International Journal of Management & Economics (IJME)
ISSN: 2231-4687
Vol.-13, Issue-1, January 2024

Goods and Services Tax (GST)

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ABSTRACT

Goods and Services Tax (GST) is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level. One of the biggest taxation reforms in India the (GST) is all set to integrate State economies and boost overall growth. Currently, companies and businesses pay lot of indirect taxes such as VAT, service tax, sales tax, entertainment tax, octroi and luxury tax. Once GST is implemented, all these taxes would cease to exist. There would be only one tax, that too at the national level, monitored by the central government. GST is also different in the way it is levied — at the final point of consumption and not at the manufacturing stage. At present, separate tax rates are applied to goods and services. Under GST, there would be only one tax rate for both goods and services. The goods and services Tax will indeed be a further significant improvement towards a comprehensive indirect tax reforms in the country. Integration of goods and services taxation would give India a world class tax system and improve tax collections. It would end distortions of differential treatments of manufacturing and service sector. GST is expected to create a business friendly environment, as price levels and hence inflation rates would come down overtime as a uniform tax rate is applied. It will also improve government's fiscal health as the tax collection system would become more transparent, making tax evasion difficult. An attempt is made in this paper to study the concept of goods and service tax and its impact on Indian economy. The study also aims to know the advantages and challenges of GST in Indian scenario.

Key Words*: goods n services tax, economic development, Indian economy and value added tax.*

INTRODUCTION

Taxes are the only means for financing the public goods because they cannot be priced appropriately in the market. They can only be provided by governments, funded by taxes .It is important the tax regime is designed in such a way that it does not become a source of distortion in the market or result in market failures. The tax laws should be such that they raise a given amount of revenue in an efficient, effective and equitable manner. Tax policies play an important role on the economy through their impact on both efficiency and equity. A good tax system should keep in view issues of income distribution and, at the same time, also endeavour to generate tax revenues to support government expenditure on public services and infrastructure development. GST stands for Goods and Services Tax. 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. If it is levied at a single rate and there are only very few exemptions, it becomes a proportional tax on consumption. In order to ensure that the tax burden is distributed according to the consumption of different individuals, it must be levied on the basis of the principle of destination, that is to say that the tax on a good should go to the state in which the concerned consumer lives. This automatically takes place if the tax is levied at only the central level, or if the state is a unitary one with only one level of taxation. In a federation, there are special problems to be solved if GST is to be levied at the level of the states as well as the federal government.

LITERATURE REVIEW

1. According to **Suresh (March 2, 2015)** the key point discussed includes centre to educate motivate and convince the state on being GST. This discuss was all about GST would cut down on their own revenue. The discussed pointed out that some sectors like construction, cigarettes, liquor were not in GST. EX: WHILE MAHARASHTRA wanted to keep Octroi with itself where as Telangana wanted the revenue from the stamps and registrations.

2. **BipinSapara (Feb 28, 2015)** in this article, analalized the expectations and curiosity whether implement of GST in India. However the finance minister set a positive aspect on enforce of GST and also he mentioned that o=it will play a transformative in India economy and also develop a common Indian market. There is a time limit of availing credit on input and input service and also being increased from 6 months to 1year. There is lot benefits are expected in GST in Indian economy and the

most important one it would provide seamless flow of credit across the supply chain for business.

3. **Seth and Dhasmana (august 18, 2015)** according to this articles, we have taken all the stops to implement GST. If this bill passes quickly. We would be able to roll out from the scheduled deadline. Only if there is a co-operation between central and state. If GST is implemented the consuming state will benefit from the first year itself. Whereas manufacturing states might initially faces losses first 2years. The advantage of GST is that we get India as one single unified market.

4. According to **S Krishnamurthy**, adjunct faculty in the finance and control area at IIM Bangalore**.** GST is a proposed tax reforms that centre around efficient and harmonized consumption tax system in the country. The introduction of goods and services tax will lead to the abolition of taxes such as octroi, central sales tax, state level sales tax. Entry tax, turnover tax, tax on consumption or sales of electricity, taxes on transportation of goods and services and eliminate the cascading effects of multiple layers of taxation.

5. **NDTV (December 18, 2014)** articles state that GST will enable the creation of a unified market for facilitating seamless movement of goods across states. There is expectation that if we implement GST is might reduce the transaction cost of business. Some of the companies like page industry GST will increase the tax burden. Secondly PVR cinema: implementation of GST might lead to lower entertainment taxes.

RESEARCH PROBLEM

The concept of Goods and Services Tax (GST) is the biggest tax reform in decades throughout the world, but India has been taking baby steps to meet its target of rolling out goods & services tax (GST) on April 1, 2016. The research intends to focus on understanding concept of goods and service tax and its impact on Indian economy.

OBJECTIVES OF THE STUDY

1. To understand how GST will work in India.
2. To study the concept of Goods and Services Tax (GST) and its impact on Indian Economy

RESEARCH METHODOLOGY

The research paper is an attempt of exploratory research, based on the secondary data sourced from journals, magazines, articles and media reports. Looking into requirements of the objectives of the study the research design employed for the study is of descriptive type. Keeping in view of the set objectives, this research design was adopted to have greater accuracy and in depth analysis of the research study.

CONCEPT OF GOODS AND SERVICE TAX

Goods and Service Tax (GST) is a comprehensive tax levy on manufacture, sale and consumption of goods and service at a national level. In simple terms, GST may be defined as a tax on goods and services, which is liveable at each point of sale or provision of service, in which at the time of sale of goods or providing the services the seller or service provider may claim the input credit of tax which he has paid while purchasing the goods or procuring the service. It is basically a tax on final consumption.

Under the GST regime, both the Centre and the State would have the powers to tax the supply of goods and services right from their primary stage to final consumption. At the centre's level, introduction of the GST will mean that it takes the place of central excise duty, service tax and additional customs duties. At the state level, the GST will take the place of State VAT.

GOODS AND SERVICES TAX IN INDIA

The introduction of GST in India is not an entirely new initiative, but it is to rectify certain basic implementation shortcomings of VAT. So, this is an attempt to improve the existing VAT system further and also the tax system of India.VAT was introduced in the Indian taxation system from April 1, 2005 in an effort to address the with the earlier Sales Tax. The States have switched over from a multiple point Sales tax to a Value Added Tax (VAT) covering all transactions of sale of goods within the State The essence of GST is to correct certain shortcomings of VAT like, the way it taxes inputs and outputs, bringing services under tax net, which is not possible under the VAT system. Hence, GST has been modelled as an extension of the current VAT that would make the tax system more comprehensive and smoother in its functioning

CHALLENGES FOR GST IMPLEMENTATION

Some expected hurdles to be adequately overcome could be as under:

- One time coverage: Share of revenue from such commodities, which would be kept outside the GST structure, e.g., petroleum products, tobacco, liquor, etc. However, Central Govt. can charge excise duty on tobacco products over and above GST.
- Numbers of taxes to be subsumed in the GST, for example stamp duty, property tax, toll tax, etc. are kept outside the GST structure.
- Uniformity of 4 rates across most products: All efforts should be made to keep the GST rate as low as possible.

Protecting present/future revenues of States- Compensation to the Under the GST structure, the tax would be collected by the States where the goods or services are consumed, and hence losses could be heavy for the producer States and the Centre would be required to compensate them for loss of revenue. The Centre had earlier come out with a similar scheme to compensate States for loss of revenue following implementation of value added tax (VAT), which came into effect from April 1, 2005. The compensation structure was 100% in the first year, 75% in the second year and 50% in the third year. Compensation was also provided to the States for loss of revenue due reduction in CST rate from 4% to 2%

Safeguarding interest of less developed states with low revenue – Due to switch over from origin based to destination based levy model could lead to safeguard the interest of less developed states, which are not major producers but major consumers. The consuming states to get more revenues.

Seamless credit system – restriction baggage. Presently, no cross credits are available across these taxes and the sales tax paid (on input) or payable (on output). Introduction of GST should thus rationalize tax content in product price, enhance the ability of companies to compete globally, and possibly trickle down to benefit the ultimate consumer. However, it is learnt that under the proposed GST regime, the Centre will give input tax credit (set off) only for Central GST and the States will give input tax credit only for State GST. Cross-utilization of credit between Central GST and State GST will not be allowed. Nevertheless, the dealers could claim set-off within the respective heads.

Transition from origin based to destination based: The only exception could be B2C end consumer supplies which could continue to be taxed in the state of origin of the supply.

Standardization of systems and procedures all over India- This includes items such as the taxpayer registration system, taxpayer identification numbers, tax forms, tax reporting periods and procedures, invoice requirements, cross-border trade information systems and IT systems.

Unfair dispute resolution with equal powers. A common dispute resolution mechanism [state+ centre] as well as a mechanism for giving advance rulings would further facilitate trade and industry.

Training/ Equipping Tax administration: Since the dual GST is considerably different from the present indirect tax regime, a massive training initiative would be required at both federal and State levels to familiarize the respective administrations with the concepts and procedures of the dual GST. However, the task is not limited to technicaltraining but also extends to a similar effort to reorient the attitude and approach of the tax administration in order to achieve a fundamental change in mindset.

Adoption of huge capacity IT to improve efficiency and credit states for input credit utilized as taxes collected would be on account of destination state.

Impact of GST on Various Sectors

Consumers: Generally the purchase price would reduce as tax content of most products would come down. However if a product has evaded tax completely then it may find increase. Further those items which are now taxable where tax rate earlier was zero may be more expensive as exemption and zero rated list may come down in the GST regime.

The tax paid would be transparent in the invoice given to the customer. No hidden taxes would have been paid. The difficult choice of paying more if bill demanded and less if without bill would over a period of time disappear as this is a self policing system.

The free flow of trade (over a period of time) between states and throughout the country would provide more choice to the consumer.

Traders: The impact of tax on the wholesaler or retailer would be limited to the value addition. The tax paid at earlier stages (except SGST of other states) would be available as set off for payment of GST on supplies. Therefore traders would prefer to buy/ receive supplies with invoice. The tax payable as a percentage of the supply value would be small whereby the compliance would be more cost effective than evasion. Cost of products and services would reduce due to the cascading effect of tax being reduced. Traders in GST regime can concentrate on growth into large entities instead of remaining small and fragmented.

Manufacturers: There would be a saving in taxes absorbed at various stages of manufactures thereby reducing the cost of goods sold. This would make them more competitive both in domestic and international markets. The exports wouldbe cheaper as taxes paid at earlier stages could be refunded. The difference between large manufactures and small would reduce. The indignity of harassments and bribe for honest manufacturers would substantially reduce over a period of time.

Service Providers: The present rate of tax on services is 14% (w.e.f 01.06.2015) which would be doubled in GST. This may seriously impact all the service providers especially who have long periods of realization. Those working on low margins may become unviable. The net tax payment maybe substantial as most advisory services the manpower costs is the maximum. Hardly any set off would be available. The goods used in providing the services would be eligible for credit. Hopefully the service exporters would see refunds coming promptly without a direct transaction cost. Present destination based to consumption based levy: Presently, service tax is levied at origin and is a destination based levy, the burden of which is borne by the end customer. Under GST, they would be taxed at the place of consumption.

Service tax-SGST levied by States: Under GST law, the service tax would be levied not just by Centre but also by the States who would be empowered to levy SGST by amendment to the Constitution of India. Taxes received by consuming State- If services are rendered from one State to another, then tax would ultimately go to the consuming State.

Government-Centre: The collection of Income tax would increase with increase disclosure. The country would as a whole reduce corruption and move up ethical chain gradually. The compensation of loss to the states on account of implementation of GST would be an outgo.

Government-State: The trading sector, manufacturing and service sector in the parallel economy would also get into the mainstream and pay taxes. This would lead to buoyant revenues over a period of time. The tax administration would be easier and cost of collection would be reduced.

Conclusion

More important, from the businessman and consumer perspective, this change is going to have substantial impact on the business as well cost to consumers depending upon the structure of the business and location of business and consumer. Therefore it becomes essential to restructure the business and location depending upon the assessment of implication of GST on each type of transactions. The impact analysis and planning for restructuring can be done only after the draft law is released. However as per the analysis of paper writer, the rate for goods would be lower than it is now in average by 3-4 %. Depending of components of cost, in case of most of the services, the cost to final consumer is going to go up by about 10%.

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