



Goods and Services Tax (GST) –A Best Tool for the Indian Economy

Abhilasha Bharti

T. M. Bhagalpur University

Bhagalpur, Bihar

Abstract –

The present paper is focuses on GST & the Development of Indian Economy. It is rightly said that “Law cannot stand still, it must change with the changing social concepts and value. If the law fails to respond to the needs of the changing society, then either it will stifle the growth of society and choke its progress” P N Bhawati. The Introduction of Goods and Services Tax (GST) is one of the landmark fiscal reforms in Indian history. At present a number of indirect taxes are levied on goods and services by both Central and State Governments. With the advent of GST, only a single tax will be levied and all the other indirect taxes will be abolished. The government has released the draft model GST laws in June 2016 which gives a glimpse of what lies ahead. The biggest “one nation- one tax” indirect tax reform is all set to become a reality and with a host of substantial changes in the manner of taxing goods and services, it is imperative that the stakeholders gear up for this new regime in due course of time., so that once the new law comes into force, coping up with the new requirement does not cause an adverse procedural hurdle to the operational efficiencies of the businesses.

Key words – GST, Indian Economy, Best Tool

Introduction

Introduction of an Goods and Services Tax (GST) to replace the existing multiple tax structures of Centre and State taxes is not only desirable but imperative in the emerging economic environment. Increasingly, services are used or consumed in production and distribution of goods and vice versa. Separate taxation of goods and services often requires splitting of transactions value into value of goods and services for taxation, which leads to

greater complexities, administration and compliances costs. Integration of various Central and State taxes into a GST system would make it possible to give full credit for inputs taxes collected. GST, being a destination-based consumption tax based on VAT principle, would also greatly help in removing economic distortions caused by present complex tax structure and will help in development of a common national market. It is 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, the new tax will be a further significant breakthrough and the next logical step towards a comprehensive indirect tax reform in the country.

Objectives

1. To study various aspects of Goods and Services Tax (GST), its features and advantages
2. How it will boost the Indian economy.
3. To study the Goods and Services tax model of a few countries and bring out how Indian GST model is best among all considering countries social and economic conditions
4. To examine the barriers in the implementation of GST in India.

Hypothesis

The Implementation of GST in India will not only bring the better compliance to the taxation but also will help the economy as a whole and will pave the way for the development of our country on both economic and social front.

Research Methodology

The study is based on the secondary data collected from different published sources such as journals, recent publications, in newspaper, magazines and websites. It is exploratory in nature. Further from the point of information, the different web information as updates from time to time has also been consulted. From the present study, the modelling descriptive research design has been employed with the matching of its objectives and to look at the accuracy in the analysis to draw concrete conclusions.

GST JOURNEY IN INDIA IN DETAIL

1) **Year 2000:** The Vajpayee Government started discussion on GST by setting up an empowered committee. The committee was headed by Asim Dasgupta, (Finance Minister, and Government of West Bengal). It was given the task of designing the GST model and overseeing the IT back-end preparedness for its rollout.

2) **Year 2002-04:** The **Kelkar Task Force on implementation of the Fiscal Responsibility and Budget Management Act, 2003(FRBM Act)** had pointed out that although the indirect tax policy in India has been steadily progressing in the direction of VAT principle since 1986, the existing system of taxation of goods and services still suffers from many problems and had suggested a comprehensive Goods and Services Tax (GST) based on VAT principle. GST system is targeted to be a simple, transparent and efficient system of indirect taxation as has been adopted by over 130 countries around the world. This involves taxation of goods and services in an integrated manner as the blurring of line of demarcation between goods and services has made separate taxation of goods and services untenable.

3) A proposal to introduce a national level Goods and Services Tax (GST) by April 1, 2010 was first mooted in the Budget Speech for the financial year **2006-07**. Since the proposal involved reform/ restructuring of not only indirect taxes levied by the Centre but also the States, the responsibility of preparing a Design and Road Map for the implementation of GST was assigned to the Empowered Committee of State Finance Ministers (EC). **In April, 2008**, the EC a report to the titled “A Model and Roadmap for Goods and Services Tax (GST) in India” containing broad recommendations about the structure and design of GST. In response to the report, the Department of Revenue made some suggestions to be incorporated in the design and structure of proposed GST. Based on inputs from GOI and States, The EC released its First Discussion Paper on Goods and Services Tax in India on the **10th of November, 2009** with the objective of generating a debate and obtaining inputs from all stakeholders.

5) A dual GST module for the country has been proposed by the EC. This dual GST model has been accepted by centre. Under this model GST have two components viz. the Central GST to be levied and collected by the Centre and the State GST to be levied and collected by the respective States. Central Excise duty, additional excise duty, Service Tax, and additional duty of customs

(equivalent to excise), State VAT, entertainment tax, taxes on lotteries, betting and gambling and entry tax (not levied by local bodies) would be subsumed within GST.

6) In order to take the GST related work further, a Joint Working Group consisting of officers from Central as well as State Government was constituted. This was further trifurcated into three Sub-Working Groups to work separately on draft legislations required for GST, process/forms to be followed in GST regime and IT infrastructure development needed for smooth functioning of proposed GST. In addition, an Empowered Group for development of IT Systems required for Goods and Services Tax regime has been set up under the chairmanship of Dr. Nandan Nilekani.

7) A draft of the Constitutional Amendment Bill has been prepared and has been sent to the EC for obtaining views of the States.

8) The **Goods and Service Tax Bill** or **GST Bill**, officially known as would be a Value added Tax (VAT) also passed from Rajya Sabha on 3 August 2016 with amendments. After moving to Loksabha it approved on 08 August, 2016.

GST stands for “Goods and Services Tax”, and is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. It will replace all indirect taxes levied on goods and services by the Indian Central and State governments. It is aimed at being comprehensive for most goods and services. It seeks to subsume various taxes as far as Central and State Government are concerned, into a Uniform Goods and Services Tax. It involves pooling in of sovereignty of the states at the centre so as to have better and more modern conducive system, which would help assesses, which would raise larger revenues and eventually given boost to the Indian economy. It would convert India into one uniform economic market with a uniform tax rate bring about a seamless transfer of goods and services across the country, enabling to check evasion and there boost revenue

Tax Structure under GST Law

The Bill proposes that both the Centre and States would be entitled to impose GST on the supply of goods and services within a State at the same time. In fact, every supply of goods and services would be subjected to the following taxes

- CGST- Central Goods & Service tax levied by Centre
 - SGST- State Goods & Service tax levied by State.
- } for the intra-state supply

- **IGST- Integrated Goods & Service tax** – This tax will be attracted on inter-state supply of goods & services and will be levied and collect by the Central Government. This is applicable if the supply between two states.

Tax to be subsumed

In the parlance of GST Bill, taxes at the centre such as central excise duty (except duty on petroleum) service tax, additional customs duty (CVD), surcharges and all cesses will be subsumed under CGST. While VAT, CST (other than on petroleum), entertainment tax (except levied by Panchayat Municipality or District level) . Entry Tax not in lieu of Octroi, Betting tax Luxury tax Lotteries, Surcharges and Cesses will be subsumed under SGST. However stamp duties imposed on legal agreements by the state would be continued. Tax on newspapers and advertisements therein will be subject to GST, would give substantial increase in revenues since these are tax free in the existing system.

Duties and Taxes which are proposed to be subsumed in GST

| CGST | SGST | SGST |
|--|--|---|
| <ul style="list-style-type: none"> • Central Excise Duty • Additional Excise Duty • Additional Excise Duty on Medical and toilet Preparations • Additional Duty u/s 3(5) of Customs Tariff Act • Countervailing duty • Service Tax • Surcharge And all cesses | <ul style="list-style-type: none"> • VAT/sales tax • Entertainment Tax (Except Local Body) • Taxes on Gambling, lottery • Lottery tax • Octroi(Entry tax) • Purchase tax • Luxury Tax | <ul style="list-style-type: none"> • Central Sales Tax (CST) |

The following items are subsumed in GST

- Petroleum products
- Taxes on Alcoholic liquor for human consumption
- Tax on entertainment and amusement levied and collected by Panchayat/ Municipality/ District council (Local body of State)
- Stamp duty
- Customs duty
- Taxes on consumption or sale of electricity

Centre would impose the following taxes after implementation of GST

- Taxes on goods or passengers carried by railway, sea or air.
- Stamp duty on Bill of Exchange
- Taxes on sale or purchase of newspaper and advertising

State would impose the following taxes after implementation of GST

- Taxes on Lands and Buildings
- Taxes on animals and boats
- Taxes on Trade and profession

Goods and Service Tax models of a few countries

Australian Model: In Australia GST is a federal Tax, collected by the Centre and distributed to the States. But India is heterogeneous country and there is no chance that states may allow the Centre to collect all the taxes while they become just spending institutions.

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

1. Federal GST and provincial retail sales tax (PST) administered separately –followed by the largest majority.
2. Joint Federal and provincial VATs administered federally (Harmonious Sales Tax (HST).
3. Separate Federal and Provincial VAT administered provincially (QST) – only for Quebec as it is like a breakaway province.

VAT (GST) in the European Union (EU):

The European Union (EU) is unique in the sense that it comprises of several countries which have their own laws and tax legislation but these have conform to a common charter i.e. the EU directives

The EU is a politico-economic union of 28 Member States that are located primarily in Europe. Presently the following countries are members of the EU: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovak Republic Slovenia, Spain, Sweden, and the United Kingdom.

The EU operates through a system of supranational institutions and intergovernmental negotiated decisions by the Member States. The supranational institutions are the European Parliament, the European council , the council of the European union., the European commission, the court of Justice of the European union the European central bank and the court of Auditors

For the purpose of achieving single market the EU has developed a standardised system of law and policies that apply in all members states ensuring free movement of people, goods services and capital goods across Member states. The EU Value Added Tax (EUVAT) is one such legislation. This tax is levied on goods and services supplied within the EU. While the EU's supranational institutions themselves do not collect the tax. EU Member States are each required to adopt a VAT legislation that compiles with the EU VAT code

Challenges and Basic questions in general in the implementation of GST in India are given as under- Transitional issues

- Which Commodities and services will remain out of the GST network? Although some indication has been given in the constitution Amendment bill but one has to wait for the final outcome.
- Which taxes will be subsumed in GST? Various authorities from time to time have said that that all indirect taxes levied by Central and State Governments will be subsumed in GST. But there are variances in various reports circulated so far. One important question is whether Octroi, LBT ,Electricity Duty etc will form part of GST or will continue to be levied separately? Ideally all such taxes which are being levied at present by all Government authorities (whether Central, State or Local) on any kind of transaction related to goods and services should get covered by the GST, But whether there is consensus on this issue?
- Which are the commodities and services to remain tax free (zero rated) within GST? At present there is a long list exempt commodities under the excise law. There are separate list of items exempt under the VAT laws of each state. Whether it will be common list of exempted (Tax free) goods and services for CGST and SGST or it will differ from State to State? Further can there be a situation where an item is exempt from SGST in a particular state but liable to tax for CGST or vice verse?
- What will be the rate of tax on sale/ supply of taxable goods and/or services/ Whether it will be one single rate of GST applicable to all such goods and services or there will be schedule specifying different rates of tax applicable to different types of taxable supplies?

- Further how the proportion of CGST and SGST will be worked out? Whether it is rate of GST which will be divided in 2 parts ie CGST and SGST or the GST rate is sum total of CGST rate and SGST rate. Thus whether the effective rate of GST may be different , State to State
- Whether the rate of SGST on a particular kind of Goods or services can be different from one State to another?
- How the transition process will take place , particularly with reference to accumulated credits etc. as on the date immediately prior to the date of implementing the new regime?
- Status of Existing Input Credit lying under CENVAT and VAT – Unutilized Cenvet credit in respect of inputs, capital goods and input services – 50% Cenvat credit not availed on capital goods – Rejection of material out of the material procured from the date of implementation and treatment of duty thereof
- Goods in Transit or sale of goods on approval basis;
- Ongoing contract / agreements, purchase orders, work orders
- Goods are supplied prior to GST but the invoice is not raised
- Services are provided / completed prior to GST but the invoice is not raised
- Services are provided partially and the invoice for the part of the services is not raised
- Where advances has been received but goods are not dispatched from the factory till implementation of GST and Excise duty is yet to be discharged
- Advances for services received and taxes thereon also has been paid prior to GST but the invoice and provision of services takes place under GST regime
- Advance for service received and the corresponding invoices als raised prior to GST but services is yet to be provided

- The invoices for goods/ services has been raised prior to GST but activities are yet to be completed.
- Various forms like Form “C”, “F” not provided in relation to the transaction pertaining to pre GST regime
- In case of imported goods, Bill of Entry not filed / assessed till the time of implementation of GST
- Sales made prior to GST but sales return under GST regime
- Goods and services taxable at different rate(s) under pre and post GST regime
- Pending refund claims, litigations, assessments prior to GST
- Creating awareness / imparting training or education on GST
- Taxable Event in GST: The term ‘supply’ has not been defined in the Constitution Amendment Bill.

Conclusions

In GST it may be evidently laid out that it is increasing proximity of our tax system to the global tax system. In a way it may boost our economy and enable us to compete at the global front. As a result, even our system may match the international phenomenon. This is the biggest advantage of such a system. But every system has its own intricacies embedded at the initial stages. Lower incidence of tax, reduced prices , a move towards global concept, reducing cost of tax compliance, better revenue collection, an efficient and harmonised consumption tax system in the country all this looks good on paper but considering the various constitutional , technological, procedural barriers the implementation of GST seems easier said than done.

Some critics may not even hesitate in remarking that such a system is the old wine served in a new bottle. Thus careful appraisal of the recommendations is required.

But overall the GST bill is a positive development towards the introduction of GST as a simple, transparent and efficient system of indirect taxation, since it includes SGST and CGST with IGST as a novel idea which is not there elsewhere in the world. It can definitely overcome the cascading effects of taxes on the cost of goods and services and progress into nationwide unified

market. Tax experts say that GST likely to improve tax revenue of both the government and boost the economic development of the country,

References

1. Dr. J. P. Bhosale Goods and Services Tax (GST) – A revolutionary steps towards development for the Indian Economy
2. Datey V.S. (2010) GST- “ Major Changes in Indian Tax Structure” ‘ The Chartered Accountant Student, Student Journal of ICAI Vol. SJI, Issue Jan 1, P. 22-28.
3. Bajaj R.K (2016), Model GST Law- Transitional Provisions” The \Chartered Accountant Journal of ICAI Issue December Volume 65, P.110-114.
4. First Discussion Paper on “Goods and Services Tax in India”. The Empower Committee of state Finance Ministers, New Delhi, Nov, 10,2009
5. ICWA – Management Accountant Journal
6. [http:// www,caindia.org](http://www.caindia.org)
7. Updates on GST, www.clubindia.com