



## Goods and Services Tax: A Historical Movement for Indian Economy

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### ABSTRACT

*Various indirect taxes are applied to goods and services in India by the central government and state government. An up-gradation was required to rectify the major fault of the existing indirect tax structure. Goods and services tax (GST) are becoming one tax which includes all these taxes. This paper deals with the structure of the Indian taxation at the present scenario. The background, features of the GST and the impact of GST in the present Indian tax scenario are also dealt with. It is proposed to be considered that Goods and Services tax will remove all the complexity of the existing tax policy of India and will create a positive impact on Indian economy.*

**KEYWORDS :** Indirect tax, GST, tax structure, Indian economy

### Introduction

The Indian tax structure is broadly divided into two parts, namely, direct tax structure and indirect tax structure. In direct tax part main two taxes are: Income tax and wealth Tax (not applicable as per budget F.Y – 2015-16). On the other hand, in case of indirect tax part, numerous taxes are: Value Added tax (State Level), Central Sales tax (Central Level), Service tax (Central Level), Excise duty (Central & State Level), Customs duty (Central Level). A brief of review of Indirect Tax Structure in India is given below:

**Value Added tax (VAT):** Formerly it was a state level sales tax, which was replaced by value added tax with effect from the year 1<sup>st</sup> April 2005. VAT is implemented in all states of India except Jammu & Kashmir.

**Central Sales tax:** It is the Central level sales tax which is levied on sales if sales occur in the course of Inter State Sales. CST levied as per Central Sales tax Act, 1956.

**Service tax:** It is the central level indirect tax, which is levied on the value of taxable services. Taxable services are mentioned in section 67 and 67A of Finance Act 1994. There is no Service Act, but there are service tax Rules which are inserted in the Finance Act.

**Excise duty:** Excise duty is both Central as well as State level indirect tax, which is levied on all excisable goods.

**Customs duty:** Customs duty is one type of indirect tax levied on goods imported into India as well as on goods exported from India. Taxable event is imported into or export from India.

### Background of the study

There are some backdrops on the existing indirect tax structure, which can be generalized as follows:

Substantial change was made in the state level Tax structure in the year 2005. State level Sales tax is replaced by Value Added Tax. This up-gradation is made due to major faults in Sales tax structure i.e. cascading burden. This limitation is eliminated through tax credit method. But the most vital disadvantage of Value Added Tax is that the different rates are charged on different goods under VAT. Charging Tax on inputs and outputs at different rates are really problematic.

In the case of Central Sales tax another limitation is that the advantage of the tax credit is not available. The same problem was there in case of the State level Sales tax before implementation of Value Added Tax.. Besides, export sale is considered under CST but that is exempted' in form 'H' as per CST ACT.

In case of Service Tax only in some specified cases the advantage of CENVAT Scheme can be availed. CENVAT is available for excisable goods also. The main limitation of CENVAT is the involvement of additional customs duty. Surcharges are also excluded from CENVAT mechanism.

Considering this backgrounds another concept of a tax has been newly introduced where, excise duty, special additional duty, service tax, VAT etc. to name a few will get replaced and will be added into a single tax named Goods and Services tax (GST).

### Objectives of Study

It may be considered that the proposal of GST is undoubtedly a good attempt to reform the existing indirect tax structure of India. Considering the benefits of implementing GST in other countries of the world, whether proposed GST can remove the complexity of existing tax policy in India or not. Whether the GST can work as the boost of economic growth of India or not? On the basis of the above requirements the objectives of the study can be formulated as follows.

To provide a brief idea of the existing tax structure of India

To give an overview of the mechanism of Goods & Services Tax.

To assess the impact of Goods & Services Tax on Indian economy as a whole.

To identify limitations of Goods & Services Tax.

### Research Methodology

Data from secondary sources have been used in this study. Information and data have been collected from different secondary sources like various websites, books, research papers and different PDF documents.

### Data findings and analysis

This part of this paper covers GST related issues based on the objectives of the study. The concept of GST and its emerging issues, GST and its global scenario, impact of GST on the country's economy and some limitations of the study has been discussed.

### Basic Concept and overview of Goods & Service Tax

The mechanism of Goods & Service Tax has been proposed to implement as a newly reform of Indian tax structure to avoid the complexity of present indirect tax structure of our country. In the current Indirect Tax Structure numerous Indirect taxes are imposed on the central and state level on the product which increases the selling price of the final finished goods. As a result, people bear the huge amount tax burden. The socioeconomic conditions and Income distribution pattern in India is not equal, so it is difficult to bear the indirect tax burden in various levels along with the direct tax. In this complicated situation, it seems to introduce something new which can reduce the average tax burden. GST is a single point indirect tax, which is proposed to replace all other taxes. The experts in this particular field realize that definitely GST will help to administrate the tax system transparently. Almost 140 countries have already implemented GST and positive results are coming out. On the basis of this reality, it may be expected that GST in India will also give a successful result. Although, some doubt may arise at present whether:

The taxpayers will really be benefited by GST?

GST will enhance the revenue generation of the Government?

The mechanism of GST will be accepted by all concern?

The rate of tax and procedure of payment of tax will be minimized under the proposed system of GST?

Former Finance Minister Pranab Mukherjee in the budget on July 2006 proposed to implement GST on and from 1<sup>st</sup> April 2010 but due to some limitations that can't be implemented then. Presently, after coming new Government it is also under the processing phase and proposed to be implemented soon. Till now it is not considered in the last budget and waiting for completion of all the formalities.

### General Discussions & Mechanism

In the earlier discussion, it was noted that the Goods & Services Tax may be considered as a single and uniform Tax system for buying and selling of goods & services all over the country. This new Tax policy is proposed to be an integration of Tax structure compared with other countries. The dual concept of GST has been proposed for India i.e. GST will be imposed by Central Level as well as State Level: State Level GST is known as SGST and Central Level GST is known as CGST. In the new proposed GST structure, tax rate will be three types:-

Tax Rate for basic items or commodities.

Standard Tax Rate for Goods in general.

Special Rate for some specific goods or commodities.

The center will levy GST which is equal to SGST and CGST. Input Tax Credit is available at

IGST = CGST + SGST

Tax paid against CGST is allowed as an ITC mechanism of CGST and Tax paid against SGST is allowed as ITC against SGST. State Level Tax can set off against Central Level and Central Level Tax can be set off against State Level. GST is applicable on import of Goods & Services but on export it is completely zero rated.

*Meaning of Zero Rated Export:* Under the concept of GST, Zero Rated Export indicates that tax is not chargeable on export of goods & services, but exporter can claim GST incurred on raw materials or purchase of input of exportable final product.

*Meaning of Tax paid on import of goods & services:* Tax paid on goods and services can be availed as a tax credit. CGST and SGST both will be levied on import of goods & services. SGST will accrue to the State where imported goods & services are consumed. Complete set off is available for tax paid on Import.

### Tax Covered Under GST Model

*Tax under CGST:* At central Level, central excise duty along with additional excise duty, surcharge, service tax, additional customs duty and special additional duty etc. will be covered under CGST.

*Tax under SGST:* At the state level, value added tax, sales tax, entertainment tax, tax on lottery, gambling etc. will be covered under SGST.

*Goods excluded GST:* Alcoholic products and Petroleum products are excluded from GST regime. Tax on Alcoholic and Petroleum products will be levied as per existing practice.

### Global Comparison

Almost 140 countries in the world have already adopted the GST model in their tax policy. France was the first country who introduced goods & services tax structure in the year 1954. Only Brazil and Canada have adopted the dual concept of GST model. This dual GST system is proposed in India i.e. CGST and SGST model. Due to its worldwide acceptability it is really helpful to overcome the tax complicity of different countries in the course of international trade. Except Brazil and Canada all other countries have adopted the Single GST mod-

el which is considered as far better than the dual system in terms of simplicity and tax burden. Europe is the top most continents in terms of indirect tax collection. On an average GST rate in case of European countries is 19.5%. World's highest indirect taxes are imposed by Sweden, Norway and Denmark. The rates of GST of some other countries are: Australia (10%), France- 19.6%, Canada- 5%, Germany- 19%, Japan- 5% Singapore-7% etc.

### Rate of Tax

The rate of tax at both the levels has not yet finalized. Subhranarayan committee recommends that the rate of tax should be revenue neutral rate, which may be 15 to 15.5%. The committee also suggested that the goods and services tax should 17% to 18% on the majority goods, 12.5% on essential commodity and 40% on costly car, luxury goods, cold drinks, tobacco and goodka.

### Impact of Goods & Services Tax

Tax structure in any country is very much essential for enhancing the economic growth of that country. A simple and effective tax structure can help to generate the government revenue, which can be used for the purpose of infrastructural development. As GST is the one tax which aims replace all indirect taxes, definitely it is having simplicity which may help to enhance the tax structure in India. Following facts may be considered beneficial while introducing GST in India:

1) *International Trade:* A common and uniform tax rate may reduce more complexity on tax treatment. If a common tax structure is followed worldwide, really it is helpful in enhancing international trade. It may help in removing some trade barriers. International trade refers to the amount of export and import between two nations. The amount of export and import of goods & services is shown in an account called Balance of Payment (BOP) Account. There are two sides of BOP Account. Transactions relating to export by which foreign exchange reserve increased are recorded in the Credit Side and transactions regarding import by which foreign exchange reserve decreased are recorded on the debit side of the BOP. Difference between credit and debit side is called either 'deficit' or surplus.

One of the most common ways of recovering trade deficit is export promotion and import substitution. GST emphasizes on this by making export sales Zero Rated. This will help in increasing competition of Indian commodities in the International Market. If export can be increased by reducing the tax burden then definitely that will help in increasing the foreign exchange reserve.

2) *Reduction in average tax burden:* GST is one tax or single indirect tax policy applicable for majority commodity. The tax burden is high in that case when various indirect taxes are imposed as the prices of the final products are increased. So, from customers' perspective tax structure is comparatively complex and may not be considered economical. On the other hand it is difficult for different industries, mainly for manufacturing industries to overcome the situation in the competitive business environment.

GST aims to reduce the average tax burden by imposing a moderate rate of tax which will definitely help in the manufacturing as well as the corporate sector. Service sectors, industries and customers can avail product at a low price which will enhance economic growth of the nation.

3) *Uniformity in Tax Structure:* Earlier, it was stated that already 140 countries have implemented the GST model which is defined as a unified tax system. Although in the present age of globalization, the uniform tax rate is very essential, but in India till now this is in the implementing stage. So, the proposed dual GST system will definitely provide uniformity in tax structure which will be beneficial for the country.

4) *Simplicity in the Tax Structure:* Generally Indian tax structure is very comprehensive because different types of taxes are included in the tax system and their concepts are also different. If tax system can be made simple to some extent definitely that will be helpful for the public to understand the tax structure as whole easily. GST is such an aim which will make the existing tax Structure simple.

5) *Growth of manufacturing & service industries:* GST will enhance

the growth of manufacturing & service industries by reducing the tax burden. Due to the reduction Tax burden price will reduce and demand of products will increase. Increase in demand will help in generating employment opportunity also.

### Limitations of goods & services tax

Despite being several positive impacts of GST in the Indian economy, there are some limitations of GST which can't be denied. These are discussed below:

1) *GST is nothing but a VAT mechanism:* GST mechanism is completely similar to the VAT mechanism. VAT is only applicable to state level basis, whereas GST is related to both state central levels. Under GST mechanism tax is to be paid on output and Tax paid on input will be allowed as "Input Tax Credit" like VAT mechanism. There is a marginal difference between the VAT and GST. Only all indirect taxes are merged with one name, adopting the VAT mechanism.

2) *Only a change in Tax structure, not Tax burden:* GST may be considered as the up-gradation of tax structure, not change of the tax burden. Although GST is a single indirect tax and one uniform tax rate is applicable, there are so many tax burdens included in GST i.e. additional excise duty, additional customs duty. So, the question may arise whether GST can reduce the complexity of indirect taxes and the tax burden of Tax payers or not.

3) *The simplicity of the name, not in the tax structure:* In India dual concept (central level and State level) of GST has been proposed to replace almost all indirect taxes like VAT, sales Tax, service tax, and excise duty. Now the question is whether this structure will be successfully performed or not.

### Conclusion

Goods & Services tax may be a remarkable taxation reform in India. GST will create a single unified Indian market to make the economy stronger. Through a tax credit mechanism, this tax is collected on value added goods & services at each stage of sales or purchases in the supply chain. It is nothing but the integration of Indirect tax structure with other countries of the world. After implementation of GST model it can be finally identified its actual positive and adverse effect. Compared to the other countries it can be said that it is a well accepted tax policy all over the world and specifically the dual model of GST successfully implemented by two countries viz. Brazil and Canada.

### Broad Conclusion emerges from the above study are as follows:

The Indian tax structure is really comprehensive due to different types of Tax burdens and this is going on year after year for a long time. As the whole country along with Government policy is in a certain track, it is difficult to make any remarkable change like other countries which adopted the GST policy. The burden of numerous indirect taxes can't be completely changed quickly because the tax structure is coping with a certain tax policy. So, complicity of tax structure can be reduced to some extent but not completely.

Proposal of GST and initiatives to implement practically is undoubtedly an excellent step for our country and domestic economic condition definitely differs from country to country, on the basis of which tax policy may differ but the structure is same. So, in India GST policy has been framed as per domestic economic condition, considering the advantages and drawbacks of domestic economy but structure is the same which is adopted globally.

The actual public response, its advantages and limitations can be completely identified after practical implementation of GST.

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