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## **A study on implementation of goods and services tax (GST) in India: Prospectus and challenges**

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### **Abstract**

There are mixed response, inexplicit, arguments and opinions among the Manufactures, traders and society about the Goods and Services Tax (GST) to be implemented by Government of India from 1<sup>st</sup> April 2017 this year. Various news organizations from all around the world focused on the bill unifying the country and it being an achievement of the government. As the Goods and Services Tax Bill was passed in the Rajya Sabha, it also brought India at the center of the global economy. With the passing of the bill, many international newspapers published their views on how the GST Bill brings a new wave of economic reform in the country. The paper highlights the background, Prospectus and challenges in Implementation of Goods and services Tax (GST) in India. Finally, the paper examines and draws out a conclusion.

**Keywords:** Rajya Sabha, global economy, goods and services tax

### **1. Introduction**

The 'Book of Genesis' in The Bible suggests that a fifth of all crops should be given to the Pharaoh. The city states of Ancient Greece imposed eishpora to pay for wars, which were numerous; but once a war was over any surplus had to be refunded. Athens imposed a monthly poll tax on foreigners. Imperial Rome used tribute extracted from colonized peoples to multiply the bounty of empire. Julius Caesar imposed a one-per-cent sales tax; Augustus instituted an inheritance tax to provide retirement funds for the military. However, human bondage remained the most lucrative form of tribute for both Greece and Rome. (Courtesy New Internationalist Magazine).

### **1.1 Indian Taxation System**

India has got a well-structured and simplified taxation system, wherein an authoritative segregation has been done among the Central Government, the different State Governments as well as the Local Bodies. The Department of Revenue under the Government of India's Ministry of Finance is solely responsible for the computation of tax. This department levy taxes on individuals or organizations for income, customs duties, service tax and central excise. However, the agriculture based income taxes are levied by the respective State Governments. Local bodies have got the power to compute and levy taxes on properties and other utility services like drainage, water supply and many others. The past 15 years have witnessed tremendous reformations of the taxation system in India. Apart from the rationalization of the rates of tax, simplification of the different laws of taxation has even been done during this period. However, the process of tax rationalization is still in progress in the Republic of India. (Courtesy New Business Maps of India)

### **1.2 Constitutional amendment act. For GST**

The One Hundred and First Amendment of the Constitution of India, officially known as The Constitution (One Hundred and First Amendment) Act, 2016, introduced a national Goods and Services Tax in India from 1 April 2017. The GST is a Value added Tax (VAT) 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 IGST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be

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available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages Indian Central and State governments. It is aimed at being comprehensive for most goods and services. The GST implementation in India is „Dual“ in nature, i.e. it would consist of two components: one levied by Centre (CGST) and another levied by States and Union Territories (SGST).

## 2. Research Methodology

The Researchers used an exploratory research technique based on past literature from respective journals, annual reports, newspapers and magazines covering wide collection

of academic literature on Goods and Service Tax. According to the objectives of the study, the research design is of descriptive in nature. Available secondary data was extensively used for the study.

### 2.1 Objectives of the Study

1. To study the inexplicit opinions among the Manufactures, traders and society about the Goods and Services Tax (GST).
2. To study about the Challenges of Introduction of Goods and Service Tax (GST in India).
3. To Study on Prospects in Implementation of Goods and services Tax (GST) in India

## 3. Results and Discussion

**Table 1:** Taxes At The Centre And State Level Are Being Subsumed Into GST.

S. No	At The Centre	State Level
1	Central Excise Duty,	a. Subsuming of State Value Added Tax/Sales Tax,
2	Additional Excise Duty,	b. Entertainment Tax (other than the tax levied by the local bodies), Central Sales Tax (levied by the Centre and collected by the States),
3	Service Tax,	c. Octroi and Entry tax,
4	Additional Customs Duty commonly known as Countervailing Duty, and	d. Purchase Tax,
5	Special Additional Duty of Customs.	e. Luxury tax, and

The above table shows list of taxes centre and state level are being subsumed into GST Keeping in mind the federal structure of India, there will be two components of GST – Central GST (CGST) and State GST (SGST). Both Centre and States will simultaneously levy GST across the value chain. Tax will be levied on every supply of goods and services. Centre would levy and collect Central Goods and

Services Tax (CGST), and States would levy and collect the State Goods and Services Tax (SGST) on all transactions within a State. The input tax credit of CGST would be available for discharging the CGST liability on the output at each stage. Similarly, the credit of SGST paid on inputs would be allowed for paying the SGST on output. No cross utilization of credit would be permitted.

**Table 2:** List of Asian Countries Implementing Vat/Gst

No.	Country	GDP Per Capita (World Bank, 2011, USD)	Year of Implementation	Current Rate (%)
1	Bangladesh	743	1991	15.0
2	China	5,445	1994	17.0
3	India	1,509	2005	12.5
4	Iran	NA	2008	5.0
5	Japan	45,903	1989	5.0
6	Jordan	4,666	2001	16.0
7	Kazakhstan	11,357	1991	12.0
8	Kyrgyzstan	1,124	1999	20.0
9	Lebanon	9,413	2002	10.0
10	Mongolia	3,129	1998	10.0
11	Nepal	619	1997	13.0
12	Pakistan	1,189	1990	16.0
13	Papua New Guinea	1,845	2004	10.0
14	South Korea	22,424	1977	10.0
15	Sri Lanka	2,835	2002	12.0
16	Taiwan	NA	1986	5.0
17	Tajikistan	935	2007	20.0
18	Turkmenistan	5,497	1993	15.0
19	Uzbekistan	1,546	1992	20.0

### 3.1 Courtesy by GST SEVA.com

The above table shows List of Asian Countries Implementing VAT/GST Worldwide in almost 160 countries there is GST/VAT, Under the GST scheme, no distinction is made between goods and services for levying of tax. This means that goods and services attract the same rate of tax. But at present India is planning tax rate at 5%, 12% and 18% which will bring 8 Lakh Crore revenue to the

government. Under the GST scheme, a person who was liable to pay tax on output, whether for provision of service or sale of goods, is entitled to get input tax credit (ITC) on the tax paid on its inputs. Thus, it would definitely a positive reform for the Indirect tax system in India.

**Table 3:** States In India Who Confirm Goods And Service Tax (GST) Constitution Amendment Bill

No	State	Passed On
1	Assam	12 <sup>th</sup> August, 2016
2	Bihar	16 <sup>th</sup> August, 2016
3	Jharkhand	17 <sup>th</sup> August, 2016
4	Himachal Pradesh	22 <sup>nd</sup> August, 2016
5	Chhattisgarh	22 <sup>nd</sup> August, 2016
6	Gujrat	23 <sup>rd</sup> August, 2016
7	Madhya Pradesh	24 <sup>th</sup> August, 2016
8	Delhi	24 <sup>th</sup> August, 2016
9	Nagaland	26 <sup>th</sup> August, 2016
10	Maharashtra	29 <sup>th</sup> August, 2016
11	Haryana	29 <sup>th</sup> August, 2016
12	Sikkim	30 <sup>th</sup> August, 2016
13	Telangana	30 <sup>th</sup> August, 2016
14	Mizoram	30 <sup>th</sup> August, 2016
15	GOA	31 <sup>th</sup> August, 2016
16	Odisha	1 <sup>st</sup> September, 2016
17	Puducherry	2 <sup>th</sup> September, 2016
18	Rajasthan	2 <sup>th</sup> September, 2016
19	Andhra Pradesh	8 <sup>th</sup> September, 2016
20	Arunachal Pradesh	8 <sup>th</sup> September, 2016
21	Meghalaya	9 <sup>th</sup> September, 2016
22	Punjab	12 <sup>th</sup> September, 2016
23	Tripura	26 <sup>th</sup> September, 2016

The above table shows List states in India who confirm of implementing goods and service tax (GST) Constitution amendment bill in their respective states by doing so it will bring harmonization of taxation system in India.

### 3.2 Challenges in Implementing GST

1. Note ban has huge impact on the Goods and Services Tax (GST) a serious doubt on implementing GST by the central government's targeted deadline of April 1, 2017..
2. The impact of the November 8 demonetization of high-value currency on their respective economies to underline that it is not the appropriate time to implement. That could have a unstable effect on the economy.
3. The Centre continues to be un compromising on the issue of jurisdiction over assesses, the states maintain.
4. Political reasons are determining the fate of GST, which is not the correct thing, because ideally GST is an economic and tax reform, and economic and tax reforms should not be dictated by political.
5. Manufactures, traders and society are eagerly waiting not only for the date of introduction of GST but also for the rate application to the products and services.
6. GST will also have impact on cash flow and working capital. Cash flow and working capital of business organizations which maintain high inventory of goods in different states will be adversely affected as they will have to pay GST at full rate on stock transfer from one state to another. Currently CST/VAT is payable on sale and not stock transfers.
7. Implementation of GST in Unorganized sectors i.e, unregistered firm will be unfavorable to government.

### 3.3 Prospects of Implementing GST

The introduction of Goods and Service Tax (GST) in India is now on the horizon. The Constitution Amendment Bill to replace existing multiple indirect taxes by uniform GST across India.

1. The current indirect tax structure is major impediment in India's economic growth and competitiveness. Tax barriers in the form of CST, entry tax and restricted input tax credit have fragmented the Indian market. Cascading effects of taxes on cost make indigenous manufacture less attractive. Complex multiple taxes increase cost of compliance. In this scenario, the introduction of GST is considered.
2. Removal of tax barriers on introduction of uniform GST across the country with seamless credit, will make India a common market leading to economy of scale in production and efficiency in supply chain. It will expand trade and commerce. GST will have favorable impact on organized logistic industry and modernized warehousing.
3. Electronic processing of tax returns, refunds and tax payments through 'GSTNET' without human intervention, will reduce corruption and tax evasion. Built-in check on business transactions through seamless credit and return processing will reduce scope for black money generation leading to productive use of capital.
4. Major beneficiary of GST would be sectors like FMCG, Pharma, Consumer Durables and Automobiles and warehousing and logistic industry.
5. High inflationary impact would be on telecom, banking and financial services, air and road transport, construction and development of real estate,

### 4. Conclusion

It can be concluded from the above discussion that GST will bring One Nation and One Tax market.

Provide relief to producers and consumers by providing wide and comprehensive coverage of input tax credit set-off, service tax set off and subsuming the several taxes. Efficient formulation of GST will lead to resource and revenue gain for both Centre and States majorly through widening of tax base and improvement in tax compliance. It can be further concluded that GST have a positive impact on various sectors and industry. Although implementation of GST requires concentrated efforts of all stake holders namely, Central and State Government, trade and industry. Electronic processing of tax returns, refunds and tax payments through 'GSTNET' without human intervention, will reduce corruption and tax evasion. Built-in check on business transactions through seamless credit and return processing will reduce scope for black money generation leading to productive use of capital, Therefore It is necessary on the part of the government to educate, conduct proper training, continuous seminars and workshop on GST is need of the hour. Thus, necessary steps should be taken.

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