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## GST and its impact on India

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### Abstract

Goods and Services tax is being glorified as system of taxation by which economy will take an upward swing and further it will ease the trade and industry with respect to the indirect tax system of the country 'only one indirect tax has to be paid by the trade and industry and all the other indirect taxes will be subsumed in GST. India is centralized GST will be implemented parallel by the central and state government CGST and SGST.

**Keywords:** GST, CGST, SGST, impacts

### Introduction

Introduction of the Value Added Tax (VAT) at the Central and the State level has been considered to be a major step – an important step forward – in the globe of indirect tax reforms in India. If the VAT is a major improvement over the pre-existing Central excise duty at the national level and the sales tax system at the State level, then the Goods and Services Tax (GST) will indeed be an additional important perfection – the next logical step-towards a widespread indirect tax reforms in the country. Initially, it was conceptualized that there would be a national level goods and services tax, however, with the release of First Discussion Paper by the Empowered Committee of the State Finance Ministers on 10.11.2009, it has been made clear that there would be a “Dual GST” in India, taxation power – both by the Centre and the State to levy the taxes on the Goods and Services. Almost 150 countries have introduced GST in some form. 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. GST rates of some countries are given below. Country Australia France Canada Germany Japan Singapore Sweden New Zealand Rate of GST 10% 19.6% 5% 19% 5% 7% 25% 15% World over in almost 150 countries there is GST or VAT, which means tax on goods and services. Under the GST scheme, no distinction is made between goods and services for levying of tax. In other words, goods and services attract the same rate of tax. GST is a multi-tier tax where ultimate burden of tax fall on the consumer of goods/ services. It is called as value added tax because at every stage, tax is being paid on the value addition. Under the GST scheme, a person who was liable to pay tax on his 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. GST being effect from 1 July 2017

### Objectives of GST

One of the main objectives of GST would be to eliminate the cascading impact of taxes on production and distribution cost of goods and services. The exclusion of cascading effects i.e. tax on tax will significantly improve the competitiveness of original goods and services which leads to beneficial impact to the GDP growth. It is felt that the GST would serve a superior reason to achieve the objective of streamlining indirect tax regime in India which can remove cascading effects in supply chain till the level of final consumers only when all such above mentioned indirect taxes are completely included in GST. It is understood that alcohol, tobacco and petroleum products will not be enclosed by GST as alcohol and tobacco are considered as Sin Goods, and governments do not like to allow free trade on these property. 5.

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## **Challenges**

### **With respect to Tax Threshold**

The threshold limit for turnover above which GST would be levied will be one area which would have to be strictly looked at. First of all, the threshold limit should not be so low to bother small scale traders and service providers. It also increases the allocation of government resources for such a petty amount of revenue which may be much more costly than the amount of revenue collected. The first impact of setting higher tax threshold would naturally lead to less revenue to the government as the margin of tax base shrinks; second it may have on such small and not so developed states which have set low threshold limit under current VAT regime.

### **With respect to nature of taxes**

The taxes that are generally included in GST would be excise duty, countervailing duty, cess, service tax, and state level VATs among others. Interestingly, there are numerous other states and union taxes that would be still out of GST.

### **With respect to number of enactments of statutes**

There will be two types of GST laws, one at a central level called 'Central GST (CGST)' and the other one at the state level - 'State GST (SGST)'. As there seems to be different tax rates for goods and services at the Central Level and at the State Level, and further division based on necessary and other property based on the need, location, geography and resources of each state.

### **With respect to Rates of taxation**

It is true that a tax rate should be devised in accordance with the state's necessity of funds. Whenever states feel that they need to raise greater revenues to fund the increased expenditure, then, ideally, they should have power to decide how to increase the revenue.

### **With respect to tax management and Infrastructure**

It depends on the states and the union how they are going to make GST a simple one. Success of any tax reform policy or managerial measures depends on the inherent simplifications of the system, which leads to the high conformity with the administrative measures and policies.

## **Opportunities**

### **An end to cascading effects**

This will be the major contribution of GST for the business and commerce. At present, there are different state level and central level indirect tax levies that are compulsory one after another on the supply chain till the time of its utilization.

### **Growth of Revenue in States and Union**

It is expected that the introduction of GST will increase the tax base but lower down the tax rates and also remove the multiple point. This will lead to a higher amount of revenue to both the states and the union.

### **Reduces transaction costs and unnecessary wastages**

If government works in an efficient mode, it may be also possible that a single registration and single compliance will suffice for both SGST and CGST provided government produces effective IT infrastructure and integration of such infrastructure of states level with the union.

## **Eliminates the multiplicity of taxation**

One of the great advantages that a taxpayer can expect from GST is the elimination of multiplicity of taxation. The reduction in the number of taxes applicable in a chain of transactions will help to clean up the current mess that is brought by existing indirect tax laws.

### **One Point Single Tax Another feature that GST must hold is it should be 'one point single taxation':**

This also gives a lot of comfort and confidence to the business community that they would focus on business rather than worrying about other taxation that may crop up at a later stage. This will help the business community to decide their supply chain, pricing modalities and in the long run helps the consumers by making goods more competitive as price will no longer be the function of tax components but a function of sheer business intelligence and innovation.

### **Reduces average tax burdens**

Under the GST mechanism, the cost of tax that consumers have to bear will be certain, and GST would reduce the average tax burdens on the consumers.

### **Reduces the corruption**

It is one of the major problems that India is overwhelmed with. We cannot expect anything substantial unless there exists a political will to root it out. This will be a step towards a corruption-free Indian Revenue Service.

## **Justification of GST:**

The introduction of GST at the central level will not only include comprehensively more indirect central taxes and integrate goods and service taxes for the purpose of set-off relief, but may also lead to revenue gain for the Centre through widening of the dealer base by capturing value addition in the distributive trade and increased compliance. In the GST, both the cascading effects of CENVAT and service tax are removed with set-off, and a constant chain of set-off from the original producer's point and service provider's point up to the retailer's level is established which reduces the burden of all cascading effects. This is the real meaning of GST, and this is why GST is not simply VAT plus service tax but an improvement over the previous system of VAT and disjointed service tax. Moreover, with the introduction of GST, the burden of Central Sales Tax (CST) will also be removed. The GST at the state level is, therefore, justified for-

- a) Additional power of levy of taxation of services for the States
- b) System of comprehensive set-off relief,
- c) Subsuming of several taxes in the GST

## **Dual GST**

Dual GST means the proposed model will have two parts called

1. CGST – Central goods and service tax levied by central Govt.
2. SGST – State goods and service tax levied by state Govt. There would be multiple statutes: one CGST statute and SGST statute for every state.

## **Positive Impact of GST**

- A unified tax system removing a bundle of indirect taxes.

- Less tax compliance.
- Removes cascading effect of taxes.
- Manufacturing costs will be reduced, hence prices of consumer goods likely to come down.
- Due to reduced costs some products like cars, FMCG etc. will become cheaper.
- A unified tax regime will lead to less corruption which will indirectly affect the common man Hence, this is possible only if the benefit is actually passed on to the consumers.

#### **Negative Impact of GST**

- Services will become expensive. e.g. Telecom, banking, airline etc.
- Being a new tax, it will take some time for the people to understand its implications.
- It is easier said than done. There are always some complications attached. It is a consumption based tax, so in case of services the place where service is provided needs to be determined.
- If actual benefit is not passed to consumer and seller increases his profit margin, the prices of goods can also see a rising trend.

#### **Conclusion**

GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. GST is leviable on all supply of goods and provision of services as well combination thereof. All sectors of economy whether the industry, business including Govt. departments and service sector shall have to bear impact of GST. All sections of economy viz., big, medium, small scale units, intermediaries, importers, exporters, traders, professionals and consumers shall be directly affected by GST. One of the biggest taxation reforms in India -- the Goods and Service Tax (GST) -- is all set to integrate State economies and boost overall growth. GST will create a single, unified Indian market to make the economy stronger. Experts say that GST is likely to improve tax collections and Boost India's economic development by breaking tax barriers between States and integrating India through a uniform tax rate. Under GST, the taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions.

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