



## A study of goods and service tax in India a solution tax reform

Lawrenc Prasanna A

Assistant Professor, Department of Commerce, Government First College, Kolar, Karnataka, India

### Abstract

The objective to become a leading global economy, great financial restructuring is going on in India. Indian government has taken various measures during the last few years for ease of doing business. Various policies like liberalization, promotion of FDI, demonetization, digitalization of economy. One of the major developments is related with the structural reformation of Indian tax system. India is going to experience the major change in the collection of tax after implementing GST. A comprehensive dual Goods and Service Tax has replaced the complex multiple indirect tax structure from 1<sup>st</sup> July, 2017. The GST act was passed in the Lok Sabha on 29<sup>th</sup> March, 2017 and came into effect from 1<sup>st</sup> July, 2017. GST becomes a reality today. The goods and service tax is a very important transformational structural reform for the economy which will have multiple benefits - the creation of a national market, enhanced ease of doing business, greater productivity and efficiency and improved tax compliance. The paper highlights the concept of GST and the impact of GST on the Indian economy. The paper has been concluded with some suggestion for implementation of GST. The research is an exploratory research and the data collection is done mainly from the secondary data, literature review, research articles, reports, magazines, journals, various contemporary newspaper articles and the authenticated websites. The study found that, GST will widen the tax base, improve tax compliance and will remove unhealthy competition among states.

**Keywords:** goods and service tax, Indian economy

### 1. Introduction

The goods and service tax is the biggest and substantial indirect tax reform since independence. The GST is a value added tax and is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as the services. To make the Indian tax system more uniform, GST has been introduced in India from 1<sup>st</sup> July, 2017. Tax policies play an important role on the economy through their impact on both efficiency and equity. A good tax system should keep in view issues of income, distribution and at the same time, also endeavor to generate tax revenues to support government expenditure on public services and infrastructure development.

GST is not a new tax but replaces all taxes which were levied at all the previous stages in production and sale process with one tax. Now there is one tax with two components - state and central components. GST becomes a reality today. GST is building a new India through one nation, one tax and one market. GST will improve the collection of taxes as well as boost the development of Indian economy by removing the indirect tax barriers between states and integrating the country through a uniform tax rate.

The Indian parliament passed the 122<sup>nd</sup> constitutional amendment bill, ushering in the regime of goods and services tax in the country. This tax regime seeks to introduce a uniform rate of taxation for all goods and services that are being bought and sold in India. It is supposed to be designed in such a way that, irrespective of the location of the point of sale for any particular goods or services, the buyer will be paying the tax at the same rate. Before GST, tax on tax was calculated and tax was paid by every purchase including the final consumer. The taxation on tax is called cascading effect of taxes, GST avoids this cascading effect as tax is calculated only on the value addition at each transfer of ownership.

A dealer in Maharashtra sells goods to consumer in Maharashtra worth Rs. 10,000. The GST rate is 18% comprising CGST of 9% and SGST of 9%. In such cases, the dealer collects Rs. 1800 and of this amount Rs. 900 will go to the central government and Rs.900 will go to the Maharashtra government. If the dealer in Maharashtra had sold the goods to a dealer in Gujarat worth Rs. 10,000, the GST rate is 18% comprising of only IGST. In such case, the dealer has to charge Rs. 1,800 as IGST. This revenue will go to the central government.

GST also known as Goods and Services Tax. More than 150 nations have implemented GST so far. Goods and Service Tax or GST as it is known is a game changer in Indian Economy. (Narayanan G. and Vashisht) Amidst economic crisis across the globe, India has posed a beacon of hope with ambitious growth targets, supported by a bunch of strategic undertakings such as the Make in India and Digital India campaigns(Raj). The Goods and Services Tax (GST) is another such undertaking that is expected to provide the much needed stimulant for economic growth in India by transforming the existing base of indirect taxation towards the free flow of goods and services. GST is also expected to eliminate the cascading effect of taxes. India is projected to play an important role in the world economy in the years to come. The expectation of GST being introduced is high not only within the country, but also within neighboring countries and developed economies of the world. Despite these and other implementation challenges, the GST is expected by many to deliver substantial benefits over time. Most notably, Finance Minister Jaitley has estimated that GST will increase the country's economic growth by two percent; external economists and investment professionals place the growth impact in a wider range of 5 percent to more than two percent. Additionally, the GST should increase the ease of

conducting business within India (especially across state borders) and between India-based companies and companies based in other countries. From a government perspective, “the GST is expected to improve tax compliance and draw more people into the tax net in a country where tax evasion is common. It will also make India more attractive for foreign investors by simplifying rules for a huge and increasingly attractive market.”(Pasricha)

The Indian Automobile Industry had been paying a tax range between 30- 45%. (GST: impact and implications on various industries in Indian economy - ProQuest)The introduction of the Goods and Services Tax will be a very noteworthy step in the field of indirect tax reforms in India. By merging a large number of Central and State taxes into a single tax, GST is expected to significantly ease double taxation and make taxation overall easy for the industries. For the end customer, the most beneficial will be in terms of reduction in the overall tax burden on (Dr. Lakshmi T and Rajeshkumar S) goods and services. Introduction of GST will also make Indian products competitive in the domestic and international markets. Last but not least, the GST, because of its transparent character, will be easier to administer. (Trishala A, Lakshmi T and Rajeshkumar S) Once implemented, the proposed taxation system holds great promise in terms of sustaining growth for the Indian economy.(Ajay Kumar and Kumar). The main aim of this paper is to critically analyse the GST reforms. The specific aims are to compare the past and present tax systems especially the profitability of Indian automobile industry and to analyse GST in consumer perspective.

**2. Need for the study**

The concept of goods and service tax is one of the biggest revolutions in decades around the world. Hence the present study intends to focus on understanding the concept of goods and service tax and its impact on the Indian economy.

**3. Objectives of the study**

1. To study the concept of goods and service tax.
2. To examine how goods and service tax impact on the Indian economy.
3. To study the types of invoices under goods and service tax.
4. To study the benefits of goods and service tax all around.

**4. Research methodology**

The research paper is an exploratory research technique and

the data collection is done mainly from the secondary data. The required data has been extracted from past literature, research articles, newspapers, published sources like reports, magazines, journals and the authenticated websites.

**5. Review of literature**

Prof. Pooja S. Kawle and Prof. Yogesh L. Aher (2017) [3] the article entitled “GST: An Economic Overview: Challenges and Impact Ahead”. The research intends to focus on understanding the concept of goods and service tax and its impact on Indian economy. The study found that, GST may assure the possibility of overall gain for industry, trade and agriculture. The study also found that, GST will have positive impact on the Indian economy.

Akanksha Khurana and Aastha Sharma (2016) [4] the article entitled “Goods and Services Tax in India A Positive Reform for Indirect Tax System”. The research paper highlights on the objectives of the proposed GST and the impact of GST in the present tax scenario in India. The paper further explores various benefits and opportunities of GST. The study found that, it ensures uniformity of tax system across the states. It will integrate the tax base and allow seamless flow of input tax credit resulting in reduced cost of goods and services. The study also found that, it will mitigate cascading and double taxation thus enables better compliance, it will also lead to transparency in tax system resulting in difficulty of tax evasion.

Milandeep Kour, Kajal Chaudhary, Surjan Singh and Baljinder Kaur (2016) [5] the article entitled “A Study on Impact of GST after its Implementation”. In this paper an attempt has been made to examine the impact of GST after its implementation, differences between present indirect taxes and GST. The research also intends to focus on what will be the benefits and challenges of GST after implementation. The study found that, a well designed GST is an attractive method to get rid of deformation of the existing process of multiple taxation and GST play a dynamic role in the growth and development of the country.

**How GST impact on the Indian economy**

After a long wait of about 16 years, Indian government finally passed goods and service tax bill on Wednesday. It’s expected to turn India into one common market.

**Table 1:** Impact of GST on different sectors

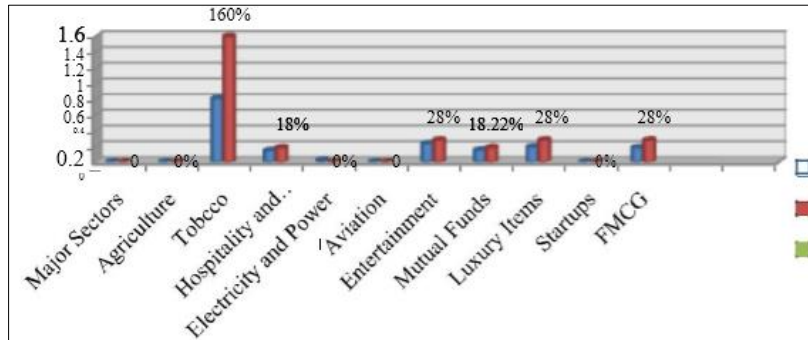
S. No	Major Sectors	Current Tax Rate	GST tax Rate	Impact
1.	Banking Sector and Insurance	15%	18%	Negative
2.	Consumer Staples	22%	18%	Positive for Asian Paints Dabur, HUL, Emami. Negative for ITC UBL
3.	Consumer Discretionary	15%	18%	Negative for Jubilant foods, Café coffee day, Restaurant businesses
4.	Media and Entertainment	15% + 7% State Entertainment Tax	18%	Positive, for Dish, TV, Videocon D2H, Big TV
6.	Auto and Auto Ancillary	27%	18%	Positive for M and M Maruti Bajaj Auto, Eicher Motors, Ashok Leyland etc.
7.	Metals	18%	18%	No significant impact
8.	Cement	27%	18%	Positive impact
9.	Pharma	15%	18%	Positive impact
10.	Real Estate	15%	16%	No significant impact
11.	FMCG	24-25%	18%	Positive impact

Source: <http://www.gstindia.com>

**Table 2:** Current and GST tax rates in major sectors

S. No.	Major Sectors	Current Tax Rate	GST Tax Rate
1.	Agriculture	0%	0%
2.	Tobacco	81%	160%
3.	Hospitality and Restaurants	14.5%	18%
4.	Electricity and Power	2%	0%
5.	Aviation	5.6% - 8.4%	5% - 12%
6.	Entertainment	23.5%	28%
7.	Mutual Funds	15%	18.22%
8.	Luxury Items	19%	28%
9.	Startups	0%	0%
10.	FMCG	18%	28%

Source: <http://www.gstindia.com>



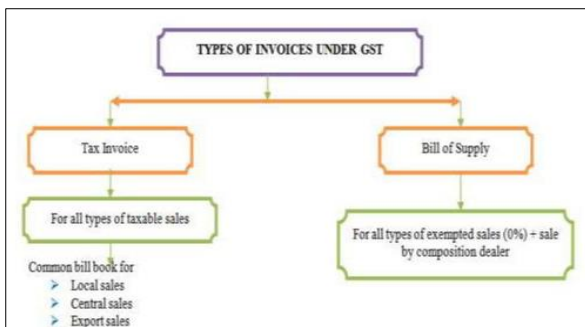
**Fig 1**

**Table 3:** Tax structure under different regime

Transaction	New Regime	Old Regime	Comments
Sales with in state the	CGST + SGST	VAT + Central Excise/Service tax	Revenue will be shared equally between the central and the state
Sales outside the state	IGST	Central Sales Tax (CST) + Excise/Service Tax	There will be only one type of tax (Central) in case of inter state sales. The IGST which goes to the centre

Source: <http://www.gstindia.com>

**Types of Invoices under GST**



**Fig 2**

**GST A Plethora of benefits all around**

Tax compliance will be very easier with the simplified tax regime. The advantages to trade and industry are clearly evident. All this will give a further fillip to the country. This leads to one nation, one tax and one market. A nation is made, when taxes are paid.

**i) Tax compliance easy**

- Greater use of IT will reduce human interface between taxpayer and tax administration.
- Automated procedures for processes like registration, returns, tax payments, refunds and credit verification.
- “Doing Business” eased as multiple records not required to be maintained for various taxes.

- Compliance burden to come down with one pan - India tax replacing multiple taxes.

**ii) Advantages for trade and industry**

- Seamless flow of tax credit from manufacturer /supplier to user/ retailer to eliminate cascading of taxes.
- Common producers for registration, duty payment, return filing and refund of taxes.
- More efficient neutralization of taxes to make our exports more competitive internationally.
- Benefit of exemption / compounding scheme for a large segment of small scale suppliers to make their products cheaper.

**iii) Benefits to economy**

- To create a unified common national market.
- To boost “Make in India” campaign and India as a “Manufacturing hub”.
- To boost investments and exports.

**6. Findings of the study**

1. The present study reveals that, the suppliers, manufacturers, wholesalers and retailers are able to recover GST incurred on input costs as tax credits. This reduces the costs of doing business, thus enabling fairer prices for consumers.
2. The study reveals that, the entire Indian market will be a unified market which may translate into lower business

costs. It can facilitate seamless movement of goods across states and reduce the transaction costs of businesses.

3. The study reveals that, GST will mitigate cascading and double taxation and enable better compliance through the lowering of overall tax burden on goods and services.
4. The present study also reveals that, there is enormous scope for augmenting revenue. Lower taxes lead to better compliance and higher revenues. Good opportunity to jointly work for better enforcement. GST will spur growth and increase the GDP like Canada. Making exports more competitive.

### 7. Suggestions

1. The researcher would like to suggest that, a new tax structure i.e. improved GST (IGST) which ensures the complete elimination of cascading effect and the protection of the constitutional powers of state governments.
2. The researcher would like to suggest that, the government should construct a proper monitoring system to evaluate the impact of implementation of GST.
3. The researcher would like to suggest that, taxpayer education or public awareness campaign need to be provisioned by central government.
4. The researcher also suggests that, public workshops, training and various seminars on GST must be conducted in all states by their respective state governments, joint operation between consumer association and nongovernmental organization to ensure worldwide pricing monitoring.

### 8. Conclusion

It is quite clear that the goods and service tax is going to put in place an indirect tax system with greater transparency and rationality. This is in tune with best global practices. This destination based tax regime would integrate markets all over the country. GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. All sectors of economy whether the industry, business including government departments and service sector shall have to bear impact of GST. The goods and service is all set to integrate state economies and boost overall growth. This will create a single, unified Indian market to make the economy stronger. 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. This will give more relief to industry, trade and agriculture through a more comprehensive and wider coverage of input tax set-off and service tax set-off and phasing out of CST. The transparent and complete chain of set-offs which will result in widening tax base and better tax compliance may also lead to lowering of tax burden on an average dealer in industry, trade and agriculture.

### 9. References

1. Eva Van Leemput and Ellen A. Wiencek "The Effect of the GST on Indian Growth". Board of Governors of the Federal Reserve System, International Finance Discussion Paper Note, March, 2017.
2. Jasmine VM. GST and Evolution of Tax System in India, International Journal of Management and Social Sciences ISSN 2455-2267. 2017; 7:1, Institute of Research Advances (IRA).

3. Pooja Kawle S, Yogesh L. Aher GST: An Economic Overview: Challenges and Impact Ahead", International Research Journal of Engineering and Technology (IRJET), 2017.
4. Akanksha Khurana, Aastha Sharma. Goods and Services Tax in India - A positive Reform for Indirect Tax System, International Journal of Advanced Research, 2016.
5. Milandeep Kour, Kajal Chaudhary, Surjan Singh, Baljinder Kaur. A Study on Impact of GST after Its Implementation, International Journal of Innovative Studies in Sociology and Humanities, 2016.
6. Monika Sehrawat, Upasana Dhanda. GST in India: A Key Tax Reform", International Journal of Research - Granthaalaya, 2015.
7. Lourdunathan F, Xavier P. A study on implementation of goods and services tax (GST) in India: Prospects and challenges, International Journal of Applied Research, 2017.
8. Shefali Dani. A Research Paper on an Impact of Goods and Service Tax (GST) on Indian Economy, Business and Economic Journal, 2016, www.gstindia.com