, it has been seen that the mechanism to calculate GST is little bit confusing as the credits of SGST, CGST AND IGST are being considered against each other makes the understanding low for the individuals. If the cross utilisation of credit will be not there is the mechanism then it will be easier and effective to use.

VI. BENEFITS OF GST:

Under this GST system, the burden of tax will be allotted fairly among manufacturing and service sector by introducing low rate of taxes helps in increase the tax base and also helps to minimise the exemptions. GST tax system provides a clear, transparent an effective taxation. It is expected that, GST will remove the cascading effects of taxes. This taxation system helps to establish a common market for the business firms. Apart from this there are so many other benefits of GST such as:

- 6.1. **Simplified tax structure:** Before GST, there are multiple taxes levied by different states and central government prevailed in India. But inclusion of GST in the system makes a single and simpler tax structure to calculate and interpret. This simpler tax structure helps the manufacturing sector to reduce in their accounting complexities of business leads to make firms more competitive and contribute to the economy growth by 1-2percent.
- 6.2. **Single base computation:** due to GST, the cascading effect of tax is not exists and the computation of tax will be a single base for all the government state and central government. In the short run the state government will be facing problem of low tax revenue due to less price of goods and services.

But in the long run the tax revenue of states will increase as the number of tax payers will be increase because of availability of cheaper goods and services.

- 6.3. **Increase in export:** as there is no GST on exports the exporters can use their input credits in the business. This helps the domestic products to be more competitive in the global market. This leads to the growth of Indian marketshare in the world export.
- 6.4. **Help for 'make in India' movement:** GST will be a boost for the recent initiative taken by Indian government to produce goods and services in India i.e, make in India movement. By doing this the products will be more competitive in national as well as in the international market.
- 6.5. **Helps in effective logistics:** in this GST Tax system, IGST will be levied by the central government on the interstate business transaction or supply of goods or services between the different states. This will stop the tax avoidance practices of the big corporates by operating different warehouses in the different state. As in the early tax system, the CST (central sale tax) is only levied on the commerce of goods with in the state not on the supply of goods (transport). So to avoid the CST the big firms used to open different go downs in different states to minimise their cost of production. This was hamper the growth of small and medium scale enterprises. But GST protects the small and medium enterprises from the unhealthy competition of big companies.

VII. Challenges of GST in India:

- 7.1. **Unawareness of GST rates:** as GST rate is different for different goods and services so its create confusion among the stake holders which may be a biggest challenge for the stake holders to accept it.
- 7.2. **RNR (Revenue neutral rate):** it is the most important factor for the success of the tax system. In the GST system the tax revenue for the state and central is not going to be the same of the earlier tax system as GST provides the provision of use of tax credit. The government should take necessary action to make revenue rate same as earlier.
- 7.3. **IT infrastructure required:** for effective and successful implementation of GST lot of IT infrastructure is required for the purpose of GST registration, return filling, payment mechanisms, settlements etc. though the government has already develop the tax network named GSTN Still a long way to go.
- 7.4. **Issues related to GST threshold limit:** the threshold limit of the tax should not so low to bother the small scale industries.
- 7.5. **Training is required for GST administration:** as GST is totally different concept them the earlier tax system so the administration staff at state and central level needs an appropriate training of the concepts, procedures and legislations.

VIII. Limitation of the study:

The study is just an initiation to the concepts of GST and mechanism of GST particularly in India. It has some limitations like;

- This study is only considered the secondary data. It could be studied empirically in an organisation.
- The concept of GST is wide and vast and this study is only focuses on the mechanism of calculation of tax under this system could not cover all other aspect due to time factor.

IX. Conclusion:

Of course GST (goods and service tax) in India is a welcome step by the government to make the taxation system simpler and easier. It makes the single tax form instead of a multiple taxes. It is going to be an efficient tax system but for the success it required the acceptance by the stake holders, timely operations of legislative documents and proper and continuous planning of authorities. An effective rate of GST can help the country to reduce inflation, increase the competitiveness among the business, control over the prices of goods and services and enable them to be competitive in the international market. GST tax structure can

protect and help the small and medium scale enterprises to grow competitively in the national market. So overall the GST Mechanism of tax calculation is simple and can impact on Indian economy positively.

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