

GST: A Cure for Ills of Existing Indirect Tax Regime

Nitin Garg*

Abstract

In the dawn of the twentieth century, the world was facing an economic crisis. India thus initiated to come up with new federal policies with respect to the indirect taxes imposed in the country. The concept of Goods and Service Tax, popularly known as GST, as the most awaited tax reforms, was introduced on 1st July 2017 keeping the notion of One Nation, One Market, One Tax. Taxes are a way to collect the money by the people, from the people, for the people. GST was thought to be a broad base tax levied at every stage of production and distribution. The GST has been proposed to have a 'dual' structure, which means it will have two components - the Central GST and the State GST.

With the enactment of GST in India, it has been expected to make a remarkable presence among the global economies. GST will benefit both the sides of the system. On one side, it has been expected to reduce the tax compliance, cost of administration, generating more revenue for the government and, on the other hand, it will ensure transparency in the system, set-off input credit against the liability and also eliminate the possibility of cascading of taxation for the consumer. GST will eliminate various indirect taxes namely; Value Added Tax (VAT), Central Sales Tax (CST), Service Tax, Central excise duties and Additional Excise Duties, CVD and special CVD's, central surcharges and cesses against the one system of GST. The reduced tax burden will foster the level of production by raising the GDP and also the purchasing power of the consumers. With the inception of GST, there are certain other factors which cannot be neglected. The minimum limit to comply the GST registration has been extended from Rs 5 lakhs to Rs 25 lakhs, the abolishment of entry charges applicable on inter-state trade and commerce, common eye for both the goods and the services. This paper tries to study the suitability of GST in the context of the Indian economy and its prospects for the state to generate revenue.

Keywords: Indirect Tax, Goods and Service Tax, Tax, Awareness and Knowledge, Indian Economy

Introduction

In the inception of the twentieth century, when the world was facing an economic crisis, India initiated to come out of the situation by reviewing the existing economic policies and formulating new federal policies. In due course of it, a bundle of reforms were implemented to facilitate the Indian economy: Make in India, Made in India, Goods and Service Tax, etc. Out of these Goods and Service Tax (GST) is the most expected undertaking to stimulate the declining pace of growth of Indian economy by exchanging the existing indirect taxation system comprising various evils, with the new system of taxation keeping the notion of One Nation, One Market, One Tax.

Taxes play a significant role to review the soundness of any economy. Taxes are the way to collect the money from the individuals, firms, association, companies, etc., to fulfil the development needs of the country and its citizens by investing in the form of public expenditure. It is considered as a major source of revenue for the government to accelerate the economic growth to arrive at the level of a developed country with the all-time high national income.

In the Indian context, taxes are applied in direct and indirect form over the people of the nation. In case of direct form, specific rates have been applied and charged over the income of the people and are directly paid to the government. Here, the burden of the tax is directly borne by the taxpayer; it cannot be shifted to another. The only example of direct tax is Income Tax, which is applicable to all, irrespective of the nature of the business or professions being carried out by the people. An indirect form of tax is unique. It is applicable and charged on every person knowingly and unknowingly. The immediate liability of indirect taxes is borne by the manufacturer. However, the manufacturer recovers it from the seller. Here, the burden

* Assistant Professor, A R Institute of Management and Technology, Meerut, Uttar Pradesh, India. Email: nitin.arimt@gmail.com

of the tax passes on to another until it finally reaches to the consumer, who bears the brunt of it.

Background of GST in India

It has been quite a decade since the thought of GST in India was first mooted by Kelkar Task Force (2004). The task force had powerfully suggested the implementation of absolutely integrated GST on a national basis. Later on, while presenting the Central Budget for the financial year 2006-2007, the ruling Union Finance Minister, Mr P Chidambaram, had proudly announced that GST would be implemented from upcoming financial years, expectedly in 2010-11. However, in actuality, GST has missed several tentative deadlines and continued to be covered by the clouds of uncertainty. The earlier announcement gained momentum in 2014 when the NDA government presented the GST bill as 122nd amendment in the parliament on 19th December 2014. The Lok Sabha and Rajya Sabha passed the bill on 06th May 2014 and 03rd August 2014, respectively. The President of India had provided the consent on 08th December 2014 only after the ratification of the 50% of the states of India. With the President's consent, it became a Constitution Act 2016.

The GST had found its face on 27th March 2017 when the Central GST Legislation - Central Goods and Service Tax Bill, 2017, Integrated Goods and Service Tax Bill, 2017, Union Territory Goods and Service Tax Bill, 2017, and Goods and Service Tax Bill, 2017 was presented in Lok Sabha. These bills were passed on 29th March 2017 by the Lok Sabha, and with the consent of the honourable president, these bills were enacted.

Framework of GST in India

- Concept of Dual GST Model has been introduced in India, which enables the Centre and states to levy taxes on goods simultaneously.
- GST is based on the destination principle where the supply of goods and services takes place.
- GST in India comprises of CGST - which is levied and collected by the central government, SGST - which is levied and collected by the state government or union territories with state legislatures, UTGST - which is levied and collected by union territories without state legislature.

- Harmonized System of Nomenclature has been introduced under GST to categorise the various types of goods under different codes.
- Compulsory registration is applicable for those whose turnover (supply of goods) exceeds Rs 20 lakh in any financial year. However, the maximum limit may be Rs 10 lakh for carrying out business in special category.
- For small enterprises making intrastate supplies, a scheme of simpler taxation known as the composite scheme is also available. Apart from the simplified taxation procedure, the law also contains a provision for granting exemption from payment.
- The facility of Input Tax Credit is also available where credit of CGST can be set off against the liability of CGST and SGST. However, the credit can be set off against the SGST only.
- A common GST portal - managed by Goods and Service Network (GSTN) - is incorporated under the provision of the Indian Companies Act 2013.
- GSTN is offering widespread services covering the aspect of Registration, Payment of liable amount and periodical return.
- Another crucial facility of E Way bill is also being offered through an online electronic portal, managed by National Informatics Centre (NIC), Ministry of Electronics and Information Technology Government of India.

Benefits of GST to the Indian Economy

- Replacement of an earlier variety of Indirect taxes, namely Value Added Tax (VAT), Central Sales Tax (CST), Service Tax, Central excise duties and Additional Excise Duties, CVD and special CVD's, central surcharges and cesses against the one system of GST.
- Less compliance with respect to registration set off of credit and filing of periodical return through a common electronic portal.
- No probability of levying taxes on tax (cascading effect) as taxes are charged only on the value added on the last stage by set off the tax paid on purchase against the liability originated due to sale/supply of services.

- All goods and services are covered under GST regime due to which, the entire chain of movement of goods can be traced. This enables the reduction in the manufacturing cost.
- Due to less burden of tax on goods, people may buy the required quantity of goods with less money as compared to early time.
- Demand and consumption for goods may rise along with the less changeability of taxes on goods.
- In order to supply the increasing demand for goods, the GDP of the Indian economy also rises subsequently.
- Detailed chain of a tax levy on goods along with the mandatory registration of enterprises may result in the control over the generation of black money.
- Transparent system and structure of the indirect taxation system boost/strengthen the economy in the long run.
- Reduces the tax burden on producers and fosters growth through a lot of production. This taxation structure, pumped up with myriad tax clauses, prevents makers from manufacturing to their optimum capability and retards growth. GST can watch out of this drawback by providing step-down to the makers.
- Different tax barriers, like check posts and toll plazas, cause wastage of unpreserved things being transported. This penalty transforms into major prices because of higher wants of buffer stock and storage prices. One taxation system can eliminate this roadblock.
- Knowing of bases of taxes and the amount of taxes are being charged and paid by the customer shall prove the consistency and transparency in the system.
- The amount and the level of revenue will be strengthened by the extended tax base system.
- GST gives credit for the taxes paid by producers within the product or services chain. This is often expected to encourage producers to shop for stuff from totally different registered dealers and is hoped to herald additional vendors and suppliers beneath the orbit of taxation.
- Custom duty applicable to exports will be replaced by GST. Thus, the competitiveness of India in

international markets would be improved and strengthened due to the lowest amount ever occurred on account of transactions.

Positive Impact of GST on SMEs and Startups

Applicability of GST and introduction of new policies for startups and Small & Medium enterprises will pose a positive impact towards the betterment of the Indian economy in ways more than one. GST may subsidise the small and medium enterprises and startups in the following ways:

- *Ease of Starting a Business:* For a business enterprise to operate in different states and union territories of India need to register itself under VAT. Variety of rules spread in different states and union territories added the complication to the procedure and high cost. Under the GST system, a single registration is enough for expansion of SME's.
- *Reduction of the Tax Burden on New Business:* As per the current tax structure, every business organisation, having the turnover of more than Rs 5 lakh in any financial year, needs to register itself under the VAT regulation. However, this limit has been extended to the turnover of Rs 25 lakh to provide relief to the majority of 60% of small dealers and traders.
- *Improved Logistics and Faster Delivery of Services:* In the earlier taxation system, there was a need to pay entry tax against the sale of goods as inter-state supplies. However, under the GST bill, no entry tax will be charged for goods manufactured or sold in any part of India. As per the suggestion recommended by CRISIL, with the implementation of GST the transportation of industrial goods may be reduced by 20%, which may boost up the commerce and economy.
- *Elimination of Distinction between Goods and Services:* Earlier, there were separate procedures of taxation for goods and services. The rate of chargeability was also different from one another. GST has treated both the goods and services as similar to each other. This will make the various legal proceedings related to the variety of goods and services being offered across the nation simpler. As a result, there will no longer be a distinction between the material and the service component, which will greatly reduce tax evasion.

Table 1: GST Tax Rates

Tax Rate	Products
5%	Household essential goods such as edible oil, sugar, spices, tea and coffee are included. Coal, Indian sweets and life-saving drugs, cashew nuts, ice & snow, biogas, insulin, aggarbatti, kites, coir mats, wind-based atta chakki, postage and revenue stamps, hearing aids, fly-ash blocks, natural cork, marble rubble, carriage designed for differently able individuals.
12%	Preparation of vegetables, fruits, nuts or other parts of plants including pickles, <i>murabba</i> , menthol and menthol crystals, all diagnostics kits and reagents, exercise books and colour books for professionals, spoons, forks, playing cards, chess boards, items manufactured from natural cork, computers & its peripherals and processed food
18%	<i>Kajal</i> pencil sticks, headgear, aluminum foils, rear tractor tyre and tubes, weighing machines, printers, ball bearing, electrical transformer, CCTV camera and recorders, bamboo furniture, television, computer monitors, power banks with lithium battery, sports goods, game consoles, hair oil, toothpaste and soaps, capital goods and industrial intermediaries are covered in this slab.
28%	Luxury items such as small cars, consumer durables like air conditioning machines and refrigerators, premium cars, cigarettes and aerated drinks, high-end motorcycles are included here.

No Tax Goods

- Cereal grains like barley, wheat, oat, rye, etc.
- Bones and horn-cores unworked and waste of these products.
- All types of salt.
- Kajal.
- Picture books, colouring books or drawing books for children.
- Human hair-dressed, thinned, bleached or otherwise worked.
- Sanitary napkins.
- Unit container-packed frozen branded vegetables (uncooked/steamed).
- Vegetables preserved using various techniques, including brine and other preservatives that are unsuitable for immediate human consumption.
- Music books/manuscripts.

GST Rates on Services

5% Rate

- Travelling and transportation of goods and passengers via Indian railways.
- Export of goods in the vessel to foreign countries.
- Renting a motor cab without fuel cost.
- Transport services in AC contract/stage or radio taxi.

- Transport by air (scheduled)/air travel for the purpose of pilgrimage via chartered/non-scheduled flights.
- Tour operator services.
- Leasing of aircraft/air carrier.
- Print media advertisement space.
- Working for the printing of newspapers.

12% Rate

- Rail transportation of goods in containers from a third party other than Indian railways.
- Travelling through airlines in special classes.
- Serving of foods and drinks at the restaurant without air conditioning facility.
- Renting accommodation for more than Rs. 1000 and less than Rs. 2500 per day.
- Offering chit fund services by foremen.
- Construction of building for sale.
- IP rights on a temporary basis.
- Movie tickets are less than or equal to Rs. 100.

18% Rate

- Serving of foods and drinks at restaurants with liquor license.
- Serving of foods and drinks at the restaurant with air conditioning facility.

- Providing catering services at the outside place.
- Renting the accommodation for more than Rs. 2500 but less than Rs. 5000 per day.
- Supply of food, tent services and party arrangement.
- Circus, Indian classical, folk, theatre and drama.
- Supply of works contract.
- Movie Tickets over Rs. 100.

28% Tax

- Entertainment or amusement facilities including a water park, theme park, joy rides, merry-go-round, racecourse, go-carting, casinos, ballet and sporting events like IPL.
- Race club services.
- Card games or gambling.
- Serving of foods and drinks at five-star hotels.
- Accommodation in five-star hotels or above.

Literature Review

Anand Nayyar and Inderpal Singh (2018) in their paper on A Comprehensive Analysis of Goods and Service Tax (GST) in India, concluded: "BJP government under the able leadership of Prime Minister Mr Narendra Modi could make it favourably implement by seeing the positivity in the concept that it will reduce the tax burden on customer, remove cascading effect and also improve the revenue of the government." Kankipati Ajay Kumar in his research paper on A Journey of Goods and Services Tax (GST) and Structural Impact of GST on the growth of GDP in India concluded: "GST is in favour of the country." Sakharam Mujalde and Avi Vani (2017) in their research paper on Goods and Service Tax (GST) and its outcome in India concluded: "Moving from earlier VAT system to GST system will be proven in simplicity and transparency manner and will be knocking the new door for the Indian economy." Shefali Dani (2016) in her research paper on Research Paper on Impact of Goods and Service Tax (GST) on Indian Economy concluded: "Government of India should study the GST regime set up by other various countries before implementing at India to insulate the vast poor population of India against the likely inflation due to implementation of GST." Akansha Khurana and Aastha Sharma (2016) in their research paper on GST - A positive

reform for indirect taxation system concluded: "The GST will provide relief to producers and end consumers by offering set-off facility to producers against the tax liability originated and availability of goods at an economical price." Monika Sehrawat (2015) in her paper on GST in India - A key tax reform concluded: "GST will give India a world-class tax system by grabbing different treatment to the manufacturing and service sector." Hitesh K. Prajapati (2016) in his paper on Challenges and Implementation of GST in India talked about, "the challenges in the implementation of GST like IT sector is not boomed, the threshold limit of turnover for dealers under GST is another bone of contention between the government and the Empowered Committee etc." Khan, Mohd. Azam, Shadab, Nagma in their paper on Goods and Service Tax (GST) in India: Prospects for States concluded: "GST may pave the way for modernization of tax administration as more than 160 countries have already introduced GST in some form or another and is fast becoming the preferred form of indirect tax in Asia Pacific region." Dr Shakir Shaik, Dr S. A. Sameera, Mr Sk.C. Firoz in their paper on Does Goods and Services Tax (GST) Leads to Indian Economic Development? stated: "GST in the Indian framework will lead to commercial benefits which were untouched by the VAT system and would essentially lead to economic development." Mohd. Azam Khan and Nagma Shadab, Department of Economics, Aligarh Muslim University, India, stated in the conclusion that "GST is a comprehensive base tax which is applicable on goods and services with the objective to generate revenue and ensure transparency in tax structure." Gautham Ramkumar in his paper on Impact of GST on Consumer Spending Ability in Chennai City, concluded: "Implementation of GST in the Indian economy has reported that inflation indices are showing an increasing trend. Each and every customer is being affected by the GST, actual benefits of it can be experienced only in the long run."

Thus, GST may ingrain the possible probability of subsidising each and every participant of the Indian economy.

Research Methodology

Type of Data

The present study is based on exploratory research technique which is quantitative in nature and secondary data will be used for analysis.

Source of Data

The research paper is an attempt of research, based on the secondary data sourced from journals, Internet, articles, previous research papers, which focused on the various aspects of goods and service activities. According to the requirements of the objectives of the study, the design is descriptive type.

Conclusion

It can be concluded from the above-stated discussion that the inception of GST in the Indian economy is one of the great decision as taken by the policymakers in India. It is strongly believed that GST will accelerate the revenue generation of the Indian economy to finance the growth plans of the nation. It has and will make a positive impact over the Indian economy along with the producers, sellers, service providers, etc. Every phase of business transaction will be fully traceable which will enable the buyers to set off the credit of taxes already paid at the time of purchase, against the liability of taxes generated at the time of sales. It will have long-term benefits for the economy as a whole by reducing the procedural and improving the transparency in the application of taxes in the financial system.

References

- Dani, S. (2016). A research paper on the impact of goods and service tax (GST) on Indian economy. *Bus. Eco. J.*, 7(4). doi: 10.4172/2151-6219.1000264
- Dash, A. (2017). Positive and negative impact of GST on Indian economy a dash. *International Journal of Management and Applied Science*, 3(5), 158-160.
- Khan, M. A., & Shadab, N. (2012). Goods and services tax (GST) in India: Prospect for states. *Budgetary Research Review (BRR)*, 4(1), 38-64.
- Lourdunathan, F., & Xavier, P. (2017). A study on the implementation of goods and services tax (GST) in India: Prospectus and challenges. *International Journal of Applied Research*, 3(1), 626-629.
- Nayyar, A., & Singh, I. (2018). A comprehensive analysis of goods and services tax (GST) in India. *Indian Journal of Finance*, 12(2), 57-71.
- Ramkumar, G. (2017). Impact of GST on consumer spending ability in Chennai city. *Primax International Journal of Commerce and Management Research (PIJCMR)*, 5(3). Retrieved from www.researchgate.net
- www.creativecommons.org
- www.icai.org
- www.sciencepublishinggroup.com