GOODS AND SERVICE TAX- A POSITIVE REFORM IN INDIAN TAXATION SYSTEM

Dr. Rashi Gupta*1

1Asst. Prof, JIMS Engineering Management Technical Campus (JEMTEC), Greater Noida. Guru Gobind Singh Indraprastha University, Delhi.

ABSTRACT

This paper is an attempt to understand the concept of Goods and Service Tax (GST), to be implemented in India from 1st July 2017. This changing face of Indian taxation system paves the path of development and advancement towards which developing country like India is trying to move on. It is the biggest and substantial indirect tax reform since 1947. The main is to replace existing taxes like value-added tax, excise duty, service tax and sales tax. It will be levied on manufacture sale and consumption of goods and services. GST is expected to address the cascading effect of the existing tax structure and result in uniting the country economically. The paper highlights the background, objectives of the proposed GST and the impact of GST in the present tax scenario in India. The paper further explores various benefits, opportunities of GST and challenges faced by India in execution. Descriptive statistical tools are used to analyse and interpret the data collected through secondary sources such as official web sites of Government.

Keywords: Indirect Taxes, Goods and Service Tax (GST).

1. INTRODUCTION

The proposed GST is likely to change the whole scenario of current indirect tax system. Currently, in India complicated indirect tax system is followed with imbrications of taxes imposed by union and states separately. GST will unify all the indirect taxes under an umbrella and will create a smooth national market. Experts say that GST will help the economy to grow in more efficient manner by improving the tax collection as it will disrupt all the tax barriers between states and integrate country via single tax rate. GST was first introduced by France in 1954 and now it is followed by 140 countries. Most of the countries followed unified GST while some countries like Brazil, Canada follow a dual GST system where tax is imposed by central and state both. In India also dual system of GST is proposed including CGST and SGST. It is a domestic trade tax that will be levied in the form of a value added tax on all goods and services -in practice with some exemptions. A value added tax exempts all inputs including capital goods. Hence, it becomes a general tax on domestic consumption. It is a convenient and economically efficient way of taxing consumption. It is a comprehensive tax regime levied on manufacture, sales and consumption of goods and services. It is expected to bring about 2% incremental GDP growth of the country.

The Value Added Tax (VAT) when introduced was considered to be a major improvement over the pre-existing Central excise duty at the national level and the sales tax system at the
State level. Now the Goods and Services Tax (GST) will be a further significant breakthrough - the next logical step - towards a comprehensive indirect tax reform in the country. Despite the success with VAT, there are still certain shortcomings in the structure of VAT both at the Central and at the State level. The shortcoming in CENVAT of the Government of India lies in non-inclusion of several Central taxes in the overall framework of CENVAT, such as additional customs duty, surcharges, etc., and thus keeping the benefits of comprehensive input tax and service tax set-off out of reach for manufacturers/dealers. Moreover, no step has yet been taken to capture the value added chain in the distribution trade below the manufacturing level in the existing scheme of CENVAT. The introduction of GST at the Central level will not only include comprehensively more indirect Central taxes and integrate goods and service taxes for the purpose of set-off relief, but may also lead to revenue gain for the Centre through widening of the dealer base by capturing value addition in the distributive trade and increased compliance.

Goods and Service tax bill officially known as the constitution (one hundred and twenty second amendment) bill, 2014 proposes a national value added tax to be implemented in India from July 2017.

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.

### Table 1: Rate of GST (Some Countries)

<table>
<thead>
<tr>
<th>Country</th>
<th>Rate of GST</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>10%</td>
</tr>
<tr>
<td>France</td>
<td>19.6%</td>
</tr>
<tr>
<td>Canada</td>
<td>5%</td>
</tr>
<tr>
<td>Germany</td>
<td>19%</td>
</tr>
<tr>
<td>Japan</td>
<td>5%</td>
</tr>
<tr>
<td>Singapore</td>
<td>7%</td>
</tr>
<tr>
<td>Sweden</td>
<td>25%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>15%</td>
</tr>
</tbody>
</table>

World over in almost 150 countries there is GST or VAT, which means tax on goods and services. Under the GST scheme, no distinction is made between goods and services for levying of tax. This means that 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 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.

Since VAT was beneficial for the taxation system but with certain shortcomings which are expected to be overcome by the Goods and Service Tax. Thus, it would definitely a positive reform for the Indirect tax system in India.

**Objectives of Goods and service tax**

GST is proposed to fulfil the following objectives:
• GST would help to eliminate the cascading effects of production and distribution cost of goods and services. This would help to increase GDP and then to economic condition of the country.
• GST would eliminate the multiplicity of indirect taxation and streamline all the indirect taxes which would be beneficial for manufacture and ultimate consumer.
• GST would be able to cover all the shortcomings of existing VAT system and hopefully serve the economy health.
• Incidence of tax falls on domestic consumption
• The efficiency and equity of system is optimized
• There should be no export of taxes across taxing jurisdiction
• The Indian market should be integrated into single common market
• It enhances the cause of co-operative federalism.

2. REVIEW OF LITERATURE

• Empowered Committee of Finance Ministers (2009) introduced their First Discussion Paper on Goods and Services Tax in India which analyzed the structure and loopholes if any in GST
• Vasanthagopal (2011) in the article GST in India: A Big Leap in the Indirect Taxation System discussed the impact of GST on various sectors of the economy. The article further stated that GST is a big leap and a new impetus to India’s economic change.
• Bird (2012) summarizes in the article The GST/HST: Creating an integrated Sales Tax in a Federal Country the impact of GST will be on Canada.
• Garg (2014) in the article named Basic Concepts and Features of Good and Services Tax in India analyzed the impact and GST on Indian Tax scenario and concluded that it will strengthen out free market economy.
• Kumar (2014) studied in the article Goods and Services Tax in India: A Way Forward background, silent features and concluded with the positive impact of GST on present complex tax structure and development of common national market.
• Indirect Taxes Committee of Institute of Chartered Accountants of India (ICAI) (2015) submitted a PPT naming Goods and Service Tax (GST) which stated in brief details of the GST and its positive impact on economy and various stakeholders
• The Institute of Companies Secretaries of India (ICSI) (2015) published a Referencer on Goods and Service Tax to provide the information on the concept of GST in details.
• Parkhi did an exploratory research in an article Goods and Service Tax in India: the changing face of economy and stated that implementation of GST is a changing face of India and the government is well equipped for that which is a symptom of fast paced economy.
• Ehtisham Ahmed and Satya Poddar (2009) studied, “Goods and Service Tax Reforms and Intergovernmental Consideration in India” and found that GST introduction will provide simplier and transparent tax system with increase in output and productivity of economy in India. But the benefits of GST are critically dependent on rational design of GST.
3. OBJECTIVE OF THE STUDY

The paper uses an exploratory research technique based on past literature from respective journals, reports, newspapers and magazines covering wide collection of academic literature on Goods and Service Tax. According to the objectives of the study, the research design is of descriptive in nature. Available secondary data was extensively used for the study. The objectives of the paper are:

1. To study about Goods and Service Tax and its impact on the economy.
2. To examine benefits and opportunities of Goods and Service tax.

4. IMPACT OF GOODS AND SERVICE TAX

GST has a positive impact on the economy and on various sectors which are as follows:

- **Fast moving consumer goods sector**

  With the implementation of Goods and Service Tax, FMCG sector would really change. FMCG sector consist 50% Food and Beverage sector and 30% is Household and Personal care. FMCG sector is the major taxation contributor both direct and indirect in the economy. The multiplicity of the taxation influences the company’s decision on manufacturing location and distribution of Goods. FMCG companies set their manufacturing units and warehouses where they can avail tax benefits. To transfer the stock from the warehouses among the states they have to pay taxes. So, GST would surely impact on FMCG sector as taxes affect the cost to the company.

- **Food Industry**

  Since food constitutes a large portion of the consumer expense of lower income households, any tax on food would be regressive in nature. Therefore, extending GST to food processing sector will also cause difficulty in view of the fact that production and distribution of food is largely unorganized in India. On global front, most of the countries tax food at a lower rate keeping in view the considerations of fairness and equity. Even in countries such as Canada, UK and Australia where food constitute a relatively small portion of the consumer basket, food is taxed at zero rates. While in some countries, food is taxed at a standard rate which is as low as 3% in Singapore and Japan at the inception of the GST. Even in international jurisdictions, no distinction is drawn on the degree of processing of food. Hence, the benefit of lower or zero tax rates should also be extended to all food items in India regardless to degree of processing.

- **Information Technology enabled services**

  The proposed GST rate under the IT industry is not yet decided. While the discussed combined rate of GST for the product is 27%. According to proposed GST if the software is transferred through electronic form it would be regarded as service (intellectual property) and if it is transferred through media or any other tangible property then it should be treated as goods. Implementation of GST will help in uniform simplified and single point taxation and thereby reduced price.
• **Infrastructure sector**

The Indian infrastructure sector largely comprises power, road, port, railways and mining. And the indirect tax levy is different and unique for each of them, and this is complex in nature. Although this sector enjoys different exemptions and concessions as it is important on national front. With the implication of GST the multiplicity of taxes will be removed and it would increase the tax base with continuation of exemptions and concessions for national interest and growth.

• **Impact on small enterprises**

In the small scale enterprises there are three categories:-

- Those below threshold need not to register for the GST.
- Those between the threshold and composition turnovers will have the option to pay a turnover based tax or opt to join the GST regime.
- Those above threshold limit will need to be within framework of GST.

In respect of the central GST the situation is slightly complex. GST is expected to encourage compliance and which is also expected to widen tax base adding up to 2% to GDP. Manufacturers, traders will have to pay less tax with the implication of GST.

**Benefits and Opportunities that will be handy with GST**

The Goods and Services Tax have many benefits and will create various opportunities on various stakeholders like business, industry, government and consumers which are being discussed below:

<table>
<thead>
<tr>
<th>Table 2: Benefits on various Stakeholders</th>
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</thead>
<tbody>
<tr>
<td><strong>For Business and Industry:</strong></td>
</tr>
<tr>
<td>o Easy Compliance</td>
</tr>
<tr>
<td>o Removal of Cascading</td>
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<tr>
<td>o Improved Competitiveness</td>
</tr>
<tr>
<td><strong>For Centre and State Governments:</strong></td>
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<tr>
<td>o Simple and easy to administer</td>
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<tr>
<td>o Better controls on leakage</td>
</tr>
<tr>
<td>o Consolidation of Tax base</td>
</tr>
<tr>
<td>o Higher Revenue Efficiency</td>
</tr>
<tr>
<td><strong>For the consumer:</strong></td>
</tr>
<tr>
<td>o Single and Transparent tax proportionate to the value of goods and services</td>
</tr>
<tr>
<td>o Reduction of Prices</td>
</tr>
</tbody>
</table>


The major benefits and opportunities from the Integrated Goods and Service Tax (IGST) as stated by *Institute of Companies Secretaries of India (ICSI)* are given below
Benefits from IGST

<table>
<thead>
<tr>
<th>Maintenance of uninterrupted Input Tax Credit (ITC) chain on inter-State Transactions.</th>
</tr>
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<tbody>
<tr>
<td>o No upfront payment of tax or substantial blockage of funds for the inter-state seller or buyer.</td>
</tr>
<tr>
<td>o No refund claim in exporting State, as Input Tax Credit (ITC). It is used up while paying the tax.</td>
</tr>
<tr>
<td>o Self monitoring model</td>
</tr>
<tr>
<td>o Level of computerization is limited to inter-State dealers. Central and State Government will be able to computerize their process expeditiously.</td>
</tr>
<tr>
<td>o As all inter-State dealers will be e-registered and correspondence with them will be by e-mail, thus compliance will improve substantially.</td>
</tr>
<tr>
<td>o Model can take “Business to Business” as well as “Business to Consumer” transactions into account.</td>
</tr>
</tbody>
</table>

Source: Referencer on Goods and Services Tax, ICSI

Apart from the above the other benefits available for the assessee are:

<table>
<thead>
<tr>
<th>Reduction in multiplicity of taxes</th>
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<tr>
<td>o More efficient neutralization of taxes especially for exports</td>
</tr>
<tr>
<td>o Development of common national market</td>
</tr>
<tr>
<td>o Simple tax regime, fewer rates and exemptions as well as conceptual clarity.</td>
</tr>
</tbody>
</table>

5. KEY FINDINGS AND SUGGESTIONS

GST has the following implications:

- GST will widen the tax base, improve tax compliance and will remove unhealthy competition among states. It will redistribute the burden of taxation equitably among manufacturing and services.

- It ensures uniformity of tax system across the states. It will integrate the tax base and allow seamless flow of Input Tax Credit (ITC) resulting in reduced cost of goods and services.

- It will improve disclosure of economic transactions.

- It will mitigate cascading and double taxation thus enables better compliance. It will also lead to transparency in tax system resulting in difficulty of tax evasion.

The suggestions which are being drawn out from the study are as follows:

- Tax payer education or public awareness campaign need to be provisioned by Central Government. Public Workshops, training and various seminars on GST must be conducted in all states by their respective State Governments.

- States must analyze and deduce their revenue neutral rates, revenue implications as well as compensation packages.

- Government should construct a proper monitoring system for monitoring the dummy registrations and refunds problems.
6. CONCLUSION

It can be concluded from the above discussion that GST will provide relief to producers and consumers by providing wide and comprehensive coverage of input tax credit set-off, service tax set off and subsuming the several taxes. Efficient formulation of GST will lead to resource and revenue gain for both Centre and States majorly through widening of tax base and improvement in tax compliance. It can be further concluded that GST have a positive impact on various sectors and industry. Although implementation of GST requires concentrated efforts of all stake holders namely, Central and State Government, trade and industry. Thus, necessary steps should be taken.

REFERENCES


[12] www.cbec.gov.in