



INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

AN ANALYSIS OF GOODS AND SERVICE TAX IN INDIA

Dr Saurabh Mittal

Dean

Department of Commerce and Business Administration

Shri Ram College, Muzaffarnagar-Uttar Pradesh-India-251001

Abstract

The GST implemented on July 1, 2017, is regarded as a major taxation reform till date implemented in India since independence in 1947. It is a comprehensive tax system that will subsume all indirect taxes of states and central governments. GST is a single tax on the supply of goods and services, right from manufacturer to the consumer. It was designed to bring indirect taxation under one umbrella. More importantly, it is going to eliminate the cascading effect of tax that was evident earlier. The GST system follows a dual structure, comprising Central GST (CGST) and State GST (SGST), levied concurrently by the Central and State governments, respectively. Additionally, an Integrated GST (IGST) is levied on interstate supplies and imports, which is collected by the Central Government but apportioned to the destination state. In terms of revenue distribution, the GST Council plays a crucial role. The Council makes decisions on various aspects of GST, including tax rates, exemptions, and revenue sharing between the Central and State Governments. Except for one decision, all decisions of the Council were taken by consensus. GST has transformed financial relations of central and state governments, ensuring greater coordination and efficiency in the Indian tax system.

Key Words

Tax, indirect tax, goods and services tax (GST), taxation reforms, Indian taxation system, GST Council

Introduction

The goods and service tax (GST) is a type of tax levied on most goods and services sold for domestic consumption in many countries. It is paid by consumers and remitted to the government by the businesses selling the goods and services. The GST implemented on July 1, 2017, is regarded as a major taxation reform till date implemented in India since independence in 1947. It is a comprehensive tax system that will subsume all indirect taxes of states and central governments like Central Excise Duty, VAT/Sales Tax, and Service Tax etc. GST is a single tax on the supply of goods and services, right from manufacturer to the consumer. Credit of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. It was designed to bring indirect taxation under one

umbrella. More importantly, it is going to eliminate the cascading effect of tax that was evident earlier. The GST system follows a dual structure, comprising Central GST (CGST) and State GST (SGST), levied concurrently by the Central and State governments, respectively. Additionally, an Integrated GST (IGST) is levied on interstate supplies and imports, which is collected by the Central Government but apportioned to the destination state. In terms of revenue distribution, the GST Council plays a crucial role. It is a joint forum consisting of the Union Finance Minister and representatives from all States and Union Territories. The Council makes decisions on various aspects of GST, including tax rates, exemptions, and revenue sharing between the Central and State Governments. Except for one decision, all decisions of the Council were taken by consensus. GST has transformed financial relations of central and state governments, ensuring greater coordination and efficiency in the Indian tax system.

The Indian Taxation System-Scenario before GST

In India, the tax system was introduced in ancient times. The existence of the early tax system can be seen in many ancient books such as Manu-Smriti, and Arthashastra. During the British Empire, India's entire tax system was changed. It was wholly in favor of the British Empire. Another notable change took place in the tax system in 1922 when the British introduced an entirely new administrative and tax system in India. The tax system has been divided into two main categories: direct taxes and indirect taxes. In India, the tax system is fully controlled, imposed, and updated by the central and state governments. The power to collect taxes stems from the Indian Constitution, which divides the power to collect taxes between the central government and the state government system. Taxation is the only instrument to achieve the long-term growth and economic development of a country. It is imperative to understand the components of the tax that should be targeted to achieve economic growth. Various taxes are imposed on the Indian population by central and state governments, such as service tax, VAT, etc. Before introducing VAT in the sales tax and CENVAT in the central excise tax and the service tax, the Indian tax system was very complicated, and this had cascading effects. The tax imposed on one destination was also taxed on another destination. However, the tax system of that time has seen remarkable revolutions. Many changes in taxation have been implemented, i.e. VAT and the introduction of the central government's service tax. The government introduced CENVAT in the central excise tax system by offsetting taxes on intermediate consumption and at the same time manufacturing raw materials. With the introduction of the VAT system in India, the cornerstone for implementing the GST was laid.

Research methodology

This paper is based on exploratory research technique and data cited in this paper were collected via secondary sources available like statistical data available on various websites of Indian Government (finmin.gov.in), GST Council (gstcouncil.gov.in), GST Council Archives (gstindia.com), GST portal (gst.gov.in) and many more; literature review from journal papers; annual reports; newspapers; and magazine based articles on GST. Based on the analysis of above mentioned data collection sources, the objectives of the study are defined.

Objectives of the Research Undertaken

The research paper is undertaken with considering the following objectives-

- To have in depth understanding of GST evolution
- To evaluate the GST Challenges
- To evaluate the prospects of new taxation system

Scope of the study

This paper provides a detailed approach regarding implementation of GST among various sectors of the country. After implementation, it will bring uniformity with tax rates. It would surely be highly advantageous for major areas of the India economy.

Goods and Service Tax- Current Scenario

Six years is not a very long time to evaluate the impact of any mega game-changing reform. Nevertheless, it is good enough for stocktaking. The unique design of India's GST—with Dual GST and Integrated GST—has stabilized over time. The GST Council has emerged as a model of cooperative federalism wherein the Centre and states are willing to pool their sovereignty for the good of the country. The Council since its inception has played a key role in decision-making on various aspects of GST, including tax rates, exemptions and revenue-sharing between the central and state governments. It has held 49 meetings so far and except for one, all decisions have been taken by consensus. Despite initial hiccups and difficulties, the Goods and Services tax Network (GSTN) has done a commendable job by providing a single interface for the taxpayers and governments. GSTN's technology infrastructure is common for the central and state governments. The system virtually eliminates the need for the taxpayer to interact with tax authorities as all processes, including registration, filing of returns and tax payments, can be completed online. The number of GST registrations has increased by nearly 14% compounded annually from nearly 65 lakh to about 1.4 crore in six years. GST registrations have grown across states, leading to greater formalization of India's economy and resulting in higher revenues. GST revenues have grown from 8.76 trillion in 2018-19 to 13.25 trillion in 2022-23 at a compounded annual growth rate of nearly 11%.

Impact of Goods and Service Tax on Indian Economy

GST has both positive as well as negative impacts on the economy. It facilitates economic growth by being transparent and creates loss over a few sectors by the increased prices of the commodity but the ease of doing business has been helped by a unified taxation system in the country. GST is interpreted as an enormous erratic tax configuration constructed to benefit and facilitate the economic development of a nation. To date, over 150 nations have executed GST. Nonetheless, the notion of GST in India was recommended by the Vajpayee regime in 2000 and a similar constitutional modification was approved by Lok Sabha on May 6, 2015, but has not been endorsed by Rajya Sabha. Regardless, there are tremendous voices against its enactment.

Firstly, it can be said that GST helped in the economic development of the country. It helped in decreasing the charges for services and goods. To understand the impact of GST on the Indian economy it can be said that GST can be useful for enhancing the FDI's flow. In the long run, GST can help increase the revenue of the Government. The ease with which businesses are done in India can also be facilitated through GST. Further, GST may also help create more opportunities in terms of employment. Apart from all these points, with the help of GST, a sort of transparency can be found in the whole system such that the buyers would know about the taxes that they are paying and what is the basis for these taxes.

It may be said that with the help of GST, facilitation of economic growth is expected in India. The positive impact of GST on the Indian economy can be by creating a system of transparency in the sales process. Further, ease in doing businesses can be there since with the help of GST the requirement for paying various diverse taxes in diverse states. Thus, with this, the positive impact of GST can be understood. On the other hand, the negative impact of GST can be such that certain sectors may be at loss because of the increased price of their commodities.

Challenges in the implementation of GST

GST has simplified India's indirect tax structure by replacing several tax systems with a single unified tax, but its implementation has been hampered by some of the factors. A few of them are listed here-

- In India, there are various taxes like Central Excise, VAT, CESS, and other state level taxes which will all be removed and come under one tax, that is, GST, but still lots of states and union territories have other taxes out from GST which has to be worked upon.
- As assessee is obliged to file as many as 37 returns per year under GST rules, consisting of three monthly filings and one yearly return. In comparison to the former taxes system, which has 13 returns, this is roughly double/ This result in a huge increase in compliance, logistics and other costs.
- Because GST is a relatively new idea in the country, it was necessary to adequately train the whole tax administration workforce from state to central government in terms of the concept, legislation and procedures to be implemented under this new tax regime.
- GST is a regressive tax since it has a greater impact on low-income earners i.e. it consumes a greater proportion of their income than those with a higher income. This is because the GST tax base is expenditure rather than income.
- Still the tax rate is not fully finalized and lots more have to be worked upon considering the standard of living of people, etc.

Conclusion

As forecasted by experts, GST will improvise tax collections and boost up India's economic development and break all tax barriers between Central and State Governments. No doubt, GST will give India a clear and transparent taxation system, but it is also surrounded by various challenges as discussed in this paper. There is need for more analytical based research for successful implementation. GST is essentially an Indian business reform and it has both advantages and disadvantages. Some products and services are less expensive, while others are more expensive. Some industries may profit at the expense of others. However these losses/ negative impacts are only projected to endure a short time and may bear fruit in the long run.

Limitations of the study

The followings are the limitation of the study:

- Tax reforms can occur from time to time via GST council meetings regarding finalization of tax rates and even imposition of new rates and even deduction of existing rates.
- Most of the data cited in the paper was exploratory in nature as GST meetings are going and still, a lot more needs to be done,

References:

1. <https://www.legalserviceindia.com/legal/article-8238-challenges-in-implementation-of-gst.html>
2. Central Board of Excise and Customs, Ministry of Finance. (2017). Revised GST rate for certain goods. Retrieved from http://www.cbec.gov.in/resources//htdocs-cbec/gst/gst_rates_approved%20_by_gst_council%20_11.06.2017.pdf
3. <https://www.cbic.gov.in/entities/gst>
4. <https://taxinformation.cbic.gov.in/content-page/explore-act>
5. Kelkar, V. (2009, July 01). A tax for economic growth. Retrieved from <http://www.livemint.com/Opinion/S0hINhimkhI9OhAiYwnbYJ/A-tax-foreconomic-growth.html>

