



## **GOODS AND SERVICES TAX (GST)**

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- **Abstract**

The introduction of Goods and Services Tax (GST) would be a very significant step in the field of indirect tax. The cascading or double taxation effects could be reduced by combing many central and state taxes. Consumer's tax burden will approximately reduce to 25% to 30% after introduction of GST. After introduction of GST Indian products would became more competitive in the domestic and international markets. This tax would instantly encourage economic growth. GST with transparent feature will prove easier to administer. In this paper I try to attempt to spot the concept of GST & its current status in India. Paper gives information about GST. The study also aims to be familiar with the advantages and challenges of GST in Indian scenario.

The Good and services tax (GST) is the biggest and substantial indirect tax reform since 1947. The main idea of GST 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 GST in India was mooted by Vajpayee government in 2000 and the constitutional amendment for the same was passed by the Lokshabha on 6<sup>th</sup> May 2015. The bill seeks to amend the constitution to introduce GST vide proposed new article 246A. This article gives power to legislature to every state and parliament to make laws with respect to GST where the supplies of goods or services take place. Despite the various amendments to the proposed

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transition, until the time GST is implemented, it would be worthwhile to assess its positive impact on the various development areas viz. Agriculture, Manufacturing industry, MSME, housing, poverty reduction, employment, price level, EXIM trade, GDP, government revenue etc.

- **Keywords:-**

Goods and services Tax, Gross domestic products, Budget, Development, Tax

- **Introduction:-**

This large quantity of taxes at the State and Central levels has brought about a complex indirect tax structure in the nation that is ridden with concealed expenses for the trade and industry. Indian Taxation System comprise of- Direct and Indirect Tax. Goods and Services Tax (GST) is one of the most discussed Indirect Taxation reforms. 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. So, GST is the need of the hour. Initially the idea was that there would be a national level Goods and Services tax. But as the release of first discussion by the empowered committee of the state Finance Ministers on 10.11.2009, it has been made certain that there would be a “Dual GST” in the country. Centre and state both governments are entitled to charge taxes on the goods and services. Almost 150 countries have introduced GST in some form. France was the first country to introduce GST in 1954. 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.

- **Objective of Study:**

1. To collect information of current tax system and analysis of tax by GST
2. To study the concept of Goods and Services Tax (GST) and its impact on Indian economy.
3. To understand how GST will work in India.
4. To know the benefits of GST in India context.

- **Methodology:**

The study focuses on extensive study of Secondary data collected from various published sources such i.e. magazines, newspapers, journals, books, and various other publications., National & international Journals, government reports, publications from various websites

which focused on various aspects of Goods and Service tax. The present study is descriptive in nature

- **Concept**

GST is an indirect tax which will include almost all the indirect taxes of central government and states governments into a uniform or whole tax. As the name suggests it will be levied on both goods and services at all the stages of value addition. It has dual model including central goods and service tax (CGST) and states goods and service tax (SGST). CGST will subsume indirect taxes like central excise duty, central sales tax, service tax, special additional duty on customs; counter veiling duties whereas indirect taxes of state governments like state vat, purchase tax, luxury tax, octroi, tax on lottery and gambling will be replaced by SGST. Integrated goods and service tax (IGST) also called interstate goods and service tax is also a component of GST. It is not an additional tax but it is a system to examine the interstate transactions of goods and services and to further assure that the tax should be received by the importer state as GST is a destination based tax.

- **Benefits of GST**

1. A single registration for both CGST & SGST will reduce transaction costs and also unnecessary wastages. To make this more effective Government has to provide necessary IT infrastructure & integration of States level with the Union.
2. With the introduction of GST, Tax on Tax i.e. multiplicity of taxation will be eliminated. A number of taxes currently levied on each level of transaction will be reduced. This will help clearing the confusion created by existing indirect taxes and also reduce the paper work associated with them.
3. There won't be any fear of taxation that may crop up at any stage of supply chain. This will not only help the business community to decide price modalities and supply chain but also the consumers in the long run. The goods will be competitive as the price will not be the main focus but the innovation and business intelligence will be.
4. Consumers will be benefitted the most as the average tax burdens will be reduced with the introduction of GST.
5. Implementation of GST will help reduce the corruption in the country, because GST reduces the multiple tax system.
6. Due to full end seamless credit manufactures or traders do not have to include taxes as a part of their cost of production which is very big reason to say that we can see a reduction in prices. However, if the government seeks to introduce GST with a higher rate this might be

lost.

- **Impact of GST on Indian Economy**

Amidst economic crisis across the globe India has posed on a beacon of hope with desirable growth targets, various schemes or missions like Make in India, Digital India etc. The Goods and Service Tax (GST) bill is expected to provide the much needed pace for growth of economy in India by transforming the existing complicated taxation system into single point taxation system in the country. Uniformity of tax will lead to single point taxation for supply of goods or services across country. GST would improve the country's tax to GDP ratio and also prevent inflation. However, with GST manufacturing sector may be benefitted but things may get difficult

for the services sector. It is expected that the GDP growth is likely to be raised up to 1 to 2%, but the results can only be analysed after the implementation of GST. By merging large no. of centre and state taxes into one single point taxation system will reduce burden on producers and foster growth through more production. Various toll plazas and tax barriers leads to a lot of wastage for perishable items being transported which leads into the increase the costs of goods. GST could eliminate this road block which leads to lowering of prices for essential goods. GST would prove to be beneficial for the manufacturing sector where the tax rate is very high like FMCG, Auto and Cement sectors as they are currently reeling under 24 to 38%. The service sector is going to be adversely affected as the current rate of tax is much lower than expected rate of GST. GST would also add to government revenue by widening of the tax base.

GST would be beneficiary for the sectors like FMCG, Pharmaceuticals, Consumer durables, Automobiles and logistic industries and will have negative impact on telecom, banking and financial services.

- **Impact of goods and service tax**

**i) Fast moving consumer goods sector:** The Indian FMCG sector is the fastest growing sector in the economy. FMCG sector is the major contributor in both direct and indirect taxes in the economy. Implementation of Goods and services tax will majorly influence Indian economy. The current rate of taxation in FMCG sector is around 22 to 25% and after GST rate is expected to be much lower which will result in reduction of prices of consumer goods.

**ii) Food Industry:** A large portion of consumer expenses of lower income families spend on food so if there is any tax on food will influence majority of the population or may be regressive in nature. In some of the countries like Canada, UK and Australia tax on food

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items is while in some countries like Singapore and Japan tax on food is negligible. So it would be ideal if the GST rates may be Zero or would be very low as it would affect people quite significantly.

**iii) Information Technology enabled services:** - The IT industry will not hamper by the implementation Of GST. The expected rate of GST in IT sector is 27% According to proposed plan if software transferred through electronic form will be considered under services and if by any other media it would be under goods. So the IT industry will make mix taxation.

**iv) Infrastructure sector:** - Development of Roads, Power, Railways, and Ports etc. are the major infrastructure sectors in India. As the taxation system in Infrastructure sector is very complex. There are exemptions and subsidies for this sector as it is very important for the development of the country. By the implementation of GST the complex tax will be removed and would increase tax base.

**v) Real Estate Industry:** The implementation of GST on real estate sector will effect partially. As the sale or transfer of immovable properties are not included in GST. However the procurement of materials of construction is falling under GST. The classification of goods and services is very important under this sector because it is very necessary to classify the things which will cover under GST and which are not. The implementation of GST will affect same as in service sector.

**vi) Transportation Industry:** GST on transport sector will result in more efficient cross state transportation. It will bring down the logistics cost, reduced times for transportation. Currently all the 29 states of India collect taxes at different rates on goods that move across the state borders that's why the tax on transportation is collected multiple times. This will make long delays at different interstate checkpoints for reviewing by state authorities who checks for the application of relevant taxes and other levies. This causes the delays for an average of 6 to 7 hours. GST would replace around 15 state and federal taxes and tariffs for a single tax at the point of sale of goods.

**vii) Pharmacy Industry:** India is the largest producer of Generic Medicines and the country's pharmaceutical Industry is 3<sup>rd</sup> largest in the world currently. The implementation of GST would have a constructive effect on Healthcare industries particularly Pharma. It will help the industries by sorting out the taxation structure since 8 different types of taxes are enforced on pharmaceutical industries today. The merger of all the taxes into one uniform tax will ease the way of doing business. GST would also improve the transportation and supply

chain of pharmaceutical products.

**viii) Textiles Industry:** It is expected that the tax rate in GST would be higher in textile industry as per the current tax rate. Cotton and wool fibre which are currently exempted from tax would come under tax in GST but the textile industry may be beneficial from GST as manufacturing costs may be reduced due to subsume of various taxes like octroi, entry tax, luxury tax etc. There will be few drawbacks also but GST will support the industry in long run.

**ix) Services Sector:** Services sector of India consists of 60% of the GDP. The GST rate for services is expected to be 18 to 20% which is higher than the current rate of tax that is 15%. So there will be increase cost for services like Banking, Telecom and Insurance.

**x) Agriculture Sector:** The GST on agriculture sector will have a positive impact as all the taxes will be subsumed under a single rate of tax. So the movement of agriculture commodities between states will be easier & hassle free which will save time and remove wastages for the transportation of perishables items.

- **Conclusion**

Taxation system is very important for the economy because they maintain equity of income group. Consumption and productions of goods and services undeniably rising and because of multiplicity of taxes in current tax system organization complexities and conformity cost is also increasing. Accordingly, a simplify user -friendly and transparent tax system is required.

At present Indian economy have a major change in the taxation system. On 1<sup>st</sup> July the new tax system will be implemented that is Goods and Services Tax (GST). It will solve the problem of complexity of tax system because it will replace the current tax system of India. A single tax system will remove all other complex taxes of centre and state government like Vat, Cenvat, Luxury tax, Octroi, Entry tax etc. By the implementation of GST cost of manufacturing of goods will reduce. The cost of consumer goods will reduce. The Pharmaceutical industry is also benefitted as there is 8 types of taxes are bear by them in current scenario after GST these taxes will remove to one single tax. Similarly the impact of GST on all other sectors like Infrastructure, textile, IT, Agriculture, Food Industry, Transport, Real estate industry will positive and all the sectors will be benefitted with the implementation of GST. No doubt that GST will give India a world class tax system by grabbing different treatment to manufacturing and service sector. GST will provide relief to producers and consumers by providing wide and comprehensive coverage of input tax credit

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set off. Service tax set off and subsuming the several taxes. GST is likely to improve tax collection and Boost India's economic development.

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