



GST in India : Challenges and Impact ahead

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ABSTRACT

Goods and service is very comprehensive tax structure when implemented at the national level . It is one of the significant step towards the development of the country. It is one of the biggest tax revolution which is all set to integrate the state and national economy to boost the overall growth of the country. Presently companies and businesses pay multiple taxes which increases the cost of product and also hampers the profit level of the company. Multiple tax and complex taxation system is one of the biggest hurdle for economic growth of the country. This paper presents an overview of GST concept, explains its features and is more focused on advantages of GST and challenges faced by India in execution. India is a federal republic, and the GST will thus be implemented concurrently by the central and state governments as the Central GST and the State GST respectively and it appears that there will be different rates of taxes.

KEYWORDS : GST (Goods and Services Tax), Economic Development, Value Added Tax, India.

INTRODUCTION:

The proposed GST is likely to change the whole scenario of current indirect tax system. It is considered as biggest tax reform since 1947. Currently, in India complicated indirect tax system is followed with imbrications of taxes imposed by union and states separately. GST will unify all the indirect taxes under an umbrella and will create a smooth national market. GST was first introduced by France in 1954 and now it is followed by 140 countries. Taxation plays an very important in economic development of country. Tax policies are important contributor to the economy in both the cases efficiency and equity. GST or Goods and Services Tax is applicable on supply of goods and services. GST will bring uniform taxation across the country and allow full tax credit from the procurement of inputs and capital goods which can later be set off against GST output liability. This reform gives equal footing to the big enterprises as well as SMEs. The aim of GST is thus to simplify tax hurdles for the entire economy. GST will be paid by all manufacturers and sellers. It will also be paid by service providers such as telecom providers, consultants, chartered accountants etc. However, being an indirect tax, GST will be ultimately borne by the end consumers, just like in the current process. India will implement the Canadian model of Dual GST, i.e., both the Centre and State will collect GST. GST is a destination based tax system. Supply of goods and services are base for charging tax. It is very comprehensive indirect taxation system on manufactured products and services, sale and consumptions of goods and services at national level. It is not an additional tax but it is a system to examine the interstate transactions of goods and services and to further assure that the tax should be received by the importer state as GST is a destination based tax.

Literature Review :

Poonam, 2017 in her study , she had cleared that GST would be a very important step in the field of indirect taxation. The cascading and double taxation effects can be reduced by combing central and state taxes. Consumer's tax burden will approximately reduce to 25% to 30% when GST is introduced. After introduction of GST concept, Indian manufactured products would became more and more competitive in the domestic and international markets. This taxation system would instantly encourage economic growth. GST with its transparent features will prove easier to administer. In this paper the author has tried to attempt to spot the concept of GST & its current status in India. Paper has tried to give information about GST system. The study also aims to be familiar with the advantages and challenges of GST in Indian scenario.

Kumar Nitin (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.

Kamma Supriya and Verma Richa (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.

Agogo Mawuli (May 2014)¹ 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.

Vasanthagopal R. (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.

Ahmed Ehtisham and Poddar Satya (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.

Objectives Of The Study :

The objective of this paper is to study the concept and features of Goods and Services Tax (GST) and the impact of GST on Indian Economy in different sectors. The another objective is to understand how GST will work in India and to evaluate the advantages and challenges of GST

Research Methodology :

Being an explanatory research it is based on secondary data collected from various books, national & international journals, government reports, publications from various websites which has been published and focused on various aspects of Goods and Service tax. Considering the objectives of study descriptive type research design is adopted to have more accuracy and rigorous analysis of research study.

FEATURES OF GST :

It is applied to all taxable goods and services except the exempted

goods and services and on transactions below the threshold limit. Exempted goods and services include alcohol for human consumption, electricity, custom duty, real estate.[Proposed article 366(12A)]

Imposition and Collection of GST : The power of making law on taxation of goods and services lies with both union and state legislative assemblies. A law made by union on GST will not overrule a state GST law.(proposed article 246A) It has two components CGST and SGST. CGST will be collected by central government whereas states governments will collect SGST.

GST Council : It is set up by president under article 279-A. It is chaired by union finance minister. It will constitute union minister of state in charge of revenue and minister in charge of finance or taxation or of any other field nominated by state governments. The 2/3rd representatives in council are from states and 1/3rd from union. The decision of council is made by 3/4th majority of the votes cast and quorum of council is 50%. Additional 1% tax on interstate taxable supply of goods which is levied by center and directly portioned to the exporter state (origin state). This tax will be charged for two years or for longer time period recommended by GST Council. Compensation to states is given for maximum of 5 years union will compensate states for the revenue losses arising out of GST implementation. This compensation will be made on the recommendation of GST Council.

Impact Of GST on Indian Economy :

1. Food Industry :The application of GST to food items will have a significant impact on those who are living under subsistence level. But at the same time, a complete exemption for food items would drastically sink the tax base. Food includes grains and cereals, meat, fish and poultry, milk and dairy products, fruits and vegetables, candy and confectionary, snacks, prepared meals for home consumption, restaurant meals and beverages. Even if the food is within the scope of GST, such sales would largely remain exempt due to small business registration threshold. Given the exemption of food from CENVAT and 4% VAT on food item, the GST under a single rate would lead to a doubling of tax burden on food.

2. Housing and Construction Industry: In India, construction and Housing sector need to be included in the GST tax base because construction sector is a significant contributor to the national economy.

3. FMCG Sector: Despite of the economic slowdown, India's Fast Moving Consumer Goods (FMCG) has grown consistently during the past three – four years reaching to \$25 billion at retail sales in 2008. Implementation of proposed GST and opening of Foreign Direct Investment (F.D.I) are expected to fuel the growth and raise industry's size to \$95 Billion by 2018.

4. Rail Sector: There have been suggestions for including the rail sector under the GST umbrella to bring about significant tax gains and widen the tax net so as to keep overall GST rate low. This will have the added benefit of ensuring that all inter – state transportation of goods can be tracked through the proposed Information technology (IT) network.

5. Financial Services: In most of the countries GST is not charged on the financial services. Example, In New Zealand most of the services covered except financial services as GST. Under the service tax, India has followed the approach of bringing virtually all financial services within the ambit of tax where consideration for them is in the form of an explicit fee. GST also include financial services on the above grounds only.

6. Information Technology enabled services: To be in sync with the best International practices, domestic supply of software should also attract G.S.T. on the basis of mode of transaction. Hence if the software is transferred through electronic form, it should be

considered as Intellectual Property and regarded as a service. And if the software is transmitted on media or any other tangible property, then it should be treated as goods and subject to G.S.T.

7. Impact on Small Enterprises: There will be three categories of Small Enterprises in the GST regime. Firstly below threshold need not register for the GST. **Secondly,** those between the threshold and composition turnovers will have the option to pay a turnover based tax or opt to join the GST regime. **Thirdly,** those above threshold limit will need to be within framework of GST. Possible downward changes in the threshold in some States consequent to the introduction of GST may result in obligation being created for some dealers. In this case considerable assistance is desired. In respect of Central GST, the position is slightly more complex. Small scale units manufacturing specified goods are allowed exemptions of excise upto Rs. 1.5 Crores. These units may be required to register for payment of GST, may see this as an additional cost.

Advantages Of GST :

Under GST regime the burden of taxation will be allocated fairly between manufacturing and services via lower tax rates resulting in increased tax base and minimized exemptions. It is anticipated to help in establishing an effective and transparent tax administration. It is expected to remove the cascading effects of taxes and help in establishing of common national market. **For Citizen,** It is Simpler tax system as there is Reduction in prices of goods and services due to elimination of cascading ,uniform prices throughout the country,transparency in taxation system,increase in employment opportunities. **For Trade/Industry,** there is reduction in multiplicity of Taxes, mitigation of cascading /double taxation and more efficient neutralization of taxes especially for exports. **For Central/ State Governments,** it is a unified common national market to boost Foreign Investment and "Make In India" campaign boost to export /manufacture activity , generation of more employment, leading to reduced poverty and increased GDP growth. It is improving the overall investment climate in the country which will benefit the development of the states. It is a uniform SGST and IGST rates to reduce the incentives for tax evasion and reduction in compliance costs as no requirement of multiple record keeping.

Challenges Of GST in Indian Context :

GST will be the biggest reform in Indian taxation since 1947, but there are many challenges for its successful implementation. Firstly, for implementing it is critical that GST bill is passed by the respective state Governments in state assemblies so as to bring majority. This is a herculean task.

Secondly, Revenue Neutral Rate is another Prominent Factor for its success. We know that in GST regime, the government revenue would not be the same as compared to the current system. Hence, through RNR Government is to ensure that its revenue remains the same despite of giving tax credits. While achieving broad based tax structure under GST, Both empowered committee and Central Government must ensure that lowering of threshold limit should not be a "taxing" burden on small businessmen in the country. Moreover, Government has already incorporated Goods and service tax network (GSTN). GSTN has to develop GST portal which ensure technology support for GST Registration, gst return filing, tax payments, IGST settlements etc. Thus there should be a robust IT backbone . GST is absolutely different from existing system. It, therefore, requires that tax administration staff at both Centre and state to be trained properly in terms of concept, legislation and Procedure. Lastly, the Purpose of additional Levy is to compensate states for loss of revenue while moving to GST. We acknowledge that fundamental purpose of GST is to make "INDIA" as one state where inter-state movement of goods is common. In this situation, it would defeat the very purpose of GST in the country.

CONCLUSION:

Taxation plays an significant role in the development of the economy as it impacts the efficiency and equity. It is expected that

a good system should control income distribution and at the same time it will also endeavour to generate tax revenue which will support government expenditure on public services and development of infrastructure. GST will have positive impact on Indian economy. GST have faced lots of controversy and opposition in terms of its implementation. Finally the GST bill has been passed and it ready to roll out in market. Time will only decide whether it will have positive impact or negative impact. International trade , firms and consumer will have new system of tax which is single level and more transparent. The new system of taxation is considered to be more improved system over the pre-existing central excise duty at the national level and sales tax system at state level. The new tax will be significant breakthrough and a logical step towards a comprehensive indirect tax reforms in the country. GST is not only Vat plus service tax but it is major improvement over previous VAT system. A single of tax will help maintain simplicity and transparency by treating all goods and services equal without giving a special treatment to some types of goods and services. It will reduce the litigation on classification of issues. It is also said that implementation of GST in Indian framework will lead to commercial benefits which VAT has not given and hence it would essentially lead to economic development. GST may assure the possibility of overall gain for industry , trade , agriculture and also to central and state government. Now Indian consumer need to have professionalism to acknowledge the GST. It is sure that India will join the international standards of taxation , corporate laws and managerial practices and also be among the world leaders.

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