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## Goods and services tax (The renaissance in Indian taxation)

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### Abstract

Goods and services tax which is ought to replace the indirect tax is considered the major tax reform in Indian economy. It can easily eliminate all the burden of cascading effect in our indirect tax system by which the procedure of levying tax become simpler and easily understood by the general public. These reforms have the positive vibes to improve our GDP, Improve our exports, creating a strong robust structure of small and medium enterprises for domestic usage and their by boost our countries economy on which countries prosperity depends up on.

As goods and services tax soon arriving which is considers being much awaited tax reform in India taxation system. This report presents our current under standings on how GST operates in India, about GST council and its power, about GST network and how it's going to work in India, what are its major cause of concerns and what effects does it make in the taxation are studied and thereby its merits and demerits are proposed on the basis of our observation.

**Keywords:** GST–GST council - operations – effects of GST – merits and demerits of GST

### 1. Introduction

Tax is the most vibrant source of income to the government. A tax is a primary and compulsory payment levied by the government on individuals or companies to meet the expenditure which is required for public welfare.

Tax is the income generated by the government from the people or organization, for efficient and effective public administration. So tax is the chief component for the country's economy and reflects the growth of the country.

#### 1.1 Taxation in India

Tax cannot be imposed as it is. It should in the form of law. A certain procedure execution governed by independent bodies which is answerable to the state legislative has to be maintained. It is not that easy to implement taxation in India with a huge population of 1.252 billion and 60 percent of its economy depends on agriculture.

#### 1.2 Brief History of Indian taxation

**Table 1**

YEAR	CHANGES
1860	Tax introduced in India by Sir James Wilson
1866	Separate income tax act passed.
1922	Amendments were made in the act. (This was continued till the British era in India)
1956	Law commission was setup by India. (With main aim to simplify and prevent the evasion of tax)
1961	Income tax act passed in India.
1962	Income tax act bought in to force. (Applied to whole India and sikhim including Jammu and Kashmir)

This implies the taxation in republic of India is well structured. A statutory body i.e. the department of Revenue of the finance ministry of the Indian government is responsible for the implementation levy and collection of taxes.

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Though some taxes are levied by different state government and local bodies' revenue department is the chief executor the prospective. The amendments in taxes are mainly due to three reasons.

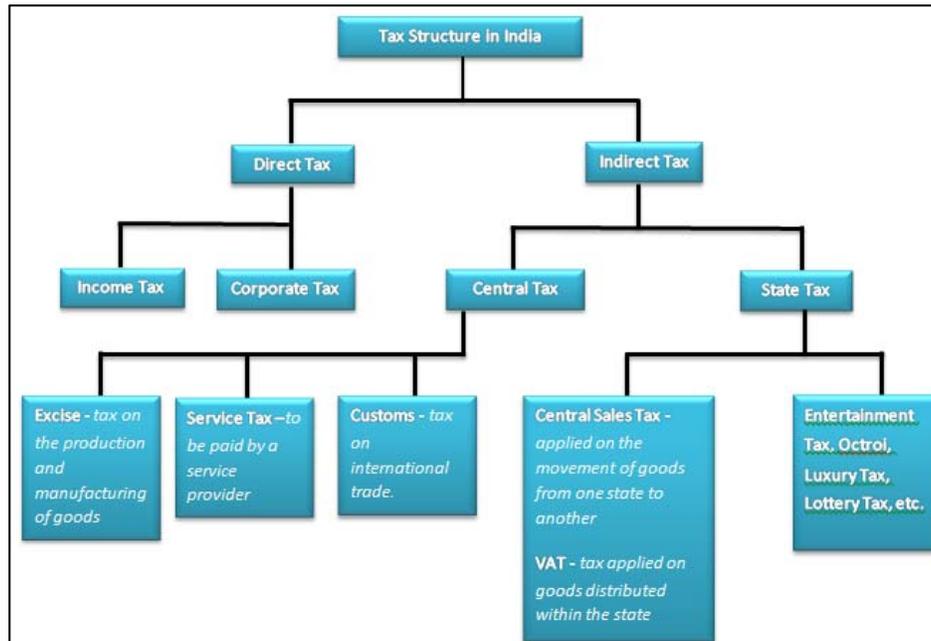
- Better compliance
- Better enforcement
- Easy payment of levy taxes

By this it very much clear that Taxation in India is not an overnight effort it is the result of series of amendments over years which compromises of sincere efforts of the

government, brainstorming of the intellectuals and patience and silence baring of the general public.

## 2. Tax structure in India

Tax system of the Indian government is well structured. Maximum revenue for the government is in the form of tax. In last ten years Indian taxation had met tremendous change. The tax rates have been streamlined and laws have been simplified resulting in better compliance, ease of tax payment and better enforcement. Taxation in India is broadly classified in two types



Source: Compiled from various sources

Fig 1

### 2.1 Direct tax

In direct tax the burden of payment of tax directly falls on the tax payers. **CBDT** formed in the year 1944 act as an advisor and conscience keeper of **IRS** heads over the direct taxes in India.

#### Examples of direct tax in India

**Income Tax:** Tax levied on individuals whose total income exceeds maximum exemption limit set by the finance ministry.

**Corporate Tax:** Tax levied on the companies which are operating in India (Both Indian and foreign companies) are taxable under this.

### 2.2 Indirect Tax

Indirect tax which is collected by the government from the sources like manufacturer or retailer etc. The burden of the tax falls on the end consumers who buy goods and services from them, as Examples of indirect tax

- Sales Tax: Tax that levies on sales of goods. Union government imposes sales tax on interstate while state government levies tax on intrastate sale.
- Service Tax: Tax which paid by the end users on the basis of service provided to them.

- VAT: VAT is a multi-stage tax which is levied at each step of production of goods and services.
- Customs Duty: Tax collected from the goods which are imported to India from other countries.
- Excise Duty: This is levied on the goods which are produced within the countries.
- Anti-Dumping Duty: This tax levied on the goods which are exported at lower price than normal price by the nation to other nation.

### 2.3 Other Taxes

- Property Tax: Tax levied directly on property.
- Gift Tax: Tax which is levied on your gift (Exemptions up to 50,000)
- Wealth Tax: Tax based on the market value of assets owned by an individual.

## 3. Goods and service tax in India (GST)

In developing countries, Indirect tax provide with a higher share of total tax, where as in developed countries their contribution is significantly low.

Since India is a developing country with GST, it is anticipated that tax base will be broad, as virtually all goods and services will be taxable, with minimum exemptions. GST will help to remove cascading effect on tax on the cost of goods and services.

Maximum income to the Indian government is in the form of tax in that indirect tax comprises nearly 30% of total tax. GST is going to replace all indirect tax which is change the reform for the Indian economy by creating a common Indian market and reducing the cascading effect on tax on the cost of goods and services. Once GST is implemented in India it will impact the following.

- ⇒ Tax structure
- ⇒ Tax incidence
- ⇒ Tax computation
- ⇒ Tax payment
- ⇒ Complete overhaul of the current indirect tax system.

In the year 2006 VAT was first introduced in India and GST is the regime which can be the official conclusion of the VAT. GST in a standard format is going to replace all the centre and state indirect taxes which is collected by a one single authoritative body, but in our country the system of Governance is “Federal” and both centre and states have the power to collect indirect taxes in one form or another. It clearly shows “Dual GST” in which both state and centre will collect tax simultaneously on a single transaction supply of goods and services in the form of SGST and CGST and in further to monitor the transaction between the interstate 1[movements of goods will be in the form of IGST.

**Is GST a single tax or Single centralized?**

Initially when central government announced that GST is going to implemented they states that GST will be collected by centre alone later it will be distributed among the states and the centres. This was the standard format of goods and service tax.

In our country states have also right to collect indirect taxes on sale of goods hence the Single Centralized form of GST was rejected by the states at the initial stage. Hence this compromised format of Dual GST is going to be introduced in our country

**3.1 History of GST**

**Table 2**

Year	Road Map
2000	Our former prime minister Mr. Vajpayee has started discussion on GST
2006	Our former finance minister Shri P. Chidambaram moved towards GST in his budget and proposed to introduce in by 1st April 2010
2009	However the empowered committee of state finance minister relates its first discussion on GST
3 Aug 2016	GST officially would replace VAT passed from Rajyasabha on 3rd august 2016
8 Aug 2016	Loksabha approved it.
1st April 2017	GST is going to implement 1st April 2017.

**Source:** Compiled from various source

GST can either succeed or fail but keeping the GST’s success aside. The fall of GST will have considerable adverse effects in our economy. Therefore the lawmakers should be cautious about this fact because once GST is imposed it will be very difficult to roll it back.

**3.2 Enrolment for GST**

GST portal has already started and enrolments are going on for some of the states which was closed in some states process are going on and in some states are waiting. Initially Indian government announced that the VAT dealers data will be transferred to the GST but later government withdrawn that and decided to get the dealer to dealer individual data to the GST portal. Some of the basic data like Name of the Dealer, Trade name etc are automatically transferred to the GSTN this user ID and password enables the user to login by which he can access the further details.

**3.3. About GSTN (Goods and Service Tax Network)**

GST system will be in the process of filing of returns will be totally based on the information technology. And this was fully taken care by GSTN a non-profit making company formed on March 28 2013. In this Indian government holds 24.5% equity in GSTN and the empowered committee of state finance ministers together holds 24.5% balance 51% equity is with non-profit government financial institutions. The company has been initially set up to provide IT infrastructure and services to the central and state government tax payers and other stakeholders for implementation of the goods and service tax. The Authorized capital of the company is Rs 10, 00, 00,000 (Rupees ten crores only)

**Table 3**

Govt Of India	24.50%
Csfm	24.50%
Non-Govt Financial Institutions	51%

GSTN Network share holding pattern

**Table 4**

Name	Percentage
Hdfc	10%
Hdfc Bank	10%
Icici Bank	10%
Nse Strategic Investment Co	10%
Lic Housing Finance Ltd	11%

Non-Govt Financial Institutions Share Holding Pattern

**3.4 GST Council**

The GST bill seeks to setup council. According the GST bill, when the act coming in to force the president must enact on it by setting up a GST council. The GST council is established under the chairmanship of Honorable finance minister of India and includes the finance ministers from various states and minister of state department of finance of Govt of India

**Important Task of the GST Council**

As per Article 279A (4), the Council will make recommendations to the Union and the States on important issues related to GST, like

- The taxes, cesses and surcharges levied by the central, The states and the local bodies which may be subsume in the goods and services tax
- Goods and services which may be subject to, or exempt from GST.
- Model GST laws, principles of levy, apportionment of IGST and principles related to place of supply.
- The threshold limit of turnover below which goods and services may be exempt from GST.

- The rates including floor rates with bands of goods and service tax.
- In case of natural disaster, a special rate or rates can be enforced which will allow to raise additional resources for a specific period.
- Special provisions with respect to the eight north eastern states, Himachal Pradesh, Jammu and Kashmir, Uttarakhand, Arunachal Pradesh, Assam, Sikkim, Tripura, Manipur, Meghalaya, Mizoram, Nagaland.
- And any other matter relates to GST will be decided by the council.

Additional to this GST council will be recommend when the petroleum products are brought under this. GST has to resolve the disputes arising out. Due to this provision this was strengthened the power of the GST council. GST council is the core and the most powerful bodies ever established in India after independence to monitor the indirect taxation system of the country

### 3.5 Voting Power in GST Council

In GST council the centre has 1/3rd voting power States have the 2/3rd voting power but the decision of the GST council will require 3/4th majority.

### 4. Operation pattern in GST

India opted dual GST model it contains of 3 major components.

1. SGST
2. CGST
3. IGST

SGST – this tax is collected by the state government i.e. sale and resale of good and service are within the state.

CGST – This tax is collected by the central government i.e. sale and resale of goods and service are within the state.

IGST – This tax is collected by the central government i.e. sale and resale of goods and services happen among the states i.e. interstate sales.

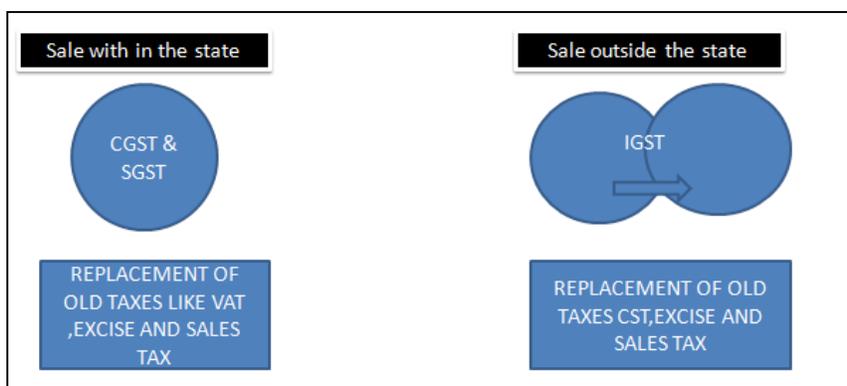


Fig2: Source: Compiled from various sources

### 4.1 Operation of GST

Let us consider the following scenarios for better understanding of GST

#### Case 1: Sale and Resale in the Same State

Consider goods moving from different places in the same thus the goods are levied CGST and SGST on them. Sales prices increased so tax liability will also increase.

**Example:** Goods are moving from Nellore to Vijayawada and then to Kadapa as the goods are moving within the same

state the goods undergo CGST and SGST, ie when the goods are moving from Nellore to Vijayawada they are levied by CGST and SGST and when the resale of the goods happens in Kadapa sale price is increased, increase in sale price results in increase in tax liability so credit tax ( tax collected when the goods are moved from Nellore to Vijayawada ) are deducted from the total tax and the rest of the tax are collected by the respective bodies.

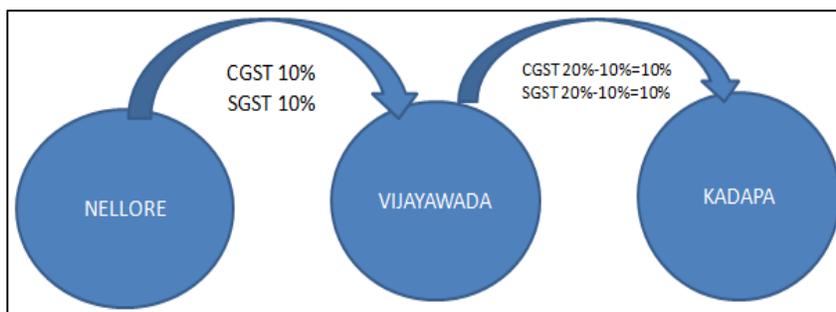


Fig 3: Source: Compiled from various sources

#### Case 2: Sale in One State and Resale in another State

Now consider the goods moving from Nellore to Vijayawada and then to Chennai. When the goods are moved from Nellore to Vijayawada and sold they under

CGST and SGST in the same manners stated above but when the goods move to Chennai to another state i.e. TAMIL NADU IGST is levied on the goods. here the credit tax of

CGST and SGST are deducted from the tax collected in Chennai i.e. IGST, i.e. iGST – (input credit tax of CGST and SGST) but the CGST never went to the central

government, still credit is claimed THIS IS THE CRUX OF THE GST as this is loss to the central government the state government compensates to the central government.

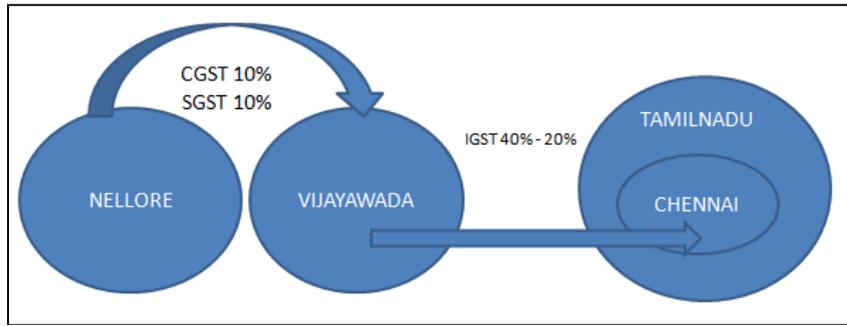


Fig 4 Source: Compiled from various sources

**Case 3: Sales out Side the State and Resale In That State**  
 In this case consider the goods moving from Vijayawada i.e. (Andhra Pradesh) to Chennai and resale in Madurai (Tamil Nadu) firstly here the sales are in between the states is from Andhra Pradesh to Tamil Nadu so IGST is implemented first and then the resale of the goods within the same state

i.e. Tamil Nadu, here goods are to be laid CGST AND SGST. From CGST and SGST -50% of IGST are deducted, as the credit tax and the remaining is collected. But here the IGST never went to the state government which is a loss to the state government so the central government has to compensate the loss to the state government.

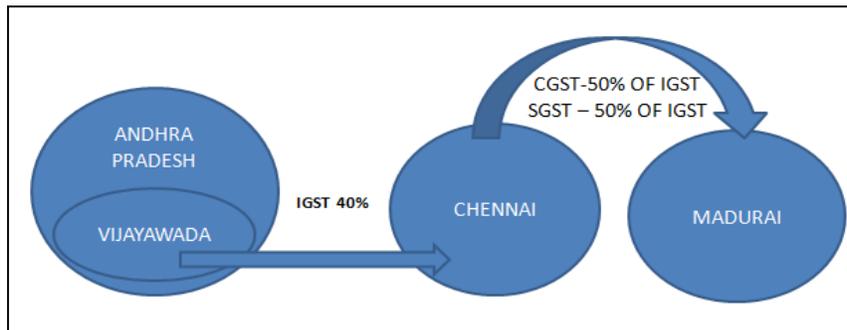


Fig 5: Source Compiled from various sources

**4.2 Compensation to the States**

One of the main hurdles which kept the GST constitutional amendment bill pending for long was the demand for assured compensation to the states by the central government for the losses which may arise from the changeover to GST in the first five years of the GST roll out. Central government has accepted this demand and it says loss will be compensated by us to the states by law, for the loss of revenue arising on account of implementation of GST for a period of five years.

Mechanism for determining the amount of compensation to be levied and collection of GST compensation cess, Compliances on compensations cess, etc.

Compensation payable to the state shall be calculated on any financial year on the basis of difference between the projected revenue for that financial year and actual revenue collected during that financial year. Projected revenue for states shall be calculated by applying the projected growth rate (which may be 14%) over the base year revenue which is the sum of revenue collected in the form of specified taxes by the state and local bodies during the financial year.

The main drawback on this compensation central government has said that compensation will be paid to state if shortfall in revenue of the state government, the central government fails to consider whether the loss met by state government is because of implementation of GST or not.

**5. Effects of GST**

The primary impacts which India undergoes on implementing of GST can be:

1. **Increase in rate of Employment:** The primary way get India of the poverty is to have manufacturing revolution most of the entrepreneurs do not setup factories in India is due to complexities in taxation by implementing GST the primary hurdle for the entrepreneurs to start their operations in country is removed by which more and more factories are created. Increase factory count shows increase in the productions which finally end up increased employment opportunities.
2. **Better Government Services:** When government makes more revenue through GST they try reduce tax and increase the effective services this facilitate government to concentrate on real problem in the country ie eradicating poverty
3. **Low Corruption:** As the tax regimes are loosened the transparency of the taxation will be more vibrant and understandable to the tax payers which results in the voluntary payment of the taxes

## 6. Merits and Demerits of GST

### Merits

1. **Subsume all indirect taxes centre and state level:** It eliminates the cluster of various indirect taxes imposed by state and centre like VAT, Central Sales tax.
2. **Reduces Cascading effect on taxes:** Which will reduce or eliminates the Tax on Tax implied by our present taxation system.
3. **Increase productivity and transparency:** Due to simplified tax system so burden of tax will reduce it will lead more firms to increase their operational activities by which the productivity can be increased.
4. **Increase in tax GDP ratio:** Though income of the country increase the amount of tax collected to the GDP ratio increases.
5. **Boost to Exports:** As a result of low taxation ad increased production the firm starts to look for exporting his products or services globally.
6. **Reduction in price:** The firms suffer less cost on production due to liberalized tax structure burden of tax paid by the producer will fall indirectly which will lead to reduction of price of the product.

### 7. Demerits

1. Tax sharing between state and center is cumbersome
2. It requires strong IT infrastructure from grassroots level.
3. High rate when compares to VAT
4. Imports will be become expensive due to levy of GST as special additional duty would be replaced by SGST.

## 8. Conclusion

Horward professor Recardo human suggest that having economics complexity is best predicted for sustain prosperity of a country. India rather than opting for traditional formula of large manufacturing, exports and large enterprises its destiny lies in Exploring, Evolving and Re-Inventing its economy in services, small and medium enterprises and domestic consumption this can be achieved by effective implementation of GST. If all the loop holes in GST are eradicated, it is and will be a good move by which Indian economy shines upon.

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