



GST - A GAME CHANGER FOR INDIAN ECONOMY

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Abstract

India is one of the latest growing economies to adopt GST. It also featured latest to adopt the VAT as well. The research paper focuses on the importance of Goods and Services Tax(GST) embodied recently in the Indian Tax structure. The research objectives focuses around the evolution of GST, the comparison of present and GST tax structure, How GST will function in India. **“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”** The milestones of GST have been discussed to analyze how it impacts India’s economic environment.. The economic implications of GST in India, have been depicted in this research paper. The paper also illustrates how GST works in India.

Keywords: GST,CGST,SGST,IGST,cascading effect, Indian tax structure, Indian tax scenario

I. Introduction

On 19th Dec. 2014, Finance minister Arun Jaitely explain the constitutional (122nd) Amendment bill in the Lok Sabha as single most important reforms after 1947 while the idea of GST was first thought by the finance minister Mr. P Chidambaram in the Budget Speech of 2006-07. But GST could not become a reality in all these years owing to irreconcilable differences between the Centre and the States over the framework, taxing powers, issues of revenue loss and compensation. The introduction of the amendment bill is the first major economic policy initiative by the NDA Government. The amendment bill reveals that it not only sees to empower the Centre and State with the concurrent tax jurisdiction over transaction of supply of goods and services or both but it also provides a prime facie broad framework by which GST would be in terms of its coverage, its operating mechanism, implementation and dispute resolution.

Promulgation of Goods and Service Tax Council–The GST council is envisaged as a Recommended body, Union Finance Minister as Chairperson, Minister in charge of finance or Taxation or any other Minister nominated by each State Government as members and Union Minister in charge of Revenue as Member of GST Council. The members shall choose a Vice Chairman from amongst themselves. The NDA Government focused areas are on GST Arunachal Pradesh, Assam, Jammu and Kashmir, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand.

Goods and Services Tax (Article 366 12A) – Goods and Service Tax means tax on supply of goods or services or both excluding taxes on supply of alcoholic liquor of human consumption. Alcoholic beverages” only items excluded from purview of GST. Petroleum and Petroleum products such as(petrol), high speed diesel, aviation turbine fuel, natural gas have been subsumed in the GST and not finalized whether GST will be applicable or not. The current taxes imposed by the States and the Centre on petroleum and petroleum products i.e. Sales tax/VAT, CST and Excise duty only will be continue till the next amendment.

Scheme of Taxation (Article 246A, Article 270, and Article 286) – GST would have two components: Central GST (CGST) and State GST (SGST). Further, the Centre will have the power to tax inter-state supply of goods and services through levy of Integrated Goods and Service tax. Such GST will be apportioned between the Centre and the State in the manner may be provided by Parliament by law on the recommendation of GST council. {Economic Law Practice}

G – Goods

S – Services

T- Tax

Goods and Service Tax will be levied on levy on manufacture, sale and consumption of goods and service at a national level. GST is at value addition at each stage and value added tax and continuous chain of set of benefits from producer’s /service provider’s point up to the retailer level where only final consumer bear the tax. {R.K Bhalla}

II. Literature Review:

Aurobindo Panda, Atul Patel, The Impact of GST on the Indian Tax Scene, SSRN Electronic Journal, July 201, DOI: 10.2139/ssrn.1868621. The paper discusses on the impact of GST on Indian Tax Scenario, the need for change in tax structure from traditional to GST Model. The paper has vividly described the salient features and impact of GST in 2011. The other facets of GST include the limitation of the tax structure, the need for GST, the Kelkar Shah Model etc have been included in the research paper which gives a complete understanding of GST.

NehaKanojia, A Study on Godds and services Tax in India, the International Journal of Social science and Management, ISSN: 22511571 The paper discusses on the benefits of GST and it’s current implication in India. The current system of indirect taxes is not able to implicate tax evasion and distortion. It also indicates how GST is an improvement over VAT and Service Tax.



Monika Sehrawat, UpasanaDhanda, GST in India: A Key Tax Reform, International Journal of Research Granthalaya, Vol 3, No: 12(2015) 133-141 The paper focuses on the overview of GST concept, the features along with it's time line of implementation in India with the challenges faced in it's implementation. It includes an exploratory research. It includes implementation to threshold limit.

Nishita Gupta, Goods and Services Tax: it's impact on Indian Economy, International Research Journal of Commerce Arts and Science, Vol 5, Issue 3, Year-2014, ISSN 2319-9202. The research paper focuses on the relevance of VAT and GST , how GST contributes to the improvement of the tax structure in india toward a world class system. The paper included intricate details of VAT. It indicated a significant improvement in the the comprehensive indirect tax reforms in the country. It discusses about the differences in treatment for the service and manufacturing sector. It has also included the integration of taxation with an intend to harmonize the consumption tax system

III. Research Objectives:

The particular study is an attempt undertaken to analyze the following objectives:

1. Salient features of GST.
2. Comparing Present Tax structure and GST
3. How GST would function in India
4. Impact of GST
5. Expected roadblocks for GST

IV. Research Methodology:

The research paper has gathered data based on secondary research and information gathered from the other research papers, the current affairs, news dailies and the current GST discussion etc have been imperative in framing this conceptual paper.

V. Salient Features of GST in India:

1. The GST would be applicable on the supply of goods and services as against the present concept of tax on the manufacture and sale of goods or services. It would be destination based consumption tax.
2. Dual GST with the center and states simultaneously levying it on a common tax base. Thus would be CGST (central GST) and state GST (SGST).
3. GST would apply to all goods other than alcoholic liquor, liquor for human consumption, and five petroleum products which is crude, motor spirit (petrol), high speed diesel, natural gas and aviation turbine fuel.
4. Tobacco and tobacco products would be subject to GST.in addition center would have the power to levy central Excise duty on these products.
5. There would be GST council which shall make recommendations to the union and states on taxes, cesses and surcharges levied by the center, the states and the local bodies
6. Taxpayer with the aggregate turnover in a financial year up to Rs 20 lakhs would be exempt from tax. For north east states and Sikkim the exemption threshold shall be Rs 10 lakhs.
7. An integrated GST (IGST) would be levied and collected by the center on inter-state supply of goods and services.
8. Tax payer shall be allowed to take credit of taxes paid on inputs (input tax credit) and utilize the same for the payment of output tax.
9. Import of goods and services would be treated as inter-state supplies and would be subject to IGST in addition to the applicable customs duties.
10. The laws. Regulations and procedures for levy and collection of CGST and SGST would be harmonized to every possible extent.

Finding::

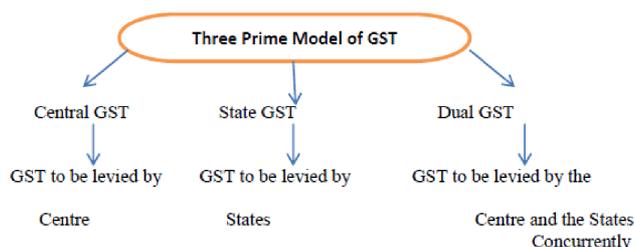
The GST shall subsume all the above taxes except the basic custom duty that will continue to be charged even after the roll out of GST.

The Duel GST Model:

GST at Central level (Union) Government level only

GST at State level Government level only

GST at both, Union and State Government levels



**Proposed GST and Current tax structure: Comparison**

Basis	Current Scenario	GST Scenario
Structural Difference	Central taxes: - Excise/Custom Duty, Central Sales Tax charged on Services, Surcharge and Cess. State Taxes: - VAT, Purchase, Luxury Tax, Entertainment Tax.	A dual layered tax system with both Central and State GST levied on same base on all the goods and services except Petroleum, High Speed Diesel.
	Tax on Lottery, Surcharge & Cess.	Motor Spirit and Natural Gas to be brought at a later date subject to recommendation of GST council.
Basis of levy	Taxable at the place of manufacture/sale of Goods. Rendering of services.	Taxable at the place of consumption, at destination based tax.
Registration	Decentralized registration under Central and State authorities.	Uniform E- Registration process based on PAN of entity.
Procedure of Collection of Tax and Filing of Returns	Central Excise/Service tax-Uniform, VAT varies from State to State.	Uniform process and common dates for collection/deposit of tax and filing of Returns.
Validation and of Challan/returns, Input Credit and payment of tax	Part validation by system, full verification subject to assessments by relevant Central/State authorities.	System based validation and consistency checks on input credit availed, utilization and tax payments.
Excise Duty	Excise duty charged up to the point of manufacturing.	Replaced by CGST to be charged up to retail level.
Basic Custom Duty	In case of Import, taxed by Centre under separate act.	No change
Countervailing duty/ Special Additional Duty	In case of Import, taxed by Centre separately.	To be subsumed under GST (CGST).
Service Tax	Charged by Centre on list of services under Finance Act on payment/provision basis.	To be subsumed under SGST based upon place of Supply Rules.
Central Sales Tax	Applicable at concessional rate of 2% on inter-state transfers against C forms, otherwise full rate i.e. 5 to 14.5%	To be subsumed in IGST.
Entry Tax	Currently being charged by selected states for inter-state transfers, held as import in local area.	No entry tax, Additional 1% of tax to be levied on inter-state supply of selected goods, list yet to be finalized.
Tax on Export of Goods and Services	Exempted/Zero rated	No change.
Tax on Inter State Transfer of Goods to Branch or Agent	Exempt against form F	To be taxable but full credit available to dealers.
Tax on Transfer of Goods to branch or Agent within State	Generally exempted, depend upon state procedure.	Might be taxable, unless TIN of transfer and transferee is same.
Cascading Effect	Credit between Excise duty & Service tax available but no set-off against VAT on excise duty.	Credit available on the full amount of taxes up to retailer.
Cross set-off of Levy	Currently set-off of Excise duty and Service tax is allowed.	No cross set-off between CGST and SGST.
Disallowance of credit on selected items	There are certain non-creditable goods and services under both VAT & CENVAT Rules.	No such disallowance unless specified by GST Council.
Exemptions- Excise free zone, VAT Remissions	Some areas enjoy status of Excise/VAT exemptions.	No such exemptions, Investment Refund Scheme may be introduced for existing zones.



Impact of GST:

On Job – GST would create millions of jobs after its implementation. GST is a long term strategy of the Government; it would lead to a higher output, more employment opportunities. It has a lot of benefits to the common man and raise from the undue burden of taxation. This could help in reducing the net MRP of the products of the consumers and increase in the sales for manufacturers this help in increasing demand and supply of the goods which will help in economic growth. Such an economic development can help in boosting up the employment. GST provide lot more incentives to all sectors in the economy and invites the corporate houses to start up their business and that will create a balance of growth, boost the overall economic development which is require for more jobs like India where massive supply of cheap labor waiting for employment.

Direct benefit to Manufacturing: Logistics and More Employment – The direct benefit in the hand of manufacturers and logistic companies, warehousing facilitators rather than industries. GST will bring slight change in prices & tax burden on consumers. It will reduce the transit time by which more efficiency will be and benefiting manufactures. Further, logistics sectors would benefit after implementation of GST, reducing compliance cost, dropping number of warehouse and allowing tax credit across the supply chain. Almost all the sector would have indirect benefit from it and expand their operation that will create a more employment.

Impact on Manufacturing: The manufacturing sector has great importance for many developing countries. India's manufacturing sector has complex tax structure with only 16% share in GDP, India's manufacturing sector has been close to stagnant for the last two decades. India has shifted our self from an agricultural economy to a manufacturing and service economy. New GST system will be a modern tax reform helpful in growth and business opportunities. In India the new GST system will change old Indirect Tax Structure into unified Indirect Tax Structure. GST will bring positive change by eliminating Taxation system. First step of Manufacture concern is to calculate cost of production in financial statement; New GST system aids in reducing cost of production while creating incremental value for customers remain a challenge for every business. The new GST will assist the smooth flow of goods within the country.

Impact on Textiles: The Textile industry has been divided into broad categories for Taxation purpose. It include cotton, woolen, silk, synthetic fiber, artificial silk, khadi and handloom, jute, hemp and mesta textiles, carpatate weaving, readymade garments and miscellaneous textile products. The current taxes very based on these categories. Textile sector is dominated by unorganized players who are given tax exemption on size basis of their operation. On the basis of these factors, key concern for textile industry include

Different taxation is for cotton and man-made fibre.

Zero duty for cotton fibre as compared to high Excise duty structure on manmade fibre segment.

Composite milks are taxed at higher rate in comparison to power looms.

Zero rating on Exports under GST will boost Exports. Integration of production will be encouraged resulting in increased efficiency. Goods movement within the States will also be much easier a lot of local state taxes which are levied on the borders of states by which there will be improvement in productivity & efficiency of the textile industry.

Auto: GST will reduce cost and of production by eliminating cascading effect. especially for Automotive distributors, which attracts high rate of CENVAT duties as well VAT at state level, In addition to other levies such as National Calamity Contingent Duty, Auto Cess, Entry taxes, Octroi, registration charges and Road taxes, Automobile Exports are also likely to benefit as embedded taxes in India's Export prices will be eliminated.

GST- Major Milestone:

- The idea of GST was first introduced and in budget 2006-2007 .The empowered committee of state finance ministers (EC) formulated the design of GST .If VAT was a major improvement then GST is seen as another milestone towards tax reforms.
- GST have been described by political analyst as the concept of “cooperative financial federalism” and one nation one tax one market.
- GST is claimed to be game changing tax reform as it will pave way for common national market. This would facilitate free movement of goods and services across the country.

Expected Roadblocks For GST:

- Goods and services tax is a transitional tax structure which would encompass wide variety of taxes into one. It is perceived to be a reformative tax structure unifying the market and expected to bring substantial increase in countries overall productivity through free movement of goods and services.



- However transitional phase also faces roadblocks as well as lack of clarity till it reaches final implementation. There are few blind spots which needs to be uncovered so that the benefits trickle down to every sector of the economy. One such is the dual structure. A strong mechanism is needed to monitor the tax levied on the origin state till the destination stage. It is essential that the tax payer should feel burden with zealous taxes and his cash flow is uninterrupted.
- In the present tax structure central excise is a tax on manufacturing and therefore is not reflected on invoices issues to final consumers. IN the GST regime, the entire tax liability would be reflected on the invoices which might create an impression of extra taxes or more taxes to be paid by the final consumers.
- The most evident issue is the exemptions of key sectors such as electricity, diesel, petrol, crude oil and real estate. These exemptions may not be able to reduce the cascading effect of indirect taxes as expected.
- The lower house of Indian parliament recently passed four GST legislations. The Bill proposes central GST at 20% and the Integrated GST rate at 40%. It is believed that the states would cap the State GST rate 20%. These rates could turn out to be counterproductive.
- There are panels expected to overcome these few hitches, however only time and effective implementation would help the nation to reap the benefits of unifying tax structure.

VI. Conclusion

Initiatives step of Government towards Indirect taxes for reducing cascading effect, beneficial to both Government and Sellers. Indirect taxes system will be clear and simple and manufacturer, wholesalers, and retailers can be easily recovered input taxes in form of tax credits. India's historic and bold move towards integrated tax structure is viewed by most economist as an answer to regressive indirect tax structure. It is believed that GST would put India's indirect tax structure at par with more than 140 countries and would be productive for all the sectors. Implementation of such reforms does faces surmountable challenges, however this is expected to bring in benefits in the form of higher GDP and also transparency in the tax system. The GST would be imposed on the value-addition and thus would leave lesser scope for tax evasion.

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