



ISSN Print: 2394-7500
ISSN Online: 2394-5869
Impact Factor: 5.2
IJAR 2017; 3(3): 699-702
www.allresearchjournal.com
Received: 18-01-2017
Accepted: 19-02-2017

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Goods and services tax: A milestone in Indian economy

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Abstract

Goods and services Tax is the biggest positive indirect tax reform which spreads across the world is showing an increasing trend more than 160 countries. Presently, in India also it is supposed to be implemented from 1st July, 2017 through the constitution (One hundred and first amendment) Act, 2016. Under GST, there would be only one tax rate for both goods and services to be levied by states and central governments. An attempt is made in this paper to study the concept of goods and services tax (GST) and its timelines of introduction in India. The study also aims to know its benefits and impact on Indian economy.

Keywords: Value added tax (VAT), GST, cascading effect, input tax credit

1. Introduction

A good tax system plays an important role on the economy of a country through their impact on both efficiency and equity. The concept of single tax policy in all sales and services first came from the European countries and later this type of tax policy is reformed as GST, which stands for Goods and services Tax. Already 160 countries have implemented GST in their tax regime. GST is a comprehensive tax system that will subsume almost all the indirect taxes of states and central governments. Although it was considered as the biggest taxation by many countries of the world in many years ago, India roused up around the year 2000 and then the NDA government formed an empowered committee to design GST model for its implementation and since many debates was arise on implementing GST in India. Finally, India Govt. committed to introduce GST by almost July, 2017^[4]. We hope the proposed GST is likely to change the whole scenario of current indirect tax policy.

1.1 The paper is organized as follows

The section-1 deals with the introduction of GST, its timelines in India with the final tax rates under GST. Section-2 consists of some information of previous works. The objectives of our study and methodology are included in section-3. Section-4 examines the impact of GST on Indian economy along with its benefits. Significance of the outcomes from this paper is reflected in section-5 as conclusion.

1.2 Concept of GST

GST is a comprehensive tax regime levied on manufacture, sales and consumption of goods and services that is, under GST, there would be only one tax rate for both goods and services. The proposed GST in India has a dual system of GST which contains two components viz. the central GST (CGST) to be levied and collected the central, and states GST (SGST) or Interstate GST (IGST) to be levied and collected by respective states. CGST will subsume central indirect taxes like service tax, central sales tax, central excise duty, customs duty, counter veiling duties, whereas SGST will subsume sales tax (or VAT), Entertainment Tax, Octroi and Luxury Tax, Entry Tax, Tax on lottery and gambling. Introduction of GST will give India a world class tax system by improving tax collections and it will indeed be a further significant improvement towards a comprehensive tax reforms that will boost overall growth of the economy.

1.3 Timelines of Introduction of GST in India

The NDA government formed an empowered committee in 2000 to design GST model under the chairmanship of Asim Das Gupta^[1,2].

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The finance minister Mr. P. Chidambaram announced in his budget speech (on 28th February, 2006) that the GST will be implemented on 1st April, 2010 and also setup an empowered committee of State Finance Minister (EC) to design the roadmap. For this, a joint working group was set up on 10th May, 2007 by the said committee of State Finance Ministers and submitted its report entitled “A model and road map for goods and Services Tax(GST) in India”^[4] to the government in April,2008. And hence, in November, 2009 the first detailed discussion paper on structure of GST was released ^[1] with the objective of generating a debate and obtaining inputs from all stakeholders. There was suggested a dual GST module along with a GST council. After that the Revenue department commented on this GST discussion paper in 2010 and finance minister suggested probable GST rate and finally in march, 2011, 115th constitutional amendment bill for GST was laid down in parliament. In August, 2013 the parliamentary standing committee submitted its report on the Bill. But lack of major support in 15th Lok Sabha, the proposed 115th amendment bill was lapsed. In 2014, by making slight changes in the bill, it was reintroduced as 122nd constitutional amendment bill and in 2015, it was passed in both houses to be implemented from 1st April, 2016. Finally, by the constitution (101st Amendment) Act, 2016 introduced a national Goods and Services Tax in India from 1st July, 2017 ^[3].

1.4 Final Tax rates under GST

The GST council has finalized a five-rate tax structure on 3rd November, 2016 moving a step ahead in developing the dream to make India a single market from 1st July, 2017. These final GST slab rates ^[13, 14] are as follows:

- **0% rated item:** Essential items including food grains used by common people.
- **5% rated items:** Items of mass consumption including essential commodities will have low tax incidence.
- **12% and 18% rated items:** Two standard rates have been finalized as 12% and 18%
- **28% rated items:** White goods like Refrigerators, Washing Machine, Air conditioners, shaving stuff and soap, shampoos etc. that were taxed at 30 - 31% shall be taxed now at 28%.
- **28% with cess:** Demerit goods like tobacco and tobacco products, pan masala, aerated drinks and luxury cars will invite a tax of 28% plus the cess. The overall incidence with cess, thus could vary between 40-65% an additional tax on some luxury goods shall also be imposed.

2. Review of Literature

- Akansha Khurana and Aastha Sharma (2016) ^[5] concluded in their research article “Goods and Services Tax in India- A positive reform for indirect tax system” that GST will 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. Further concluded that GST has a positive impact on various sectors and industry.
- Pradeep Chaurasia et.al (2016) ^[6] analyzed in the paper “Role of Goods and Services Tax in the growth of Indian Economy” and found that GST will be helpful for the development of Indian Economy as well as it

will be very much helpful in improving the GDP of the country more than two percent.

- Monika Sehrawat and Upasana Dhanda (2015) ^[7] focused in their research paper entitled “GST in India: A key tax reform” that a simple, user- friendly and transparent tax system is required in present India which can be fulfilled by implementation of GST. They also concluded that introduction of GST will lead to higher output, more employment opportunities and flourish GDP by 1-1.5%.
- Pinki, Supriya kamma and Richa Verma (2014) ^[8] concluded in their research paper named “Goods and Services Tax—panacea for indirect tax system in India” that the NDA government in India is more interested towards implementation of GST and it is beneficial for the both of central and State governments and as well as for consumers in long run if its implementation is backed by strong IT structure.
- Hamdani Rizwana (2016) ^[9] focused in his paper “GST and Indian Economy” that implementation of GST will increase the job opportunities and this lead to stability in the country, which is the most important requirement for development of an economy.
- Raj Kumar (2016) ^[10] highlighted the impact of GST on Indian Economy with a comparison between GST and Current taxation system. In addition he concluded that after implementation of GST, manufacturer, whole seller and retailer can be easily recovered input taxes in form of tax credits.
- Lourdunathan F and Xavier P (2016) ^[11] focused on the challenges and prospects of implementing GST and concluded that GST will bring One Nation and One Tax market that will provide relief to the producers and consumers from several taxes.

3. Objectives of the Study

- To study the concept of GST
- To study how GST is important for the growth of Indian economy.
- To examine benefits of GST
- To furnish some records for further research on GST.

4. Research Methodology

This paper is prepared by using explanatory research method based on secondary data collected from different journals, newspapers, magazines and websites covering wide collection of academic literature on GST.

5. Impact of GST on Indian Economy

5.1 Employment Sector: From the history of GST which is implemented in different countries of the world, it is observed that international corporate houses will feel more comfortable in investing and expanding their business in the particular country, where GST is implemented, due to remove of tax horror. And hence foreign investment will follow the second largest consumer market of world. The flow of investment of corporate houses through starting their various business will definitely increase the job opportunities and hence erosion of unemployment. Finally this will create a stable environment by avoiding a largest groups inclination towards illegal activities, anti-social activities etc., which is the most significant requirement for development of a country.

5.2 Manufacturing sector: The manufacturing sector of Indian Economy has complex tax structure in nature and it deals only 16% share in GDP. India is able to shift its agricultural economy to a manufacturing and service economy. The proposed GST in India will bring positive change by eliminating cascading effect of current taxation system. First step of manufacture concern is to calculate cost of production in financial statement and GST helps by reducing cost of production that create incremental value for customers and remain a challenge for every business.

5.3 Information Technology enabled Services: According to proposed GST if software is transferred through electronic form it would be regarded as service (intellectual property) and if it is transferred through media or any other tangible property then it should be treated as goods. Introduction of GST will help in uniform simplified and single point taxation and ultimately reduces its price.

5.4 Impact on Textiles: For smooth taxation, the textile Industry has been divided into some broad categories like: cotton, Silk, Woolen, Khadi and Handloom, Synthetic fiber, carpet weaving, artificial silk, Jute, Hemp and Mesta textiles, readymade garments and miscellaneous textile products etc. The present taxes vary based on these categories. Moreover, Textile sector is dominated by unorganized players who are given tax exemption on size basis of their operation. The key concern for textile industry includes the followings on the basis of these factors:

- Different taxation is for cotton and manmade fiber.
- Dispute over fabric vs. garments classification
- Zero duty for cotton fibers as compared to high Excise duty structure on man-made fiber segment.
- Composite milks are taxed at higher rate in comparison to power looms.

However, as the current taxation system is production based, it leads to block input taxes which results in higher cost of production. But, as GST is consumption based Tax, after its implementation it will eliminate block input taxes for its uniform role of tax.

5.5 Impact on small enterprises: In GST tax regime, the small scale enterprises are categories in three ways:

- Below Threshold: need not to register for GST
- Between threshold and composition turnovers: will have the option to pay a turnover based tax or opt to join the GST regime
- Above threshold limit: will need to be within framework of GST.

With the implementation of GST will help the manufacturers and traders by reducing payable taxes. It is expected to encourage compliance as well as widen tax base adding up to 2% GDP ^[12].

5.6 Fast moving consumer goods (FMCG) sector: FMCG sector is the major taxation contributor in the economy of a country. It consists 50% Food and Beverage sector and 30% is Household and Personal Care. The multiplicity of the taxation leads to the company's decision on manufacturing location and distribution of goods by keeping in mind to avail tax benefits. Thus implementation of GST will really

influenced on FMCG sector and ultimately it will impact on the economy of our country.

6. Benefits of GST

6.1 Simple Tax Regime: Introduction of GST will reduce the accounting complexities in business as it subsumes almost all the indirect taxes to be levied states and centrals. This will make the manufacturing sector more competitive and will boost the economy by one to two percent.

6.2 Export with zero rates: Implementation of GST will bring a massive change to the Indian domestic sector as no GST will be levied on exports. The domestic goods will be available with more competitive in the international market to achieve its targeted 3.5% share of world exports by 2020.

6.3 IGST as effective logistics: In current indirect taxation system, CST is paid on interstate commerce of goods and not on its supply. This supports large corporate who would like to manufacture every product internally and it will help them to decrease in cost of their product but hampered small and medium enterprises to grow. On the other hand, in proposed GST system, IGST acts as an effective logistic system since it is levied on both of interstate commerce and supply of goods and services. Ultimately this will protect small and medium enterprises to survive from the competition of large corporate.

6.4 Single base computation: In the current taxation system, there exists tax on tax or multiple taxes or tax cascading. But with the implementation of GST will reduce the cascading effect of taxation on the consumer or clients for the goods purchased and services used. Moreover, the number of taxpayers will also increase due to availability of cheap goods and it will directly help the states by increasing tax revenue.

7. Conclusion

From the above discussion we may conclude that GST will reduce cascading effect of current indirect taxation system that will provide relief to the producers and consumers by subsuming the several indirect taxes. After introduction of GST, manufacturer, wholesaler and retailer can be easily recovered input taxes in form of tax credits. Moreover, GST has a positive impact on different sectors like manufacturing sector, employment sector, FMCG sector, I.T sector and so on. Thus implementation of GST will lead commercial benefit, more employment opportunities and would essentially lead to economic development that will improve GDP of the country. It is noteworthy to mention that GST will give India a world class tax system by grabbing different treatment to manufacturing and service sector. But these will critically depend on a neutral and rational design of the GST. Further, tax payer education or public awareness programmed, workshops, training and various seminars on GST must be conducted in all states by their respective state governments

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