



## GST: REFORM IN INDIAN TAXATION SYSTEM

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**ABSTRACT**

This paper is an attempt to understand the concept of Goods and Service Tax (GST), to be implemented in India from 1st July 2017. Goods and Service tax (GST) is single regime tax system which makes India One Nation One Tax by subsuming both Indirect tax levied by Central Government and State Government. Currently Concept of Dual GST is implemented in India with Slab rates of 0%, 5%, 12%, and 18% and 28% respectively. Total 160 countries in the world have already implemented GST/VAT out of which France was the first country to implement GST and India being 161 countries to implement Goods and service tax (GST). This changing face of Indian taxation system paves the path of development and advancement towards which developing country like India is trying to move on. It is the biggest and substantial indirect tax reform since 1947. The main is to replace existing taxes like value-added tax, excise duty, service tax and sales tax. It will be levied on manufacture sale and consumption of goods and services.

**KEYWORDS** : Goods and Services tax, impact, prices, Indian economy.**INTRODUCTION:**

The goods and services tax (GST) will be a comprehensive nationwide indirect tax on manufacture, sale and consumption of goods and services. The objective is to make India a unified common market. GST will be levied at each stage of sale or purchase of goods or services. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, making it essentially a tax on only value addition at each stage. The final consumer will bear only the GST charged by the last dealer in the supply chain.

At the Central level, central excise duty, additional excise duty, service tax, countervailing duty, and special additional duty of customs will be subsumed. At the State level, state value added tax/sales tax, entertainment tax, central sales tax, octroi and entry tax, purchase tax, luxury tax, and taxes on lottery, betting and gambling will be subsumed.

cascading effect or double taxation. The tax burden on interstate logistics will be cheaper. Compliance will be easy and there will be uniformity of tax rates for industry. GST is expected to lead to easier administration and enforcement from the Government point of view. The administration of GST will be executed through two components- Central GST and State GST. Both Centre and States will simultaneously levy GST across the value chain. Tax will be levied on every supply of goods and services. However, no cross utilisation of credit will be permitted.

The Constitution (122<sup>nd</sup> Amendment) Bill, 2014 will confer powers to Parliament and State Legislatures to make laws for levying GST. The Centre will levy and collect central goods and services tax (CGST) and the states will levy and collect the state goods and service tax (SGST) on all transactions within a state. The Centre's levy will be on all inter-state supply of goods and services. There will be seamless flow of input tax credit between states. Other taxes will be subsumed.

**GOODS AND SERVICE TAX BILL IN INDIA: AN OVERVIEW**

GST will amalgamate several central and state taxes and mitigate

**TABLE NO: 1. MILESTONES IN GST SAGA IN INDIA:**

Year	Proceedings
2000	Shri Atal Bhgari Vajpayee, the prime minister of India, flags of discussions on the GST
2004	A task force chaired by Vijay L. Kelkar, the advisor to the finance ministry, says the existing tax system suffers from many problems and suggests a comprehensive GST.
2005 February	Shri. P.Chidambaram, the finance minister speaks about GST for both the center and the states, in his budget speech,
2006 November	Shri P. Chidambaram sets April 1, 2010, as the date for introducing the GST.
2006 November	Shri Parthasarty Shome, advisor to the finance minister P. Chidambaram, says states will have to take various reform measures to pave the way for the GST.
2007 February	The union budget for 2007-2008 retains the April 1, 2010 deadline for implementation of the GST.
2008 February	While reading out the union budget for 2008-2009, the finance minister P. Chidambaram says, "I am also happy to report that here is considerable progress in preparing a roadmap for introducing the Goods and Service Tax with effect from April 1, 2010.
2009 July	India's new finance minister Pranab Mukherjee announces the basic structure for the GST.
2009 November	The committee under Asim Dasgupta releases its first discussion paper on the GST in the public domain.
2010 February	The Government a mission-made project for the computerization of commercial taxes in states which is expected to lay the foundation for the GST.
2011 March	The congress party-led Government introduces a Constitution Amendment Bill in the Lok Sabha to implement GST.
2012 June	The Standing Committee begins discussion.
2012 November	Finance minister Chidambaram holds meetings with state finance ministers.
2013 February	In his budget speech, Chidambaram announces that the Government has made provisions of Rs. 9,000 crore for compensation to states.
2013 August	The Standing Committee submits its report to parliament. The panel approves the legislation with some amendments on the provision of tax structure and resolution mechanism.
2013 October	The Narendra Modi ruled state of Gujarat opposes the bill.
2014 May	The constitution Amendment Bill lapses with the dissolution of the 15th Lok Sabha. The same month, the BJP led by Shree Narendra Modi is voted into power.
2014 December	Seven months later, India's new finance minister, Arun Jaitley, introduces the bill in the parliament.

<b>2015 February</b>	In his budget speech, jaitley announces that the Government is keen on implementing the GST by April 1, 2016 and hopes it will be cleared by parliament.
<b>2015 May</b>	The Lok Sabha passes the Constitution Amendment Bill to GST.
<b>2015 August</b>	The Government is unable to push the bill in the Rajya Sabha.
<b>2016 March</b>	Shre Jaitly says he agrees with the Congress's demand that the GST rate must not be above 18%.
<b>2016 August</b>	The Congress seems to finally agree with the Modi Government after it agrees to the four broad amendments to the bill on 3rd August the GST bill was passed by the Rajya Sabha with amendments. After moving to the Lok Sabha it approved on 8th August, 2016

GST will be the country's most comprehensive tax change since Independence and the single biggest reform initiative after the 1991 opening up of the economy. By turning India into a common market and unifying a plethora of levies, the Government estimates that GST will radically transform the \$2 trillion economy. Once implemented it is expected to do away with multiple indirect taxes, make the economy more efficient and transform the country into a single market.

#### LITERATURE REVIEW:

Agogo Mawuli (May 2014) studied, "Goods and Service Tax-An Appraisal" and found that GST is not good for low-income countries and does not provide broad based growth to poor countries. If still these countries want to implement GST then the rate of GST should be less than 10% for growth.

Nitin Kumar (2014) studied, "Goods and Service Tax- A Way Forward" and concluded that implementation of GST in India help in removing economic distortion by current indirect tax system and expected to encourage unbiased tax structure which is indifferent to geographical locations.

Pinki, Supriya Kamma and Richa Verma (July 2014) studied, "Goods and Service Tax- Panacea For Indirect Tax System in India" and concluded that the new NDA government in India is positive towards implementation of GST and it is beneficial for central government, state government and as well as for consumers in long run if its implementation is backed by strong IT infrastructure.

Dr. R. Vasanthagopal (2011) studied, "GST in India: A Big Leap in the Indirect Taxation

System" and concluded that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy. Success of GST will lead to its acceptance by more than 130 countries in world and a new preferred form of indirect tax system in Asia also.

Ehtisham Ahmed and Satya Poddar (2009) studied, "Goods and Service Tax Reforms and Intergovernmental Consideration in India" and found that GST introduction will provide simpler and transparent tax system with increase in output and productivity of economy in India. But the benefits of GST are critically dependent on rational design of GST.

#### OBJECTIVE OF THE STUDY:

The paper uses an exploratory research technique based on past literature from respective journals, reports, newspapers and magazines covering wide collection of academic literature on Goods and Service Tax. According to the objectives of the study, the research design is of descriptive in nature. Available secondary data was extensively used for the study. The objectives of the paper are:

1. To study about Goods and Service Tax and its impact on the economy.
2. To examine benefits and opportunities of Goods and Service tax.

#### RESEARCH METHODOLOGY:

The paper is based on secondary sources of data, which have been obtained from various GST implementation discussion papers, published article in journals, web articles (internet sources), past studies and news paper etc. With the help of these secondary

sources, attempt has been made to find the obstacles coming on the way of GST and looking for future opportunities of it in India.

Telangana become the first State to pass the GST Bill while Jammu and Kashmir on July 5th, 2017 passed the GST Bill as 31<sup>st</sup> state.

- 1st – **Telangana** on April 9, 2017
- 2nd – **Bihar** on April 24, 2017
- 3rd – **Rajasthan** on April 26, 2017
- 4th – **Jharkhand** on April 27, 2017
- 5th – **Chhattisgarh** on April 28, 2017
- 6th – **Uttarakhand** on May 2, 2017
- 7th – **Madhya Pradesh** on May 3, 2017
- 8th – **Haryana** on May 4, 2017
- 9th – **Gujarat** May 9, 2017
- 10th – **Goa** on May 9, 2017
- 11th – **Odisha** May 11, 2017
- 12th – **Assam** May 11, 2017
- 13th – **Arunachal Pradesh** May 12, 2017
- 14th – **Uttar Pradesh** on 16th May 2017
- 15th – **Andhra Pradesh** on 16th May 2017
- 16th – **Puducherry** on 17th May 2017
- 17th – **Maharashtra** 22 May 2017
- 18th – **Tripura** 24 May 2017
- 19th – **Sikkim** on 25th May 2017
- 20th – **Mizoram** on 26th May 2017
- 21st – **Nagaland** on 27th May 2017
- 22nd – **Himachal Pradesh** on 27th May 2017
- 23rd – **Delhi** on 31st May 2017
- 24th – **Manipur** on 5th June 2017
- 25th – **Meghalaya** on **12th June 2017**
- 26th – **Karnataka** on **16th June 2017**
- 27th – **Punjab** on **19th June 2017**
- 28th – **Tamil Nadu** on **19th June 2017**
- 29th – **West Bengal** take **ordinance route** for GST on **15th June 2017**
- 30th – **Kerala** take **ordinance route** for GST on **21st June 2017**
- 31st – **Jammu and Kashmir** on **July 5th, 2017**

#### NEED FOR GST MODEL IN INDIA

##### Following are the supporting reasons to adopt GST

- Present tax system allows is diversity of taxes, the introduction of GST is likely to unique it.
- Many areas of Services which are untaxed. After the introduction of GST they will also get covered.
- GST may help to avoid confusions caused by present complex tax structure and will help in development of a common national market.
- Excise, VAT, CST have the cascading effects of taxes. Therefore, there will be end up in paying tax on tax. GST will replace existing all present taxes.
- GST will lead to credit availability on throughway purchases and reduction in obedience requirements.
- Applying of GST will do more than simply redistribute the tax burden from one sector or Group in the economy to another.
- Achieves, uniformity of taxes across the territory, regardless of place of manufacture or distribution.
- Provides, greater certainty and transparency of taxes.
- Ensures tax compliance across the country
- GST will avoid double taxation to some extent.
- The effective implementation of GST makes sure that India provides a tax system that is almost similar to the rest of world where GST implemented.

- GST will also improve the International level cost competition of various native Goods and Services.
- GST will provide impartial tax structure that is neutral to business processes and geographical locations within India.
- If the GST is implemented in the true spirit, it will have many positives effects for the stakeholders and will lead to a better friendly tax environment.

**Table 2:** List of the countries implementing of VAT/GST

Serial No.	Region	Numbers of Country
1	ASEAN	7
2	Asia	19
3	Europe	53
4	Oceania	7
5	Africa	44
6	South America	11
7	Caribbean, Central & North	19

Sources: [http://gst.customs.gov.my/en/gst/Pages/gst\\_ci.aspx](http://gst.customs.gov.my/en/gst/Pages/gst_ci.aspx) (as on 14/08/2015)

World over in 160 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. This means that 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 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.

## SECTOR-WISE IMPACT ANALYSIS:

### Logistics

In a vast country like India, the logistics sector forms the backbone of the economy. We can fairly assume that a well organized and mature logistics industry has the potential to leapfrog the "Make In India" initiative of the Government of India to its desired position.

### E-com

The e-com sector in India has been growing by leaps and bounds. In many ways, GST will help the e-com sector's continued growth but the long-term effects will be particularly interesting because the model GST law specifically proposes a tax collection at source (TCS) mechanism, which e-com companies are not too happy with. The current rate of TCS is at 1% and it'll remain to be seen if it dilutes the rapid boom in this sector in any way in the future.

### Pharma

On the whole, GST is expected to benefit the pharma and healthcare industries. It will create a level playing field for generic drug makers, boost medical tourism and simplify the tax structure. If there is any concern whatsoever, then it relates to the pricing structure (as per latest news). The pharma sector is hoping for a tax respite as it will make affordable healthcare easier to access by all.

### Telecommunications

In the telecom sector, prices are expected to come down after GST. Manufacturers will save on costs through efficient management of inventory and by consolidating their warehouses. Handset manufacturers will find it easier to sell their equipment as GST will negate the need to set up state-specific entities, and transfer stocks. The will also save up on logistics costs.

### Textile

The Indian textile industry provides employment to a large number of skilled and unskilled workers in the country. It contributes about 10% of the total annual export, and this value is likely to increase under GST. GST would affect the cotton value chain of the textile industry which is chosen by most small medium enterprises as it currently attracts zero central excise duty (under optional route).

## Real Estate

The real estate sector is one of the most pivotal sectors of the Indian economy, playing an important role in employment generation in India. The probable impact of GST on the real estate sector cannot be fully assessed as it largely depends on the tax rates. However, it is a given that the sector will see substantial benefits from GST implementation, as it will bring to the industry much required transparency and accountability.

## Agriculture

Agricultural sector is the largest contributing sector the overall Indian GDP. It covers around 16% of Indian GDP. One of the major issues faced by the agricultural sector, is transportation of agri products across state lines all over India. It is highly probable that GST will resolve the issue of transportation. GST may provide India with its first National Market for the agricultural goods. However, there are a lot of clarifications which need to be provided for rates for agricultural products.

## FMCG

The FMCG sector could see significant savings in logistics and distribution costs as the GST will eliminate the need for multiple sales depots. The GST rate for this sector is expected to be around 17% which is way lesser than the 24-25% tax rate paid currently by FMCG companies. This includes excise duty, VAT and entry tax – all of which will be subsumed by GST.

## Freelancers

Freelancing in India is still a nascent industry and the rules and regulations for this chaotic industry are still up in the air. But with GST, it will become much easier for freelancers to file their taxes as they can easily do it online. They will be taxed as service providers, and the new tax structure will bring about coherence and accountability in this sector.

## Automobiles

The automobile industry in India is a vast business producing a large number of cars annually, fueled mostly by the huge population of the country. Under the current tax system, there are several taxes applicable on this sector like excise, VAT, sales tax, road tax, motor vehicle tax, registration duty which will be subsumed by GST. Though there is still some ambiguity due to tax rates and incentives/exemptions provided by different states to the manufacturers/dealers for manufacturing car/bus/bike, the future of the industry looks rosy.

## Startups

With increased limits for registration, a DIY compliance model, tax credit on purchases, and a free flow of goods and services, the GST regime truly augurs well for the Indian startup scene. Currently, many Indian states have very different VAT laws which can be confusing for companies that have a pan-India presence, specially the e-com sector. All of this is expected to change under GST with the only sore point being the reduction in the excise limit.

## BFSI

Among the services provided by Banks and NBFCs, financial services such as fund based, fee-based and insurance services will see major shifts from the current scenario. Owing to the nature and volume of operations provided by banks and NBFC vis a vis lease transactions, hire purchase, related to actionable claims, fund and non-fund based services etc., GST compliance will be quite difficult to implement in these sectors.

## HOW GST IS LEVIED:

GST is levied on the place of consumption of goods and services. It can be levied on following states:

- Intra-state supply and consumption of goods and services.
- Inter-state movement of goods.
- Import of goods and services.

**IMPACT OF GST ON PRICES OF GOODS AND SERVICES:**

Tax experts claimed that the previous practice of tax on tax – for example, VAT was being charged on not just cost of production but also on the excise duty that was added at the factory gate leading to production cost building up but now all had been gone when GST is rolled out. The prices of consumer durables, electronic products and ready-made garments will be available at low price after rolled out GST. In other aspects, for goods which were taxed at low rate, the impact of GST brings price increment. Services bearing essential ones like ambulance, cultural activities, pilgrimages etc. were exempted from levy are same. India has seen the strongest tax

reform that aims to do away with various – tax system on goods and services and bring them under one rate. We can draw the following impact of GST on prices:

The government rolled out the much talked about Goods and Services Tax (GST) on the midnight of June 30. The GST Council has fixed the tax rates, keeping a view on all goods and services; they are classified under tax slabs 0% (exempted ones), 5%, 12%, 18% & 28%. The GST council has fixed the tax rate for 1211 items. The following table will show comprehensive list of item and services that will be taxed under different slab rate of GST.

**Table No.3: GST rates on Goods and Services**

Tax Rate	Goods	Services
<b>0%[nil]</b> <b>Exempted Goods</b>	Jute, Fresh meat, fish chicken, eggs, milk, butter milk, curd, natural honey, fresh fruits and vegetables, flour, besan, bread, prasada, salt, bindi. Sindoor, stamps, judicial papers, printed books, newspapers, bangles, and handloom. Bones and horn cones, bone grist, bone metal etc, Hoof meal, horn meal, cereal grained hulls, palmyra jiggery, salt all types, kaja, children's picture, drawing and colouring books, human hair.	Hotels and lodges with traffic below Rs 1000, grandfathering services has been exempted under GST
<b>5%</b>	Apparels below Rs 1000, packaged food items, footwear below Rs 500, cream, skimmed milk powder, branded paneer, frozen vegetables, coffee, tea, spices, pizabread, rusk, sabudana, kerosene, medicines, stent, lifeboats, cashew nut, cashew nut in shell, raisin, ice and snow, bio gas, insulin, agarbatti, kites, postage or revenue stamps, stamp-post marks, first day covers.	Transport services (Railways, Air transport), small restaurants will be under 5% category because their main input is petroleum, which is outside GST ambit.
<b>12%</b>	Apparel above Rs 1000, frozen meat products, butter, cheese, ghee, fruits in packaged form, animal fat, sausage, juices, bhujia, namkeen, Ayurvedic medicine, toothpowder, agarbatti, colouring books, picture books, umbrella, sewing machine, cell phones, ketchup and sauces, All diagnostic kits and reagents, exercise book and note books, spoons, fork, ladles, skimmers, cake server, fish, Spectacles, corrective, playing cards, board, and other board games, like ludo.	State-run lotteries, on AC hotels, Business class air tickets, fertilizers, work contract
<b>18%</b>	Flavored refined sugar, pasta, cornflakes, pastries and cakes, preserved vegetables, jams, sauces, soups, ice cream, instant food mixes, mineral water, tissues, envelopes, tampons, note books, steel products, printed circuits, camera, speakers and Monitors, Kajal Pencil Sticks, Headgear and parts thereof, Aluminum foil, Weighing Machinery, Printers, Electrical Transformer, CCTV, Optical Fiber, Bamboo Furniture, Swimming pools and padding pools, curry paste, mayonnaise and salad dressings, condiments and mixed seasonings.	AC hotels that serve liquor, telecom services, IT services, branded garments and financial service, Room traffic between Rs 2500-and Rs 7500, restaurants inside five-star hotels.
<b>28%</b>	Chewing gum, molasses, chocolate not containing cocoa, waffles and wafers coated with chocolate, pan masala, aerated water, paint, deodorants, shaving creams, after shave, hair shampoo, dye, sunscreen, Wallpaper, ceramic tiles, water heater, dishwasher, weighing machine, washing machine, ATM, vending machines, vacuum cleaner, shavers, hair clippers, automobiles, motorcycles, aircraft for personal use, and yachts.	Private-run lotteries authorized by the states, hotels with room tariffs above Rs 7500, 5-star hotels, race club betting, cinema

**SOME ITEMS WHICH ARE COMPLETELY EXEMPT FROM THE GST REGIME:**

- The unprocessed cereals, rice & wheat etc.
- The unprocessed milk, vegetables (fresh), fish, meat, etc.
- Unbranded Atta, Besan or Maida.
- Kid's colouring book/drawing books.
- Sindoor/Bindis, bangles, etc
- Below is a list of the sectors which are negatively or positively affected by GST.

**CONCLUSION:**

In the light of the above discussion, the authors have recommended that GST system is more beneficial for the Government as well as stakeholders from the management and analysis point of view. We believe that CGST must have the authority to collecting Tax and SGST should be given the power to take the decision regarding Tax rate. In case, if there is any change in the Tax rate it should be decided through democratic consent so that there are minimum chances of political interference. GST is also helpful in avoiding Tax evasion, improved Tax collection and compliances. It reduces the cost of goods and services to some extent and creates a supportive environment for the facilitation of international trade, thereby helping in revenue generation leading to the increase in the GDP of the country. Similarly, it will also be helpful in lowering the Tax burden on the various segments of the economy. Industries, dealers, retailers and the agriculture sector as a whole will benefit from GST.

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