



The concept of Goods and Service Tax (GST) in India: an exploratory study

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Abstract

The Goods and Services Tax (GST), implemented on July 1, 2017, is regarded as a major taxation reform till date implemented in India since independence in 1947. GST also known as the Goods and Services Tax is defined as the giant indirect tax structure designed to support and enhances the economic growth of a country. The primary objective behind development of GST is to subsume all sorts of indirect taxes in India like Central Excise Tax, VAT/Sales Tax, Service tax, etc. and implement one taxation system in India. The GST based taxation system brings more transparency in taxation system. This paper presents an outline of GST concept, explains its benefits along with inclusions and exclusions in GST. The paper also brings light up on comparison between the Past Tax Structure and Current GST Tax in India.

Keywords:- Taxation reform, Indirect tax, VAT, Subsume.

JEL : G18, H20

Introduction

Taxation policy plays a very crucial role on the economy of a country. The main source of revenue of the government comes from the taxes levied on the citizens who can be direct or indirect. When the impact and incidence falls on same person it is called as direct tax and when the impact and incidence falls on two different people i.e., the burden can be shifted to any other person it is called as indirect tax. Before the introduction of GST India had a complicated indirect tax system with multiple taxes imposed by union and state separately, with the introduction of GST all the indirect taxes will be under an umbrella and ensuring a smooth national market with high economic growth rate. It is a form of tax obligatory on sale, manufacturing and usage of goods and services. Goods and service Tax is applied on services and goods at a national level with a purpose of achieving overall economic development. India adopted a dual GST model, meaning that taxation is administered by both the Union and State Governments. Transactions made within a single state are levied with Central GST (CGST) by the Central Government and State GST (SGST) by the State governments. For inter-state transactions and imported goods or services, an Integrated GST (IGST) is levied by the Central Government. GST is a consumption-based tax/destination-based tax,



therefore, taxes are paid to the state where the goods or services are consumed not the state in which they were produced. IGST complicates tax collection for State Governments by disabling them from collecting the tax owed to them directly from the Central Government. Under the previous system, a state would only have to deal with a single government in order to collect tax revenue.

Objectives of study

1. To understand the concept of GST.
2. To study the benefits of GST.
3. To understand inclusions and exclusions in GST.
4. To compare the past tax structure and current GST structure.
5. To analyze the impact of GST on the Indian economy.

Research methodology

An explanatory research is studied based on secondary data collected from various journals, books, government reports, articles and newspapers which focus on different aspects of GST.

Concept of gst

GST (Goods and Services Tax) is applicable on supply of goods and services. It replaced the current taxes of excise, VAT and service tax. GST is meant to simplify the indirect tax regime of India by replacing a host of taxes by a single unified tax. GST is a comprehensive, multi-stage, destination-based tax that is levied on every value addition. GST will bring a new dimension to the Indian economy by making a common market and reducing the cascading effect of tax on the cost of goods and services. It will affect the entire indirect tax system the tax structure, tax incidence, tax computation, compliance, input credit utilization and reporting procedures. India had adopted the dual system of GST as CGST and SGST. The need for a concurrent dual GST model is based on the following .As per constitution of India concurrent power to levy tax on domestic goods and services is provided to both central and state government. As per the dual GST model tax can be levied independently by the central and state government but both will operate in common platform for imposition of taxes, liabilities would be identical.

Benefits of gst

- ❖ Removal of bundled indirect taxes such as VAT, CST, Service tax, CAD, SAD, and Excise.
- ❖ Less tax compliance and a simplified tax policy compared to current tax structure.
- ❖ Removal of cascading effect of taxes i.e. removes tax on tax.
- ❖ Reduction of manufacturing costs due to lower burden of taxes on the manufacturing sector. Hence prices of consumer goods will be likely to come down.



- ❖ Lower the burden on the common man i.e. public will have to shed less money to buy the same products that were costly earlier.
- ❖ Increased demand and consumption of goods.
- ❖ Increased demand will lead to increase supply. Hence, this will ultimately lead to rise in the production of goods.
- ❖ Control of black money circulation as the system normally followed by traders and shopkeepers will be put to a mandatory check.
- ❖ Boost to the Indian economy in the long run.

Inclusions in gst

Introduction of the GST will eliminate multifarious taxes and duties being levied at present. They include:

- ❖ Central Excise
- ❖ Service Tax
- ❖ Additional Excise duties of customs in lieu of central excise and sales tax
- ❖ Cess on additional duties of customs
- ❖ State Value added tax (VAT)
- ❖ Central Sales Tax
- ❖ Entry Tax
- ❖ Octroi
- ❖ Local Entry Tax

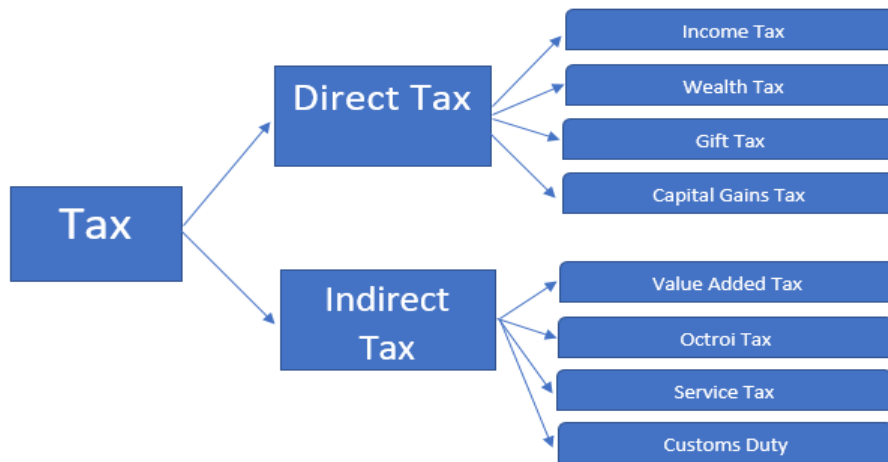
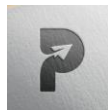
Exclusions in gst

- ❖ Basic Customs Duty
- ❖ Cess on Basic Customs Duty
- ❖ Entertainment Tax levied by Panchayat, municipality, regional or district council.
- ❖ Alcohol for human consumption
- ❖ Tobacco and tobacco products
- ❖ Crude, Diesel, petrol, natural gas, air turbine fuel.

Comparison of past tax structure and gst tax

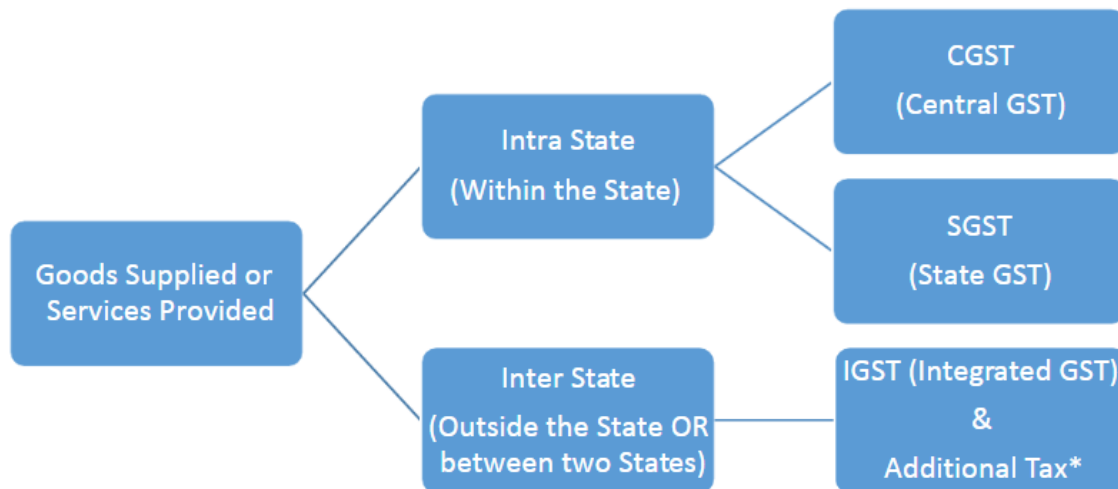
Past tax

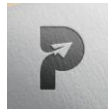
The past tax structure of India has been indicated in the Figure 1 below. This shows the relation between direct tax, income tax, indirect tax, central excise, VAT, entry, luxury tax etc



GST Tax structure

GST Tax structure which shows the relation between Intra state GST, Inter State GST, central GST, state GST, Integrated GST etc .





Impact of GST on Indian economy

GST will impact the overall taxation system of the Indian economy. It will improve the country's GDP ratio and also control inflation to a certain extent. However, the reform will mainly be advantageous to the manufacturing industry, but will make some things challenging for the service sector industry.

GST is expected to raise the GDP growth from 1% to 2%, but these figures can only be analyzed after successful implementation. Some countries have faced a mixed response in growth like New Zealand saw a higher GDP as compared to countries like China, Thailand, Australia, and Canada (Shokeen, Banwari, & Singh, 2017).

The GST rate is implemented in various slabs like 5%, 12%, 18%, and 28%, which will automatically provide great tax increments to the government and the manufacturing sector will face immense growth with reduction in tax rate. There is definitely something good for everyone. Various unorganized sectors which enjoy the cost advantage equal to tax rate which will be brought under GST. This will make various sectors like Hardware, Paint, Electronics etc. under the tax slab. GST requires everything to be planned meticulously for organized rate of taxation. There are still lots of sectors which are to be discussed under GST and this requires proper planning. For the common man and different companies, the collection of Central and State taxes will be done at point of time when sales originate, both components will be charged on manufacturing costs and price of the product will downgrade and consumption will thereby increase. GST will impact the overall taxation system of the Indian economy. It will improve the country's GDP ratio and also control inflation to a certain extent. However, the reform will mainly be advantageous to the manufacturing industry, but will make some things challenging for the service sector industry.

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- ❖ Reduces tax burden on producers and fosters growth through more production. The current taxation structure, pumped with myriad tax clauses, prevents manufacturers from producing to their optimum capacity and retards growth. GST takes care of this problem by providing tax credit to the manufacturers.
- ❖ Different tax barriers, such as check posts and toll plazas, lead to wastage of unpreserved items being transported. This penalty transforms into major costs due to higher needs of buffer stock and warehousing costs. A single taxation system eliminates this roadblock.
- ❖ There is more transparency in the system as the customers know exactly how much taxes they are being charged and on what base.
- ❖ GST adds to the government revenues by extending the tax base.
- ❖ GST provides credit for the taxes paid by producers in the goods or services chain. This is expected to encourage producers to buy raw material from different registered dealers and is hoped to bring in more vendors and suppliers under the purview of taxation.
- ❖ GST removes the custom duties applicable on exports. The nation's competitiveness in foreign markets increases on account of lower costs of transaction.



Conclusion

The Goods and Services Tax (GST) dominion is an unconcerned attempt by the government to justify the indirect tax structure of the country. The government should study in depth the GST mechanism set up by different countries around the globe and also their fallouts before implementation. No doubt GST had simplified the existing indirect tax system and helps to overcome the cascading effect of tax. The bill was introduced to implement one country one tax but resulted into a pitfall as the price of basic goods and services had gone upward, in spite of government demand for a positive change in the economy with a GDP growth rate of 6.3% in Q2 of 2017-18 as against 7.5% in the second quarter of last year. It is clear that the economy is slowing down due to unplanned implementation of GST thus the disruptions may have accelerated the decline. The only possible remedy for this disruption is to make the transition to GST simpler

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