



## Advantages of Goods and Services Tax (GST) in India

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**ABSTRACT**

The GST is basically an indirect tax that brings most of the taxes imposed on goods and services on manufacturer, sale and consumption of goods and services under a single domain at national level. In the present system, taxes are levied separately on goods and services. The GST is consolidated tax based on uniform rate of tax fixed for both goods and services and it is payable at final point of consumption at each stage of sale or purchase in supply chain. This tax is collected on value added goods and services, through tax credit mechanism.

**KEYWORDS**

GST, Introduction, Need, Benefits

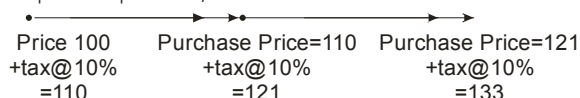
In the year 2000, for the first time the idea of initiating the GST was made by the BJP Government and the leadership of Mr. Atal Bihari Vajpayee.

At that time, An empowered committee was also formed for that, headed by Asim Das Gupta (At that time finance minister of west Bengal Govt.) The committee was formed to design the model of GST. In 2011, the UPA Govt. also introduced a constitution amendment Bill facilitate GST in the Lok Sabha, but it was rejected by many states saying that it does not include the issue of compensation, entry tax and the tax on petroleum products. Now Mr. Arun Jaitley while introducing the bill said that all efforts have been taken to make sure that the states do not suffer any loss of revenue with the implementation of GST. The states will receive Rs. 11000 crore so that it would compensate the losses and subsequently financial assistance would be provided for a five year period. Another amendment in the bill is on scrapping of proposed tax of up to one percent on inter-state transactions to compensate manufacturing state. Another amendment made to a new formulation on dispute-resolution mechanism. With these amendments in new formulation of Bill, It was approved by the opposition dominated upper house with 203 votes in favor and none against on August 3, 2016. With this big success, the Modi Govt. has crossed a major hurdle in its plan for rolling out the goods and services tax (GST) from April 1, 2017.

**The need for GST:**

Currently, we have value-added tax (VAT) system both at central and state level. But the central VAT (CENVAT) mechanism extends tax set off only against central excise duty and service tax paid up to the level of production. CENVAT does not extend to the value addition by the distribution trade below the stage of manufacturing, even manufacturers cannot claim set-off against other central taxes such as additional excise duty and surcharge. Likewise state VAT cover only sales, sellers can claim credit only against VAT paid on previous purchase. VAT does not subsume a host of other taxes imposed with in the state such as luxury and entertainment tax, octroi etc.

There was also the problem of Tax on Tax. For example say A sells goods to B after charging sales tax and then "B" resells those goods to "C" after charging sales tax, while B was computing his sales tax liability, he also included the sales tax paid on previous purchase, which is how it become "Tax on Tax".



Once GST comes into effect, all central and state level taxes and levies on all goods and services will be subsumed within an integrated tax.

So the goods and services Tax (GST), is a comprehensive indirect tax on manufacture, sale and consumption of goods and services throughout India, to replace taxes levied by the central and state government. GST would be imposed and collected on both goods and services at each stage of sale and purchase at a single rate in the supply chain till the goods or services reach to the consumer. It is the biggest Indirect tax reform providing a uniform and simplified way of indirect taxation in India. Once introduced GST will replace a number of taxes which are imposed by centre and state governments. The GST will subsume the following taxes into a single one.

**At the central level following taxes are being subsumed:-**

1. Central excise duty
2. Additional excise duty
3. Service Tax
4. Additional custom duty commonly know as countervailing duty.
5. Special additional duty on customs
6. Surcharges and central cesses

**All the state level:-**

1. State value added Tax/Sales Tax
2. Entertainment tax (other than tax levied by local bodies)
3. Central Sales tax (levied by centre and collected by state)
4. Octroi and entry tax
5. Purchase tax
6. Luxury tax
7. Taxes on lottery, betting and gambling
8. State taxes and cesses.

**Motives Behind the GST.**

- Subsume all indirect taxes at the central and state level.
- One nation- one tax.
- Reduce the cascading effect or Tax on Tax.
- Increase productivity and transparency.
- Increase tax-GDP ratio.
- Reduce tax evasion and corruption.

**Benefits of GST:**

Under GST, the taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions. Experts says that 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. It is

expected to build a transparent and corruption free tax structure. It will be levied only at destination point, not at various points. Following are some advantages of GST.

#### **Widen Tax Base:-**

GST will bring additional revenue to the Govt. as the unorganized sector, which is not the part of value chain, would be drawn into the tax. GST would give government more tax revenues as there will be built in incentives to pay tax because only then can manufacturers get credit for the taxes they pay on inputs. GST will widen the tax base and improve compliance. According to national council of applied economic research, govt.'s tax revenue will increase by about 0.2 percent because of GST implementation.

#### **Simple and Easy to Administer:-**

Multiple indirect taxes at the central and state levels are being replaced by GST backed with robust end-to-end IT system. GST would be simpler and easier to administer than all other indirect tax of the centre and state level so far.

#### **Better Control on Leakages:-**

GST will result in better tax compliance due to robust IT infrastructure. Due to the seamless transfer of input tax credit from one stage to another in the chain of value addition, there is an in-built mechanism in the design of GST that would incentivize tax compliance by traders.

#### **Easy Compliance:-**

A comprehensive IT system would be the key factor of GST regime in India. Therefore all tax payer services such as registration, returns, payments etc. would be available to the taxpayers online, which would make compliance easy and transparent.

#### **Common exemptions between centre and states:-**

Currently exemptions given by the centre and states are different, so final price in different states are different. In GST regime, exemptions will be common between centre and states which will make the rates same all over the country.

#### **No negative protection for domestic industry:-**

The negative protection against domestic industry will not be there with implementation of GST with phasing out all the exemptions to domestic industry and same GST rates will apply to both imports and manufacturing sector. So this negative protection will go away.

#### **One Tax:**

The common base for charging GST for centre and the state will consist of replacing of several central taxes and state taxes which will enable them to give one tax rather than giving about sixteen taxes. This will lead to one nation one tax system.

#### **No difference between goods and services:-**

Currently goods and services are taxed differently. There is controversy when they are sold together as a package. This controversy will be no more after implementation of GST.

#### **Availability of input tax credit:-**

Currently due to multiple indirect taxes levied by the centre and state there is incomplete or no input tax credit available at progressive stage of value addition. The cost of most goods and services in the country today are burdened with many hidden taxes. Under GST, there would be only one tax from manufacturer to consumer, leading to transparency of taxes paid to the final consumer.

#### **Helpful to manufacturer and exporters:-**

The subsuming of major central and state taxes in GST, complete and comprehensive setoff of input goods and services and elimination central sales tax would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in international market and give boost to Indian exports. The uniformity of tax

rates and the procedures across the country, will reduce the compliance cost.

#### **Eliminate cascading effect:-**

This effect of taxes is caused due to levy of different taxes by state and central government separately. Under current system many times more than one taxes are charged on some commodity or services. This practice will be no more with implementation of GST. Overlapping of tax that is "tax on tax" will be eliminated with GST.

#### **Reduce the hassles of filling tax forms:-**

Currently a businessman has to fill various tax forms, file returns. The businessman has to visit many tax offices. The GST would end all these hassles. There would be an advanced IT platform for GST. It will handle all the related issues of GST. This platform would facilitate single registration, single payment, and single return. It would make the whole system easy and transparent.

#### **Common market:-**

There will be common market in the absence of CST and entry tax. All present goods are mostly sold within state in order to avoid paying CST and entry tax which is not credited at the stage of manufacturer or in course of trading. Good quality products being manufactured in one part in one part of country will find more market in farthest part of country because there will be no CST and no entry tax.

#### **Problem of Identification will be no more:-**

All present identifying a commodity like whether it is rubber or resin, paper or board ash or dross, dominate the proceedings because rates of duty are different. But with GST this problem will not be any more.

#### **Prevent fragmentation of units:-**

Currently many medium and large units are masquerading as small units to avail the exemptions and benefits, as small units is defined on the basis of turnover rather than ownership. The lower threshold limits for manufacturing under GST will prevent fragmentation of units. GST will encourage small units to grow and reap the benefits of scale.

#### **Higher Consumption:-**

In GST system both central GST and state GST will be charged on manufacturing cost and will be collected on point of sale. This will benefit people as prices will come down, which help the companies as consumption will increase. Beside this because of efficiency and prevention of leakage, the overall tax burden on most commodities will come down, which will benefit consumers.

#### **No Hidden Taxes:-**

Multiple taxes like octroi control sales tax, entry tax, state sales tax etc will no longer be present and all that will be brought under the GST. Doing business now will be easier and much more comfortable as many hidden taxes will not be present.

#### **High Revenue Efficiency:-**

GST is expected to decrease the cost of collection of tax revenue of govt. and will therefore lead to high revenue efficiency.

#### **Relief in tax burden:-**

Because of efficiency gains and prevention of leakages, the overall tax burden on most commodities will come down which will benefit consumer.

#### **Improvement in competition:-**

There is reduction in transaction cost of doing business. This will lead to an improvement in Competitiveness for trade and industry.

#### **Conclusion:-**

At the end we can say it is a milestone. Doing business will become very comfortable and easy. It is expected that in long run shifting to GST will be positive for growth. The imple-

mentation of GST would be a significant step in the reform of indirect taxation in India. Amalgamating several central and state taxes into a single tax would mitigate cascading of tax facilitating a common market. It also lead to easier administration.

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