

## A study on economic benefits of Goods and Services Tax on Indian Tax Scenario

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### Abstract

GST means Goods and Service Tax. Goods and Service Tax is a complete tax imposed on manufacture, sale and utilization of goods and service. It is mostly a substitute of all indirect taxes which imposed on goods and services by the Central and State government of India. Goods and Services Tax would be levied and collected at each stage of sale or purchase of goods or services based on the input tax credit process. The main objective of GST is One Nation, One Tax and One Market. It was introduced as a multi-stage, destination based tax that will be levied on every value addition by avoiding the cascading effect of tax. It is such type of tax till the ultimate consumers will improve competitiveness of original goods and services in the market which directly impact on GDP growth of the country. In this paper we analysis the economic benefit of Goods and Services Tax on Indian Tax Scenario.

**Key Words:** GST, CGST, SGST, VAT, Indirect tax

### INTRODUCTION

GST stands for Goods and Services Tax, which will be levied on the supply of goods or services or both in India. GST will subsume a number of existing indirect taxes being levied by the Centre and State Governments, including Central Excise duty, Additional Excise duty, Service Tax, VAT, Purchase Tax, Entertainment Tax ( other than the tax levied by local bodies), Central Sales Tax, Entry Tax, Local Body Taxes, Tax on lottery, Octroi, Luxury Tax, etc. It brings benefits to all the stakeholders' viz. industry, government and the citizens. It is expected to lower the cost of goods and services, boost the economy and make our products and services globally competitive. GST aims to make India a common national market with uniform tax rates and procedures and removes the economic barriers, thereby paving the way for an integrated economy at the national level. By subsuming most of the Central and State indirect taxes into a single tax and by allowing a set-off of prior-stage taxes for the transactions across the entire value chain, GST would mitigate the ill effects of cascading and thereby improve our competitiveness. GST is a destination based consumption tax. It has been designed in a manner so that the tax is collected at every stage and the credit of tax paid at the previous stage is available to set off the tax to be paid at the next stage of transaction, thereby eliminating cascading of taxes. This eradicates "tax on tax" and allows cross utilization of input tax credits, which benefit the industry by making the entire supply chain tax neutral.

### RESEARCH METHODOLOGY

The Researchers used an exploratory research technique based on past literature from respective newspapers, government reports, journals, annual reports 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.

### OBJECTIVES OF THE STUDY

- To study the concept of Goods and Services Tax (GST) and its economic benefits on Indian Economy.
- To understand the features of GST.
- To know the advantages and challenges of GST.

### CONCEPT OF GST

**Goods and Services Tax (GST)** is an indirect tax which was introduced in India on 1 July 2017 and was applicable throughout India which replaced multiple cascading taxes levied by the central and state governments. It was introduced as The Constitution (One Hundred and First Amendment) Act 2017 following the passage of Constitution 122nd Amendment Bill. The GST is a Value added Tax (VAT) proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. It will replace all indirect taxes levied on goods and services by the Indian Central and state governments. It is aimed at being comprehensive for most goods and services. The GST is governed by a GST Council and its Chairman is the Finance minister of India. The Goods and Services Tax is meant to be a unified indirect tax across the country on products and services. In the existing

system, tax is levied at each stage separately, by the Centre and the State, at varying rates, on the full value of the goods. But under the Goods and Services Tax system that is set to be introduced, tax will be levied only on the value ADDED at each stage. It is a single tax (collected at multiple points) with a full set-off for taxes paid earlier in the value chain. Thus, the final consumer will bear only the GST charged by the last dealer in the supply chain with set-off benefits at all the previous stages. The GST was established to subsume various indirect taxes levied at different levels, reducing the red-tape, plugging leakages and paving the way for a transparent indirect tax regime. For transaction within a State, there will be two components of GST Central GST (CGST) and State GST (SGST) being levied on the value of goods and services. Both the Centre and States will simultaneously levy GST across the value chain. In case of inter-state transactions, the Centre would levy and collect the Integrated Goods and Services Tax (IGST). The IGST would roughly be equal to CGST plus SGST.

#### **FEATURES OF GOODS AND SERVICE TAX IN INDIA**

- The Goods and Services Tax will include Central Indirect taxes such as Excise Duty, Service Tax, Special Additional Duty of Customs, Countervailing Duty, Central Surcharges and Cesses as long as they are related to the supply and consumption of goods and services.
- It will also include State Value Added Tax or Sales Tax, Entertainment Tax, (excluding the tax charged by the local bodies), Entry and Octroi tax, Central Sales Tax (taxed by the Centre and collected by the State Government), Purchase Tax, Luxury tax, Taxes on betting, lottery and State cesses and surcharges involved in the supply and consumption of services and goods.
- Inclusion of the concept of ‘declared goods of special importance’ as per the Indian Constitution.
- Will levy integrated Goods and Services Tax on inter-State transactions of goods and services.
- Will levy additional tax of 1% on supply of goods in inter-State trade which will be collected by the Government of India for a period of two years and will be allocated to the states from where the supply comes.
- Petroleum and petroleum products and alcohol have been kept out of the reach of GST.
- The act will have two constituents - Central GST charged by the Centre and State GST charged by the states. But, in case of inter-state trade or commerce, only the Centre will levy tax and collect Goods and Service Tax, and the tax collected would be divided between the Centre and the State as per the provision made in the parliament.
- A Goods and Services Tax Council will be created to address the issues relating to goods and services tax and give recommendations to the Union and the States on areas such as rates, exemption list and threshold limits. The GST Council will constitute of the Union Finance Minister as chairman followed by the Minister –in-charge of Finance or Taxation or any other Minister nominated by each State Government. The GST Council will function under the Chairmanship of the Union Finance Minister and it will be a joint forum of the Centre and the States.

#### **BENEFITS OF IMPLEMENTING THE GST**

##### **FOR BUSINESS AND INDUSTRY**

**Easy compliance:** A robust and comprehensive IT system would be the foundation of the GST regime in India. Therefore, all tax payer services such as registrations, returns, and payments etc. would be available to the taxpayer’s online, which would making compliance easy and transparent.

**Uniformity of tax rates and structures:** GST will ensure that indirect tax rates and structures are common across the country, thereby increasing certainty and ease of doing business. In other words, GST would make doing business in the country tax-neutral, irrespective of the choice of place of doing business.

**Removal of cascading:** A system of seamless tax-credits throughout the value-chain, and across boundaries of States, would ensure that there is minimal cascading of taxes. This would reduce hidden costs of doing business.

**Improved competitiveness:** Reduction in transaction costs of doing business would eventually lead to improved competitiveness for the trade and industry.

**Gain to manufacturers and exporters:** The subsuming of major Central and State taxes in GST, complete and comprehensive set-off of input goods and services, and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports. The uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cost

##### **FOR CENTRAL AND STATE GOVERNMENTS**

**Simple and easy to administer:** Multiple indirect taxes at the Central and State levels are being replaced by GST. Backed with a robust end-to-end IT system, GST would be simpler and easier to administer than all other indirect taxes of the Centre and State levied so far.

**Better controls on leakage:** GST will result in better tax compliance due to a 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.

**Higher revenue efficiency:** GST is expected to decrease the cost of collection of tax revenues of the Government, and will therefore, lead to higher revenue efficiency.

#### **FOR THE CONSUMER**

**Single and transparent tax proportionate to the value of goods and services:** Due to multiple indirect taxes being levied by the Centre and State, with incomplete or no input tax credits available at progressive stages of value addition, the cost of most goods and services in the country today are laden with many hidden taxes. Under GST, there would be only one tax from the manufacturer to the consumer, leading to transparency of taxes paid to the final consumer.

**Relief in overall tax burden:** Because of efficiency gains and prevention of leakages, the overall tax burden on most commodities will come down, which will benefit consumers.

#### **Advantages of GST**

- This is a federal law, which means that the states will no longer have the right to make new laws on taxation towards goods and services.
- It simplifies the tax system and makes it easier to understand as well as cheaper to implement at various levels.
- Tax evasion at various stages will be eliminated as tax offsets can be collected only if taxes have been paid originally. You will also be able to buy raw materials or constituent materials for production only from those who have paid taxes, in order to claim benefits.
- It will be cheaper to buy input goods and services for production from other states.
- The current supply and distribution chain may undergo a change with a change in taxation system that does away with excise and customs duties.
- The consumer will get the end-product at cheaper rates because of elimination of multiple taxes and the tax cascade.
- As of now, petroleum and petroleum products have been kept out of the GST regime until further notice.
- Sale of newspapers and advertisements are also likely to fall under the GST regime, allowing the government to increase its revenue considerably.
- While there will be central GST and state GST, the tax applicable on goods and services being exported and imported between states in India would fall under an Integrated GST (IGST) system in order to avoid conflict of dominion.

#### **Disadvantages of GST**

- GST is not good news for all sectors, though. In the current system, many products are exempted from taxation. The GST proposes to have minimal exemption list. Currently, higher taxes are levied on fewer items, but with GST, lower taxes will be levied on almost all items.
- GST is not applicable on liquor for human consumption. So alcohol rates will not get any advantage of GST.
- Stamp duty will not fall under the GST regime and will continue to be imposed by states.

#### **Challenges of GST in India**

- Goods and service tax at rates 0% to 28%. The rate of GST in India between double to four times that levied in other countries such as Singapore.
- The GST affects the budget of middle and poor families.
- More the consumption more would be the tax levied. But no relief to the one who is constrained to consume only very little due to low income. Equity is a concern.
- Ensure that the benefits of reduced cost of business resulting from GST are being transferred to end consumers.
- Bringing unorganized sector to the GST regime to get full advantage of the GST implementation. Consumer pay tax but the government does not get the revenue.

### **CONCLUSION**

Tax policies play an important role on the economy through their impact on both efficiency and equity. A good tax system should keep in view issues of income distribution and, at the same time, also endeavour to generate tax revenues to support government expenditure on public services and infrastructure development. GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. GST is expected to raise overall Indian welfare and is projected to be an inclusive policy in that it would be welfare improving for all Indian states. GST is leviable on all supply of goods and provision of services as well combination thereof. All sectors of economy whether the industry, business including Govt. departments and service sector shall have to bear impact of GST. One of the biggest taxation reforms in India -- the Goods and Service Tax (GST) -- is all set to integrate State economies and boost overall growth. GST will create a single, unified Indian market to make the economy stronger.

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