

# GST: A Journey Towards Excellence in Taxonomy

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## **Abstract:**

Goods and services tax is a uniform indirect tax levied on all goods and services produced in the country and all goods and services imported from abroad. GST is a single uniform indirect tax which will treat India as **one market**. In today's scenario we pay various taxes i.e. Direct and Indirect taxes, which are felt as burden on us and due to these taxes the corruption is increasing. So, to overcome from all these taxation system the Central Government has decided to make one tax system i.e. Goods and Services Tax (GST). GST is one of the most critical tax reforms in India. It is a comprehensive tax system that will subsume all indirect taxes of State and central Governments and whole economy into seamless nation in national market. It is expected to remove the burden of existing indirect tax system and play an important role in growth of India. GST includes all Indirect Taxes which will help in growth of economy and proves to be more beneficial than the existing tax system. GST will also help to accelerate the overall Gross Domestic Product (GDP) of the country. GST is now accepted all over the world and countries are using it for sales tax system. This paper will help to show that, what will be the impact of GST after its implementation, difference between present Indirect Taxes and GST and what will be the benefits and challenges of GST after implementation

**Keywords:** Tax, Indirect tax, GST, GDP, Economy development, Implementation.

## **1. INTRODUCTION**

GST is likely to change the whole scenario of current indirect tax system. It is considered as biggest tax reform since 1947. This paper shows how a goods and service tax is an improvement over VAT and Service Tax and other indirect taxes. Goods and services tax is a uniform indirect tax levied on all goods and services produced in the country and all goods and services imported from abroad. GST is a single uniform indirect tax which will treat India as one market. It replaces all Central and state indirect taxes like CENVAT, excise, customs, VAT, state excise, etc. The GST will enable a benefit to the economy from a fall in product prices, a single price of a product across the country, lower working capital for companies and a more simplified tax system. At the stroke of midnight on July 1, 2017, India stepped into a comprehensive Goods and Services Tax (GST) regime. One significant advantage of India's GST regime is the transparent taxation system, where compliance procedures is electronic and online – on the Goods and Services Tax Network (GSTN) portal – including processes of registration, tax payment, return filings, and refund claims. This is a marked change from the erstwhile indirect taxes regime and reinforces 'Digital India', which is the Prime Minister's other pet project for India's growth and development. According to experts GST is regarded to increase economic growth by between 0.9% and

1.7%. Exports are expected to increase economic growth by between 3.2% and 6.3%, were as imports will likely raise 2.4% – 4.7%.

## 2. NEED OF THE STUDY

This study will help us to examine the impact of GST after its implementation, it will show the gap between present indirect taxes and GST, & also the study will show benefits and challenges which GST may face after implementation.

## 3. REVIEW OF LITERATURE

**Dr. R. Vasanthagopal (2011)**<sup>2</sup> 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 SatyaPoddar (2009)**<sup>3</sup> 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.

**Nitin Kumar (2014)**<sup>6</sup> 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, SupriyaKamma and RichaVerma (July 2014)**<sup>7</sup> 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.

**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.

## 4. OBJECTIVE OF STUDY

The study has following objectives:

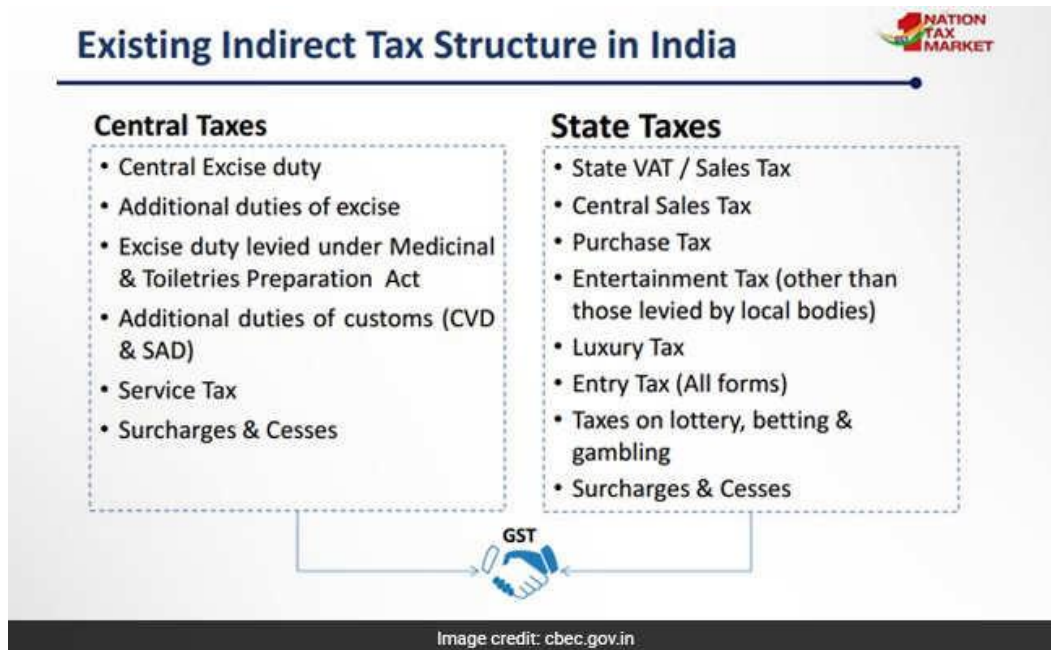
1. To cognize the concept of GST
2. To study the features of GST
3. To study simplicity of calculations under GST
4. To evaluate the advantages and challenges of GST
5. To study the impact of GST on Indian Economy.
6. To furnish information for further research work on GST.

## 5. RESEARCH METHODOLOGY

Being an explanatory research it is based on secondary data of journals, articles, newspapers and magazines. Considering the objectives of study descriptive type research design is adopted to have more accuracy and rigorous analysis of research study. The accessible secondary data is intensively used for research study.

## 6. CONCEPT

GST is an indirect tax which will subsume almost all the indirect taxes of central government and states governments into a unified tax . As the name suggests it is levied on both goods and services at all the stages of value addition. It has dual model including central goods and service tax (CGST) and states goods and service tax (SGST) destination based tax.



The GST is a consolidated tax based on a uniform rate of tax fixed for both goods and services and it is payable at the final point of consumption. At each stage of sale or purchase in the supply chain, this tax is collected on value-added goods and services, through a tax credit mechanism.

## 7. ANALYSIS /DISCUSSION

7.1 Table 1: Impact of GST in Present

	Present Senerio		After Gst	
	With Invoice	With Invoice	With Invoice	With Invoice
<b>MANUFACTURER TO DISTRIBUTOR</b>				
Sales Price of phone	10000	11000	10000	11000
ADD: Excise duty @12%	1200	-	-	-
Add: vat @4%	448	-	-	-
Add: GST @ 16%	-	-	600	-
<b>Final Payment</b>	11648	11000	11600	11000
<b>Distributor to Wholseller</b>				
Sales Price of phone	15000	15000	15000	15000
Add: vat @4%	600	-	-	-
Add: GST @ 16%	-	-	2400	-
<b>Final Reciept</b>	15600	15000	17400	15000

<b>Payment of Tax by Distributor</b>	152	-	800	-
<b>Net Profit to distributor</b>				
Sales Price	15600	15000	17400	15000
Less: purchase cost	11648	11000	11600	11000
Less: net tax paid	152	-	800	-
<b>Net Profit to distributor</b>	3800	4000	5000	4000
<b>final result</b>	distributor will prefer without invoice		distributor will prefer with invoice	

(Source: <http://www.gstindia.com>)

Table 1. divided into two parts in which first part reveals that in present scenario sales price of phone from manufacturer to distributor with invoice is Rs. 11,648 & without invoice is Rs. 11,000 but after GST the sales price of phone with invoice will be Rs. 11,600 and without invoice is Rs. 11,000. Second part reveals that sales price of phone in present scenario from distributor to wholesaler with invoice is Rs. 15,600 and without invoice is Rs. 15,000 while as after GST the price of phone with invoice is Rs. 17,400 and without invoice is Rs. 15,000. The net profit to distributor with invoice is Rs. 3,800 and without invoice is Rs. 4,000 in present scenario but after GST the net profit of distributor without invoice is Rs. 5,000 and without invoice is Rs. 4,000 thus the conclusion from this table is that in present scenario the distributor will prefer without invoice but after GST the distributor will prefer with invoice

According to a study by the National Council of Applied Economic Research (NCAER), full implementation of the GST could expand India's growth of gross domestic product by 0.9-1.7 percentage points. By removing the system of multiple Central and State taxes, the GST can help in reducing taxation and filing costs and expand business profitability, thereby attracting investments and promoting GDP growth. Simplification of tax norms can help in improving tax compliance and increasing tax revenues liability.

### 7.2 Explanation With An Example.

Suppose you manufacture an item of Rs 100 using the inputs of Rs 80 purchased from different tax payers. Let the rate of GST be 20%. In the present regime you pay taxes of 20% of Rs 100 i.e. **Rs 20**; if you are purchasing all your inputs without bills. If only a few inputs, around 50% of your inputs suffer tax, you get credit of the taxes on the inputs used by you. This is calculated to be 50% of Rs 80 i.e. on Rs 40 @20% viz. Rs 8. Hence your tax liability is Rs 20- Rs 8 = **Rs 12** In the GST regime all goods and services would be taxed. Hence, you would get credit @20% on Rs 80 i.e. Rs 16 and your net tax liability would be **Rs 4** only. Hence, **your net liability reduced from Rs 20 without bills to Rs 12 with 50% bills to Rs 4 in GST regime**; even though the tax rates remained the same. **Thus, the net tax rate to an honest taxpayer is just 4% of Rs 100 in the GST regime with the GST rate at 20%**. Hence, there would be less incentive for you to evade taxes now when the effective GST rate is just 4%. It is so because, if you are caught by tax authorities, you have to pay Rs 20 as GST (without credit) plus Rs 20 as penalty. Most taxpayers would therefore avoid evasion in GST regime.

## 8. ADVANTAGES OF GST

### For Citizen

Simpler tax system

1. Reduction in prices of goods and services due to elimination of cascading.
2. Uniform prices throughout the country.
3. Transparency in taxation system.
4. Increase in employment opportunities.

#### **For Trade/Industry**

1. Reduction in multiplicity of Taxes
2. Mitigation of cascading /double taxation
3. More efficient neutralization of taxes especially for exports
4. Development of common national market.
5. Simpler tax regime-fewer rates exemption.

#### **For Central/ State Governments.**

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. Improving the overall investment climate in the country which will benefit the development of the states.Uniform SGST and IGST rates to reduce the incentives for tax evasion. Reduction in compliance costs as no requirement of multiple record keeping.

### **9. HOW GST REGIME IS LIKELY TO IMPROVE TAX COMPLIANCE AND REDUCE CORRUPTION.**

#### **1. Reduced Interface**

All the returns of the taxpayers have to fill online in the GST regime. They would also get all their refunds, orders etc. online. This will reduce the interface between the assesseees and officers, which would reduce corruption.

#### **2. Greater Transparency**

The GST Network (GSTN) is designed to capture all transaction details up to invoice level. Hence, you can't escape the inputs or services used in providing the goods or services. The paper documentations are to be eliminated completely. Your data would be visible to state as well as central government officers. It would be difficult to hide anything.

#### **3. Dual Control**

GST will be monitored jointly by Central and state government officials. It would be difficult to manage some officers and do evasions. The chances of getting caught would be double in the GST regime.

### **10. HOW GST WILL CHANGE THE FACE OF INDIAN ECONOMY**

Analysts say the implementation of the **goods and services tax** (GST) could provide the kind of productivity boost illustrated above. **Gautam Chhaochharia**, head of India Research of UBS Securities, explains the benefits of GST,

1. **Unified market:** The GST will cut down the large number of taxes imposed by the central government (eg. central VAT or excise duty, services tax, central sales tax on inter-state sales, etc.) and states (VAT on sales, entertainment tax, luxury tax and octroi and entry taxes levied by municipalities). This will lead to the creation of a unified market, which would facilitate seamless movement of goods across states and reduce the transaction cost of businesses.



- 2. Lower incentive to evade tax:** Currently, companies had to pay taxes on entire underlying value of the product/service, but under GST, companies in a chain have to pay tax only on the value-addition. So, the actual tax paid will likely be small and reduce the incentive for evasion.
- 3. Widen tax base:** GST gives credits for all taxes paid earlier in the goods/services chain incentivizing tax-paying firms to source inputs from other registered dealers. This will bring in additional revenues to the government as the unorganized sector, which is not part of the value chain, would be drawn into the tax net. Besides, states will be allowed to tax services (as opposed to only the central government) under the GST.

## 11. CHALLENGES OF GST IN INDIAN CONTEXT

GST is the biggest reform in Indian taxation since 1947, but there are many challenges for its successful implementation. These are as under

- 1. Consent of States:** 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.
- 2. Revenue Neutral Rate (RNR):** It is one of 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.
- 3. Threshold Limit in GST:** 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
- 4. Robust IT Network:** Government has already incorporated Goods and service tax network (GSTN). GSTN has developed 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.
- 5. Extensive Training to Tax Administration Staff:** 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.

**Additional Levy on GST:** 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.

## OTHER ISSUES

1. Union government need to coordinate with 30 states for “input credit” due to transfer of credit in
2. State tax officials training and development before implementation of GST.
3. Effective credit mechanism is essential for GST. Owing to CENVAT it is not a problem but for states again it is a major challenge.
4. Analysts say that real estate market will be cramped by GST and it may result in 12% down turn in demanded of new houses because of increased cost up to 8%. (A study commissioned by Curtin university of technology)

## CONCLUSION

A well designed GST is an attractive method to get rid of deformation of the existing process of multiple

taxation also government has promised that GST will reduce the compliance burden at present there will be no distinction between imported and Indian goods & they would be taxed at the same rate. Due to dissilient environment of Indian economy, it is demand of time to implement GST. Consumption and productions of goods and services is undoubtedly increasing and because of multiplicity of taxes in current tax regime administration complexities and compliance cost is also accelerating. Thus, a simplify, user -friendly and transparent tax system is required which can be fulfilled by implementation of GST. Its implementation stands for a coherent tax system which will colligate most of current indirect taxes and in long term it will lead to higher output, more employment opportunities and flourish GDP by 1-1.5%. It execution will also results in lower cost of doing business that will make the domestic products more competitive in local and international market. No doubt that GST will give India a world class tax system by grabbing different treatment to manufacturing and service sector. There are various challenges in way of GST implementation as discussed above in paper. They need more analytical research to resolve the battling interest of various stake holders and accomplish the commitment for a cardinal reform of tax structure in India. In overall through this study we conclude that GST play a dynamic role in the growth and development of our country.

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