International Journal for Multidisciplinary Research (IJFMR)

E-ISSN: 2582-2160 ● Website: www.ijfmr.com ● Email: editor@ijfmr.com

GST- Is It Good and Simple Tax Regime

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Abstract

The Goods and Services Tax (GST), introduced in India on 1 July 2017, represents one of the most significant indirect tax reforms aimed at creating a unified national market by replacing multiple central and state taxes with a destination-based taxation system. This paper critically examines whether GST has fulfilled its objective of becoming a "Good and Simple Tax" regime by analysing its conceptual framework, objectives, salient features, implementation, and economic impact. It evaluates the advantages of GST, including the elimination of cascading taxes, increased transparency, improved tax compliance through digital administration, enhanced ease of doing business, and strengthened revenue collection, while also highlighting challenges such as multiple tax slabs, frequent amendments, compliance burdens on small and medium enterprises, technical issues with the GST portal, and complexities relating to input tax credit. The study adopts a doctrinal and analytical approach based on constitutional provisions, statutory enactments, judicial pronouncements, government reports, and recent scholarly literature. It concludes that although GST has substantially transformed India's indirect taxation system and strengthened fiscal integration, achieving a truly simple and efficient tax regime requires continuous policy reforms, rationalization of tax rates, simplification of compliance procedures, and enhanced digital governance.

Keywords: Goods and Services Tax (GST), Indirect Taxation, Tax Reform, One Nation One Tax, GST Council, Input Tax Credit (ITC), Tax Compliance, Digital Tax Administration, Economic Growth, Fiscal Federalism.

INTRODUCTION

GST is India's most significant tax reform in 60 years. It is a one-of-a-kind Act, and many countries throughout the world have implemented it. India, with its diverse population, has embraced this much-discussed legislation in its own distinct manner. India has successfully integrated the "One Nation, One Tax" motto with the diverse nature of our country's transactions and inequities.

GST is a single value added tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages.[1]

Before the enactment of the Goods and Services Tax (GST), the Indian taxation system was a jumble of national, state, and local area levies. The road to an unified indirect tax system has been laid by combining

[1] Unishivaji.A.In, 2022, http://www.unishivaji.ac.in/uploads/distedu/sim1/B.%20Com.%20III% 20Adv.% 20Acc .%20Sem.%20VI%20P.%20IV%20Unit-4.pdf. Accessed 28 Oct 2022

more than a score of levies under GST to develop an economic union in India.[2]

BEFORE GST, INDIA'S CONSTITUTIONAL SYSTEM OF INDIRECT TAXATION

Article 265[3] of the Indian Constitution states that no tax shall be levied or collected unless authorised by law. According to Article 246 of the Constitution, Parliament has exclusive rights to make legislation on subjects in the Union List (List I of the Seventh Schedule), while the State Government has exclusive powers to legislate on matters in the State List (List II of the Seventh Schedule). Both the Central Government and the State Governments have concurrent legislative authority over the issues included in the Concurrent List (List III of the Seventh Schedule).

Prior to the introduction of GST, the Union's primary sources of indirect tax revenue were customs duty (entry 83 of the Union List), central excise duty (entry 84 of the Union List), and service tax (entry 97 of Union List). Although the Constitution (Eighty-eighth Amendment) Act of 2003 inserted entry 92C to the Union List of the Seventh Schedule of the Constitution for the imposition of taxes on services, it was not announced. So, until the implementation of GST, tax on services was imposed under the residual entry, i.e. entry 97 of the Union List.

By virtue of entries 92A and 92B, the Union also collected a tax known as the Central Sales Tax (CST) on inter-state sales and purchases of products as well as inter-state consignments of commodities. CST, on the other hand, is levied on the state of origin, according to the Central Sales Tax Act of 1956, enacted under Article 269 of the Constitution.

Taxes on sale and purchase (entry 54 of the State List), excise duty on alcoholic liquors, opium and narcotics (entry 51 of the State List), taxes on luxuries, entertainments, amusements, betting and gambling (entry 62 of the State List), octroi or entry tax (entry 52 of the State List), and electricity tax (entry 53 of the State List) were the most important sources of tax revenue. CST was also a significant source of revenue, however it was imposed by the Union.

INDIA'S GST PROGRESSION:

In 1954, France was the first country to introduce GST. Within 62 years of its inception, about 160 nations throughout the world have embraced GST because it has the potential to generate income in the most transparent and natural manner.[4]

KELKAR TASK FORCE 2004 :

In 2004, the Finance Ministry of the Government of India established a Task Force on Fiscal Responsibility and Budget Management, chaired by Mr.Vijay Kelkar. It provided proposals for a comprehensive overhaul of the Indian tax system. It disagreed with the government's current approach of reducing government spending in order to achieve fiscal consolidation. It has advocated using a Revenue-led Approach, which focuses on increasing revenues rather than cutting costs. It went on to advise that the government increase capital spending to offset the contractionary effects of fiscal consolidation. The Goods and Services Tax is the result of the Task Force's proposals, which were chaired by Mr. Vijay Kelkar.

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2 5 Years of Goods and Services Tax (GST) – NextIAS 5 Years of Goods and Services Tax (GST) - NextIAS. (2022). Retrieved 29 October 2022, from https://www.nextias.com/current-affairs/22-06-2022/5-years-of-goods-and-services-tax-gst

3 Taxes not to be imposed save by authority of law No tax shall be levied or collected except by authority of law

4 2022). Retrieved 29 October 2022, from https://www.taxmann.com/bookstore/bookshop/bookfiles/nitibhasinchapter2.pdf

Initiative of NDA Government:

Following that, the then-Union Finance Minister, Shri P. Chidambaram, declared that GST will be implemented on April 1, 2010. Since then, GST has missed multiple deadlines and has been clouded in ambiguity. However, discussions for implementing GST gathered traction in 2014, when the NDA government introduced the Constitution (122nd Amendment) Bill, 2014 on GST in Parliament on December 19, 2014. The Bill was passed by the Lok Sabha on May 6, 2015, and by the Rajya Sabha on August 3, 2016.

Following the approval of the Bill by more than half of the states as the Constitution established. On September 8, 2016, the President assented to the (122nd Amendment) Bill, which became the Constitution (101st Amendment) Act, 2016, paving the way for the implementation of GST in India. The next year, on March 27, 2017, the Central Goods and Services Tax Bill, 2017, which incorporates the Goods and Services Tax Bill, 2017, the Union Territory Goods and Services Tax Bill, 2017, and the Goods and Services Tax (Compensation to States) Bill, 2017, were introduced in Lok Sabha. The Lok Sabha passed these legislation on March 29, 2017, and they were signed into law by the President on April 12, 2017.[5]

State GST Laws

The Central Acts were followed by the passing of State GST statutes by several State Legislatures. Telangana, Rajasthan, Chhattisgarh, Punjab, Goa, and Bihar were among the first to enact State GST legislation. GST is a game-changing indirect tax reform that will create a unified national market. GST has superseded a number of indirect taxes, including excise duty, service tax, VAT, CST, luxury tax, entertainment tax, entrance tax, and so on.[6]

GST FEATURES INCLUDE:

1. Value Added Tax:

GST is a single value added tax levied by the government of India on the supply of goods and services. GST levies tax exclusively on the value added at each level of the supply chain, from the producer to the final consumer.[7]

For example, if a firm buys products for Rs. 1,000 and sells them for Rs. 1500 by adding Rs. 500 to the initial cost (say, business overheads of Rs. 200 and profits of Rs. 300), he must pay GST only on the value addition of Rs. 500, not on the total cost of Rs. 1500.

2. Comprehensive:

GST is all-inclusive, including all existing indirect taxes. Furthermore, by instituting a single taxation system across the country, it eliminates tax rate arbitrariness.

3. Multi-stage:

GST is levied at each level of the supply chain, from the manufacturer to the final customer, where the transaction occurs. GST provides a full and continuous chain of tax credits from the point of production

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5 (2022). Retrieved 29 October 2022, from https://idtc-icai.s3.amazonaws.com/download/knowledgeShare18-19/Taxable-event-in-GST-Supply.pdf

6 (2022). Retrieved 29 October 2022, from https://gailebank.gail.co.in/gstn/FAQ%20on%

7 Brief History Of GST | Goods and Services Tax Council
Brief History Of GST | Goods and Services Tax Council. (2022). Retrieved 28 October 2022, from https://gstcouncil.gov.in/brief-history-gst

to the point of consumption.

The value contributed at each stage of the supply chain is taxed from the service provider's level up to the retailer's or consumer's level.

4. Credit of GST paid on Purchases:

At each stage, the supplier is authorised to claim credit for GST paid on purchases of goods and or services, which he can offset against GST payable on future supplies of goods and services.

Thus, with set-off advantages at all earlier levels, only the end customer suffers the GST paid by the last provider in the supply chain.[8]

5. Destination based consumption:

GST is collected at the point of sale. The tax will be collected by the tax authority with proper jurisdiction at the location where the goods or services are eventually consumed. Assume that cotton garments are being supplied from Gujarat to Maharashtra. Maharashtra is a consumer state, while Gujarat is a production state. GST money will be collected by Maharashtra's GST officials.[9]

6. No Cascading Effect

There is no tax or cascading of taxes under the GST system since only the value contributed at each level is taxed. Because GST does not distinguish between goods and services, they are taxed at the same rate.

7. Rates of GST

Currently there are four slabs of GST on the various categories of goods and services. They are 5%, 12%, 18% and 28%.[10]

8. Registration under GST:

Every supplier who makes a taxable supply of goods and/or services must register in the state from where he provides. Threshold limit (applied across the country) - Special category states

- Rs.10 lakh - Other states - Rs.20 lakh Registration applications must be submitted online within 30 days. PAN-based registration is required. Regardless of their threshold restriction, the following people must register: People making interstate taxable supplies (a), Casual taxable persons (b), and Non-resident taxable persons.[11]

9. GST FOR SALE WITHIN THE STATE

If the buyer and vendor of goods or services are from the same state, the transaction will be taxed under both the Central GST (CGST) and the State GST (SGST). Except for exempted goods and services, the Central GST and State GST will be imposed concurrently on all transactions of supply of goods and services. Furthermore, both would be assessed against the same price or worth. While the location of the supplier and the receiver inside the country is irrelevant for CGST purposes, SGST would be payable only if the supplier and the recipient were both situated within the State.

10. GST for Inter-state Sale

The Centre would levy and collect Integrated Goods and Services Tax (IGST) on inter-State supply of goods and services. The Government of India will levie and collect GST on supplies made in the course

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8 Editor, I. (2022). EDITORIAL ANALYSIS: GST: Five years stronger - INSIGHTSIAS. Retrieved 29 October 2022, from https://www.insightsonindia.com/2022/07/02/editorial-analysis-gst-five-years-stronger/

9 Fatima, Hajera & Khan,. (2018). Goods and Service Tax in India: Basic Concepts and Features. Journal of Investment and Management. 7. 13-18. 10.11648/j.jim.20180701.12.

10 GST Rates in 2022 - List of Goods and Service Tax Rates Slabs

11 [PDF] New GST Rates from July 2022 PDF Download – PDFfile. (2022). Retrieved 29 October 2022, from https://pdffile.co.in/new-gst-rates-from-july-2022/

of inter-state trade or commerce. Such tax shall be divided between the Union and the States in the manner authorised by law.[12]

TAXES SUBSUMED BY GST:

Taxes not to be subsumed by GST in India are:

- Basic Customs Duty
- Export Duty
- Toll Tax
- Road and Passenger Tax
- Electricity Duty
- Stamp Duty
- Property Tax.

WHY GST IS GOOD?

The previous value added tax system had several flaws that the GST addressed. These flaws were as follows:

1. Multi-tax Regime

Previously, a manufacturer of excisable products assessed excise duty and value added tax (VAT) on intra-State sales of commodities. However, the VAT dealer paid VAT (as per the appropriate VAT rate in the respective State) on the value of the following intra-state sale of goods, which included (base value + excise duty imposed by manufacturer + profit by dealer). Furthermore, service tax was due on all'services' except those that were on the Negative list of services or otherwise exempted.

2. Deficiencies and Diversities in Indirect taxes:

The previous indirect tax regime in India had a number of flaws. The different indirect taxes collected under the previous indirect tax framework were not necessarily mutually exclusive.

To demonstrate, both central excise duty (CENVAT) and state-level VAT were charged when the items were made and sold. Though CENVAT and State-Level VAT were both fundamentally value added taxes, they could not be set off against one other because CENVAT was a central levy and State-Level VAT was a State levy.

Furthermore, CENVAT was only effective at the manufacturing level and not at the distribution level. The previous sales tax structure in India was a hybrid of origin-based (Central Sales Tax) and destination-based multipoint taxes (State-Level VAT).

Service tax was also a value added tax, and credit for service tax and central excise duty was combined at the central level.

PRESENT FRAMEWORK OF GST

1. Dual GST

India has implemented a dual GST system, with the Centre and States imposing CGST and SGST concurrently. The centre has the authority to tax intrastate sales, whereas states have the authority to tax services. GST has now been extended throughout India.

[12] Mahajan, P. (2019). Place of Supply under GST - Detailed Analysis. Retrieved 29 October 2022, from https://taxguru.in/goods-and-service-tax/place-supply-gst-detailed-analysis.html

2. CGST/SGST/UTGST/IGST;

GST is a destination-based tax that applies to all transactions involving the supply of goods subject to limitations, goods and services for a consideration India's Goods and Services Tax.

GST in India comprises of Central Goods and Service Tax (CGST) – levied and collected by Central Government, State Goods and Service Tax (SGST) – levied and collected by State Governments/Union Territories with State Legislatures and Union Territory Goods and Service Tax. (UTGST)-levied and collected by Union Territories without State Legislatures, on intra-State supplies of taxable goods and/or services. (IGST)- Inter-State supplies of taxable goods and/or services are subject to Integrated Goods and Service Tax. IGST is approximately the sum total of CGST and SGST/UTGST and is levied by Centre on all inter-State supplies.

3. Legislative Framework:

For levying CGST, there is a single piece of legislation - the CGST Act of 2017. Similarly, Union Territories without State legislatures [Andaman and Nicobar Islands, Lakshadweep, Dadra and Nagar Haveli, Daman and Diu, and Chandigarh] are subject to the UTGST Act, 2017. For levying SGST, states and union territories having their own legislatures [Delhi and Puducherry] have their own GST legislation. Despite the fact that there are multiple SGST legislations, the basic features of law, such as chargeability, definition of taxable event and taxable person, classification and valuation of goods and services, procedure for collection and levy of tax, and so on, are uniform in all SGST legislations to the greatest extent possible. This is required to maintain the nature of dual GST.

4. Classification of Goods and Services;

The HSN code (Harmonized System of Nomenclature) is used to classify items under the GST. A new Service Classification Scheme has been developed, with services of various descriptions categorised under various sections, descriptions, and groupings. Each category is made up of several Service Codes (Tariff).

The chapters referred to are those in the First Schedule to the Customs Tariff Act of 1975.

5. Manner of utilization of ITC:-

GST is a destination-based tax that applies to all transactions involving the delivery of goods and services for a consideration, subject to certain exclusions. Input Tax Credit (ITC) of CGST and SGST/UTGST is accessible throughout the supply chain, although credit of CGST and SGST/UTGST cannot be cross-utilized, i.e. CGST credit cannot be used to pay SGST/UTGST.

Credit for SGST/UTGST cannot be used to pay CGST. However, cross use between CGST/SGST/UTGST and IGST is permitted, i.e. IGST credit can be used to pay CGST/SGST/UTGST and vice versa.

6. Registration

If a supplier's aggregate turnover reaches '20 lakh within a fiscal year, he must register in the state or territory from where he makes the taxable supply.

However, if the individual is doing business in one of the Special Category States (as defined in Article 279A(4)(g) of the Constitution), the ceiling of '20 lakh shall be reduced to '10 lakh.

Arunachal Pradesh, Assam, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh, and Uttarakhand are the states involved.[13]

[13] , V. (2022). Place of GST Registration for Renting of Immovable Property. Retrieved 29 October 2022, from https://taxguru.in/goods-and-service-tax/place-gst-registration-renting-immovable-property.html

7. Composition Scheme

Every taxable person is required to pay tax (CGST, SGST/UTGST for intra-state supplies, and IGST for inter-state supplies) under the GST system, and provisions have been made in the legislation to that effect. However, a simplified form of collecting taxes and accounting for them, known as the Composition Levy, is also mandated to provide assistance to small enterprises making intra-State supplies.

BENEFITS OF GST

1. Simple compliance:

The core of India's GST regime will be a solid and comprehensive IT infrastructure. As a result, all tax payer services, such as registrations, returns, payments, and so on, will be available to taxpayers online, making compliance simple and transparent.[14]

2. Tax rate and structure uniformity:

GST will guarantee that indirect tax rates and structures are consistent across the country, boosting certainty and ease of conducting business. In other words, GST would make doing business in the country tax neutral, regardless of where it is done.

3. Improved competitiveness:

Lowering transaction costs would eventually lead to increased competitiveness for commerce and industry.

4. Manufacturers and exporters benefit:

The incorporation of key Central and State taxes into GST, complete and thorough set-off of input goods and services, and the phase-out of the Central Sales Tax (CST) will lower the cost of locally made goods and services. This would improve Indian exports by increasing the competitiveness of Indian goods and services in the worldwide market. The consistency of tax rates and processes across the country will also help to reduce compliance costs.

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.[15]

For Central and State Governments

1. Simple and easy to administer

GST is simple and straightforward to manage, replacing many indirect taxes at the federal and state levels. GST, if supported by a solid end-to-end IT 14 system, would be simpler and easier to manage than any previous indirect taxes collected by the Centre and States to date.

2. Better leakage controls:

GST will result in improved tax compliance owing to a solid IT infrastructure. There is an inbuilt mechanism in the architecture of GST that would incentivize tax compliance by merchants due to the smooth transfer of input tax credit from one level to another in the chain of value creation.[16]

3. For the consumer

A single, clear tax on the value of goods and services: The cost of most goods and services in the country today is burdened with various hidden taxes due to many indirect taxes charged by the Centre and States,

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[14] Advantages and Disadvantages of GST in India. (2022). Retrieved 29 October 2022, from https://www.bajajfinserv.in/insights/what-are-the-top-advantages-and-disadvantages-of-gst-in-india

[15] Team, W. (2020). Full Form of CST. Retrieved 29 October 2022, from https://www.wallstreetmojo.com/full-form-of-cst/

[16] GST Advantages for the Indian Economy Explained. (2022). Retrieved 29 October 2022, from https://khatabook.com/blog/main-advantages-of-gst/

with partial or no input tax credits available at successive levels of value addition. There will be simply one tax from the manufacturer to the customer under GST, resulting in more transparency of taxes paid to the ultimate consumer. Total tax burden reduction: Because of efficiency savings and leakage prevention, the overall tax burden on most goods will be reduced, benefiting consumers.

GST'S NEGATIVE EFFECTS

1. **Lack of centralised registration:**

The former taxation system permitted taxpayers from all across the nation to register through a central body; however, with the adoption of GST, taxpayers must register with their state and pay the central tax.[17]

2. **Taxation of Free Services:**

Even if a company provides free services, they are still subject to taxation.

3. **Tax rates for end customers will rise.**

The GST is a destination-based tax, which implies that the tax burden is borne by the end user.

4. **Several Tax Rates:**

India has multiple tax rates, unlike many other economies that have established similar tax structure. This impedes the implementation of a single indirect tax rate for all commodities and services in the country. While GST eliminated a plethora of taxes and cesses, a new fee in the form of a compensatory cess was imposed on luxury and sin items. Later, this was expanded to include vehicles.[18]

5. **A LACK OF TRUST:**

Because of the Union government's inclination to charge and take cess funds for itself without sharing them with the states, the notion of guaranteed compensation for states has gained acceptance.

6. **Economy Outside GST purview:**

Nearly half of the economy remains beyond the purview of GST. Petroleum, real estate, and power charges, for example, remain exempt from GST.

7. **The complexities of tax returns:**

The GST statute mandates defined kinds of taxpayers to file GST yearly returns, as well as undergo a GST audit. However, submitting annual returns is a hard and perplexing task for taxpayers. In addition, the annual report includes additional facts that are not included in the monthly and quarterly forms.

8. **Higher Tax Rates:**

While rates have been rationalised, 50% of products remain in the 18% tax category. Aside from that, several critical products for combating the epidemic have been charged more heavily.[19]

CONCLUSION

The consultative and collaborative style of decision-making, which has guided the Council's decisions thus far, must be maintained. Addressing the controversial problems would need first and foremost bridging the trust gap between the Centre and the states. The spirit of cooperative federalism, which the governing regime often advocates, must be preserved. Acts of good faith are the only way to bridge the

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[17] Loharkar, S. Loharkar, S. (2022). IS Implementation of GST is Boon or bane to the economy ?. Retrieved 29 October 2022, from https://taxguru.in/chartered-accountant/implementation-gst-boon-bane-economy.html

[18] GST Benefits - Advantages of Goods and Services Tax - BankBazaar. (2022). Retrieved 29 October 2022, from https://www.bankbazaar.com/tax/gst-benefits.html

[19] Advantage & Disadvantage of GST for Business, SMEs & Consumer | Amazon Business . (2022). Retrieved 29 October 2022, from https://business.amazon.in/en/discover-more/blog/gst-advantages-disadvantages

trust barrier. The Union government should promise the states that it would not impose cesses and levies that are not part of the sharing pool of income. It must decide to keep its revenue guarantee promise to the states. It must recognise and preserve not just the fundamental essence of fiscal federalism, but also political and constitutional federalism.

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