

A Comprehensive Analysis of Goods and Services Tax (GST) in India

Rajitram Yadav

Shri G.P.M. Degree College of Science and Commerce, Andheri, Mumbai, Maharashtra

Abstract: *The Goods and Services Tax (GST), implemented on July 1, 2017, is regarded as a major taxation reform till date implemented in India since independence in 1947. The implementation of the General Sales Tax was planned to be launched in April 2010, but has been delayed on account of policy issues and conflicting interests between stakeholders. A comprehensive tax regime which consolidates all indirect taxes of states, central governments and unified economies into an integrated national market is being put in place. And implement one taxation system in India. The GST based taxation system brings more transparency in taxation system and increases GDP rate from 1% to 2% and reduces tax theft and corruption in country. The paper highlighted the background of the taxation system, the GST concept along with significant working, comparison of Indian GST taxation system rates with other world economies, and also presented in-depth coverage regarding advantages to various sectors of the Indian economy after levying GST and outlined some challenges of GST implementation.*

Keywords: CGST, SGST, IGST, UTGST, CESS, Tax regime.

I. INTRODUCTION

The word “tax” is derived from Latin word “taxation” meaning to estimate. A tax is not a voluntary payment or donation, but enforced contribution, exacted pursuant to legislative Authority and contribution imposed by the Government, whether for purposes of tolls, tribute, impost, duty, customs duties, excise taxes, support, aid, supply or a different name. In Ancient Egypt, taxation was introduced at the beginning of the old kingdom's first dynasty about 3000 to 2800 BC. Records indicate that the Pharaoh undertook a yearly tour of the kingdom from this time, in order to collect taxes for his people. Granary receipts for limestone flakes and papyrus are another indication of the data. Taxes are the only way for financing the public goods because of their inappropriate pricing in the market. It can only be levied by the government, via funds collected from taxes. It is highly important that the taxation system is designed in such an appropriate manner that it doesn't lead to any sort of market distortions and failures in the economy. The taxation laws should be highly competitive so that revenue can be raised in a highly efficient and effective manner.

Scenario before gst

Tax policies play a vital role in any country's progress and have a direct impact on any country's economy in income distribution and also generates tax revenues in such a manner for Central and State Governments, which can lead to overall benefit in the nation's infrastructure, defense, public amenities, people's security, and a country's exports.

The entire framework to impose indirect taxes comes under Constitutional provisions of India. Article 246, Seventh Schedule gives the right to Central and State Governments to levy taxes and collect indirect taxes on the basis of goods and services transactions.

The taxation system varies from manufacturer to manufacturer on point of sale or level of imports or exports. Indirect taxation based collection systems are based on origin, and are designed to impose tax and collect the same at the event of happening of any taxable activity.

The Figure 1 depicts a tabular representation of Indian indirect taxation system as per Article 246 of the Indian Constitution System. The following Table 1 gives a tabular representation of taxes imposed and collected by Central and State Governments of India.

II. 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 like Finance Ministry (finmin.gov.in), GST Council (gstcouncil.gov.in), GST Council Archives (gstindia.com), and many more; literature review from journal papers; annual reports; newspaper reports; and wide collection of magazine based articles on GST.

2.1 Objectives of the Research Undertaken

The research has been undertaken and presented considering the following foremost objectives:

- Understanding in - depth the concept of new taxation system introduced - Goods and Services Tax (GST) in India.
- Understanding the features, working, and differentiating the current taxation system in India v/s GST.
- To evaluate the prospects of taxation position of various goods and services in India.
- To furnish the information for future research on GST based taxation system.

2.2 Scope of the study

In this document, we have detailed insight into the implementation of the Goods and Services Tax across a range of sectors. After the introduction of the goods and services tax, it will lead to uniform taxation rates in India while overcoming many shortcomings with regard to indirect taxes. In big areas of the Indian economy, a good and service tax would have been an enormous benefit.

2.3 Goods and Services Tax (GST)

(1) Need for GST- Goods and Services Tax: As per the reports of Task Force on Goods and Services Tax (2009), the Indian taxation system led to misallocation of resources and lower productivity in terms of economic growth, international trade, and overall development of the Indian economy. Therefore, there was an emergent need to replace the existing tax system with a new engine of taxation of goods and services to attain the following objectives (Roy Chowdhury, 2012)

The tax incidence fell primarily on domestic consumption.

The optimization of efficiency and equity of the Indian system is desired.

There should be no export of taxes across the taxing jurisdiction.

The Indian market should be brought under a single umbrella of common market.

Enhancement to the cause of cooperative federalism.

(2). Introduction to the Goods and Services Tax (GST) New Article 366 (12A) of the Indian Constitution (GST India.com, 2016) defined Goods and Services Tax (GST) to mean any tax on supply of goods or services or both except taxes on the supply of alcoholic liquor for human consumption. New Article 366(26A) defines service to mean anything other than goods. Existing Article 366(12) defines goods to include all materials, commodities, and articles.

As per the government, the Goods and Services Tax (GST) is regarded as a 'Reform' rather than amendment in the existing Indian taxation system to sort out all backdoors and cons of the indirect taxation system. Following the Value Added Tax system, India is one of 123 countries in the world. The Finance Minister, P. Chidambaram, has planned and implemented VAT at the Centre and State level on 17 January 2005. VAT replaced Central Excise Duty Taxation at the national level and Sales Tax System at the state level, bringing major reform in the taxation system. In principle, at the national level, GST is considered to be an integrated and coherent tax system for manufacture, sales and consumption of goods and services. All other taxes have been suspended as a result of the implementation of the Goods and Services Tax. There's now a single tax at the domestic level, which is wholly within the Central Government's control. Under GST, there is one tax for both goods and services, which is a clear tax policy and this will improve collections of tax. GST being a friendly taxation system for the corporate sector will provide easiness in tax policies, reduce inflation levels, and make the overall system more transparent.

Importance of the GST Taxation System - Trade, Government, and Consumer: GST will overcome various issues of development via greater interactions between VAT/GST systems along with overcoming the potential risks of double taxation and unintended non-taxation systems. GST will lay a strong foundation of collecting tax at early stage of value addition. Every business/tax payer would be a part of controlling and collecting the tax and remitting the proportion of tax corresponding to its margin. GST will thereby flow through the business to tax.

Trade: In order to harmonize trade and bring significant reforms to boost up development, GST will act as a stepping stone for the following parameters:

multiplicity of taxes will be reduced,

tax neutrality, especially for export goods, (c) development of one nation or one common economic market,

(d) simpler tax with fewer rates and exemptions, (e) effectiveness in reducing cost for domestic industries.

The Government: GST promises a lot for transparent working system for the government in the following manner: (a)

Easy and simple taxation system - one common tax across the country. (b) Tax base broadening,

(c) Great improvements towards collections of revenues. (d) Resource utilization would be more effective.

(e) investments out of savings by consumers - due to mitigation of cascading effect, which contributes to increase in availability of funds out of savings of consumer - which may be used for development.

The Consumer: For a normal Indian citizen, GST promises a lot in terms of better taxation system as follows:

(a) reduction in the cost of goods and services due to significant elimination of cascading effect on taxes, (b) increase in household income and purchasing power, (c) increase in savings of common man, (d) high increase towards investment potential.

GST Council (GST Council, 2017): In order to implement GST taxation effectively in India, the Constitutional (122nd Amendment Bill) was introduced and passed by Rajya Sabha on August 3, 2016 and by Lok Sabha on August 8, 2016. The GST council was framed officially on September 8, 2016 after clearance from the Honorable President of India. As per Article 279A (1) of Amended Constitution, the GST Council was created by the President within 60 days of the commencement of Article 279A. The GST Council comprises of the following members: (a) Union Finance Minister- Chairperson, (b) The Union Minister of State, In - Charge Revenue of Finance - Member, (c) The Minister In-Charge or Taxation or any other minister nominated by each State Government - Members.

The GST Council was setup to perform the following duties:

Taxes, surcharges, cess of Central and States which will be integrated in GST,

Goods and services to be exempted from GST,

Interstate commerce - IGST - distribution between State and Central governments,

Registration threshold limit for GST,

GST floor rates,

Calamities special rates,

Provision with regard to special category rates, especially North- Eastern states.

GST Models: Considering the importance of taxation reforms and other countries' based GST implementations, the following are the various GST models that are designed and proposed by experts for successful implementation of GST:

The Kelkar - Shah Model

The Bagchi - Poddar Model

The Australian Model

The Canadian Model

The Kelkar - Shah Model: It is based on "Grand Bargain" to merge various taxes like Central Excise, Service Tax, and VAT into one common tax. According to the model, GST can be implemented as per the following four stages:

Stage 1: Establishing information technology systems.

Stage 2: Building Central GST.

Stage 3: Political effort of agreeing on "Grand Bargain".

Stage 4: Interaction with States.

The Bagchi - Poddar Model: It is similar to the Kelkar - Shah Model, which envisions the combination of Central Excise, Service Tax, and VAT into one common umbrella of VAT. The difference between Kelkar-Shah and Bagchi-Poddar model is that Kelkar-Shah model proposes tax collection at Central and State levels, while the Bagchi-Poddar model stresses only on the Centre. The Kelkar - Shah model is like the Canadian Model, while the Bagchi - Poddar Model is like the Quebec model.

Australian Model: The Australian GST model is federal tax collected by the Central government and then distributed to the State government. But as India is a heterogeneous country, this model is not applicable in India.

Canadian Model: The GST in Canada is dual between the Centre and the States and has three varieties:

Federal GST and provincial retail sales taxes (PST) administered separately - followed by the largest majority,

Joint federal and provincial VAT administered federally (Harmonious Sales Tax - HST),

Separate federal and provincial VAT administered provincially (QST) - only for Quebec as it is like a breakaway province.

GST Models - Adopted by Foreign Countries: Among various countries which have adopted GST, France was the first country to adopt GST in the year 1960.

Impact of GST on the Indian economy: The general tax regime of India is going to be affected by the Goods and Services Tax. It will also help to improve the GDP ratio, thereby reducing inflation in a fairly significant way. But for the manufacturing sector this reform will be most favourable, whilst some things are going to have a negative impact on the services sector. It is expected that GDP growth will be raised by 1% to 2%, but such data can only be analyzed once the Goods and Services Tax has been successfully implemented. As compared with countries such as China, Thailand, Australia and Canada, a mixed response to growth has been found in some countries like New Zealand where GDP is growing faster than any other country. Shokeen, Banwari & Singh, 2017). The GST rate is implemented in various slabs like 5%, 12%, 18%, and 28%, which will automatically provide great tax increments to the government and the manufacturing sector will face immense growth with reduction in tax rate. There is definitely something good for everyone. Various unorganized sectors which enjoy the cost advantage equal to tax rate which will be brought under GST. This will make various sectors like Hardware, Paint, Electronics etc. under the tax slab. GST requires everything to be planned meticulously for organized rate of taxation. There are still lots of sectors which are to be discussed under GST and this requires proper planning. For the common man and different companies, the collection of Central and State taxes will be done at point of time when sales originate, both components will be charged on manufacturing costs and price of the product will downgrade and consumption will thereby increase (Shokeen et al., 2017).

III. IMPACT OF GST ON VARIOUS SECTORS

Goods and Services Tax will unite the Indian economy into one common market under a single umbrella of taxation rates, leading to easiness of starting and doing businesses, leading to increase in savings and cost reduction among various sectors. Some industries will be empowered by GST because of reduction in tax rates, while some will lose because of high rate of GST interests. In this section, we discuss various sectors and elaborate the impact of GST on them:

IT Companies: GST will allow more implementation of digital systems and services. GST will increase the rate of tax from 14-15% to 18%, which will increase the cost of electronic products like mobile phones, laptops, etc.

FMCG Industry: GST will have a significant impact on the FMCG sector. Some food items are exempted under GST like grains and cereals, milk, meat, fish, fruits and vegetables, candy etc. Before GST, FMCG companies paid 24-25% tax including Excise Duty etc. With GST, the rate of return would be 17-19% leading to strong impact in production and consumption.

(iii) Online Shopping: With the introduction of GST, various E-commerce companies will face much burden of work in rate of filling taxes and cost will be increased.

Telecom Sector: With the current VAT charges of 15% being replaced by 18% GST rate, the price of mobile calling, SMS, and broadband services would be impacted. This will have a negative impact for big telecom giants like Airtel, Vodafone, Idea, etc.

Automobiles: GST will provide reduction on on-road price of vehicles to max by 8% as per the latest report. Lower prices mean various automobile companies can boost up volumes

Small Scale Enterprises: There are three categories: (a) below threshold, need not register for GST,

(b) between threshold and composition turnovers will have the option to pay a turnover based tax or opt to join the GST regime, (c) above threshold level, will be within the GST framework. Manufacturers and traders will pay less tax after GST Implementation.

Entertainment: With GST, taxes can do down by 2 - 4%, but the rate of tax for cinema lovers will be increased. GST will soon comprehend with demands and bring best for boosting up the film industry's business.

IV. CHALLENGES OF GST IMPLEMENTATION

The following are some of the major challenges for GST implementation in India:

Nature of Taxes: 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.

Types of GST: As GST would be of two types: Central GST and State GST and further division is required on the basis of utmost necessity and property based like need, location, geography, and resources which has to be worked upon.

Rates of Tax: Still the tax rate is not fully finalized and lots more has to be worked upon considering the standard of living of people, etc.

Tax Management and Technology Infrastructure: It is utmost necessary that proper management of tax and infrastructure is required to implement proper policies and plans.

V. CONCLUSION

It is mainly the idea of Goods and Services Tax that was invented in India several years ago but implemented by Prime Minister Narendra Modi on July 1st, 2017 with his government's able leadership. The new Government has seen many positive implications as set out in that paper, and they are strongly convinced of the implementation of a Goods and Services Tax in India. In line with the advice of experts, Goods and Services Tax is expected to boost India's economic development by making it easier for both central and state governments to levy taxes. In any case, India's tax system will undoubtedly be clearly and transparently transparent thanks to a Goods and Services Tax but it is also burdened by other challenges as detailed in the present paper. In order to successfully implement this approach, there is an increasing need for more analysis based research.

REFERENCES

- [1]. Abda S., Effects of goods and services tax on Indian economy, International Education and Research Journal, 3(5), 584-585 (2015)
- [2]. Baliyan M. and Rathi P., Impact Of GST On Different Sectors Of Indian Economy, International Journal of Innovative Research and Advanced Studies (IJIRAS), 5(3), 241-243 (2018)
- [3]. Chochan V., Shakti P. and Khan S., Measuring Awareness about implementation of GST: A Survey of Small Business Owners of Rajasthan, Pacific Business Review International, 9(8), 116-125 (2017)