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### RESEARCH ARTICLE

#### GST: A BOON OR BANE.

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#### **Abstract**

India is by no means the first country to experiment with a unified tax regime. 160 countries already have some form of GST or a value added tax. What makes GST in India special is that the Union and state governments will jointly administer India's dual GST. This means it will be a set of many different taxes – a GST for each of the 29 states and two union territories (SGST), a Central GST (CGST), and an Integrated GST (IGST; which will be a combination of CGST and SGST on inter-state supplies of goods and services). The Finance Minister, Sh. Arun Jaitley, has laid down the threshold date for implementation of GST to be 1<sup>st</sup> April 2017. However, whether the people of India are prepared for the final implementation of the new taxation regime or not, still remains to be seen. An analysis from the world economies indicate a number of upheavals, the advantages being accompanied by a number of disadvantages too. This paper is a conceptual understanding of the possible gains and hindrances that shall procure to India on the final roll out of the GST Act.

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#### **Introduction:-**

The Goods and Services Tax or GST, officially known as The Constitution (One hundred and twenty second) Amendment, is a uniform, comprehensive, destination-based indirect tax applicable on manufacturing, sale and consumption of goods in India. The GST, after quite some deliberations became an Act on 8<sup>th</sup> Sept. 2016. It is proposed to be rolled out from 1st April 2017. This paper presents a brief review of the reviews from the world and possible advantages and disadvantages of GST in India.

#### **GST-Lessons From The World:-**

All around the world, GST has the same concept. In some countries, VAT is the substitute for GST, but conceptually it is a destination based tax on consumption of goods and services. Very few countries like Brazil, Canada follow the concept of dual GST, similar to India. Some learnings from different countries are:-

- A spike in inflation -Statistics shows GST to be inflationary in nature, especially if the effective tax rate is higher than what prevailed before. Singapore saw a growth in inflation in 1994 when it introduced the GST.
- Huge complication and challenges on implementation- Even after providing 1.5 years for GST preparedness, the Malaysian Government had to deal with great many challenges on its actual execution. Thus, administrations need to start early with the application process, to be GST-ready. The complex GST model proposed in India and the need for a businesses to undergo a huge transformation (developing IT capability) to adapt to the GST regime, is quite challenging for the Indian government.

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- Automation and IT preparedness most essential - Since GST is a tax on transactions, which for most business organisations is voluminous, the processes and changes required for GST compliance need to be automated and encapsulated in the IT system.

From the lessons learnt, there is no denying that in a huge country like India implementation of GST by general public, businesses and firms would not be an easy task. Advance planning and extending adequate time to industry, continued dialogues between businesses and administrators, engaging with industry on the implementation planning, a reasonable tax-rate, timely release of the legislative documents, are essential for the effective implementation of GST.

#### **GST-Advantages:-**

In GST System both Central GST and State GST will be charged on manufacturing cost and tax will be collected on point of sale. This will benefit people as prices will come down which in turn will help companies as consumption will increase. Biggest benefit will be that multiple taxes like octroi, central sales tax, state sales tax, entry tax, license fees, turnover tax etc. will no longer be present and all that will be brought under the GST. Doing business in India, now will be easier and more comfortable as various hidden taxation will not be present. The expected benefits shall be to India:

- It will result in a good administration of tax structure. There will be a simple, transparent and easy tax structure, merging all levies on goods and services into one GST.
- It will broaden the tax base. Centre and state government will benefit from increase in tax collection due to the widening of tax base. GST will assist in better conformity and revenue resilience.
- GST will result in cost competitiveness of goods and services in Global market. Thus, providing India with a competitive edge in the world market.
- It will reduce transaction costs for taxpayers through simplified tax compliance.
- It will boost up economic unification of India
- Uniform rates of taxes, will lead to less confusions and confrontations and thus reduce tax litigation.
- A clear, transparent system of taxation will make doing business in India a stress-free job.
- IT developed for GST portals would make easier the process of taxation, return filing and GST payment across India
- Integration of goods and services taxation would end the long standing distortions of differential treatments of manufacturing and service sector. Thus, GST is expected to improve manufacturing and distribution efficiency
- With GST implemented, a business premises can show the tax applied in the sales invoice. Customer will know exactly how much tax they are paying on the product they bought or services they consumed.

#### **GST-Disadvantages:-**

- VAT and Service tax on some products may be higher than the current levels. A rise in overall prices has been experienced in many countries when GST is implemented.
- Most of the developed economies use a single GST and not a dual GST. A dual system in India, will be very complicated.
- Since the mechanism is still complicated, it cannot completely eliminate black money and tax evasion.
- In a country like India, with huge inequalities of income, a uniform tax rate would spell disaster for small businesses which are exempt from tax in current regime, leading to their eventual shut down.
- GST will apply to all industries thus, making it difficult for numerous of small scale industries who under the previous tax regime was exempt from excise tax if their turnover did not exceed 1.5 crore. Thousands & lakhs of industries in India are surviving only for one reason that they are not required to pay excise if their turnover does not exceed 1.5 crore. This had made their products cost efficient and saleable in the market. In GST regime they will not be getting this benefit and will result in increasing the cost of their products and thereby they will be left to slow death. (M Gokulakrishnan(Indian Furniture Products Limited))

#### **Conclusion:-**

The real test of GST lies in the way it is implemented. There is enough evidence collated by global economic research bodies which suggests that countries which implemented a somewhat flawed GST ended with little or no benefit in terms of higher economic growth and lower inflation. In fact the inflation rate went up in the medium term as a lot of new services and goods, hitherto untaxed, began to be taxed, thus hurting the consumers.

If a standard GST rate of 18% is imposed on all manner of services such as education, health, construction contracts, restaurants and a host of online services to consumers, the cost of living would go up as services form a strong component of the Consumer Price Index. Besides, India is a hub for smaller business to business online software service providers. They will all come under the new GST tax regime, increasing the cost of business in the service sector.

However, GST will also lower the costs in the manufacturing sector where existing taxes are already very high. GST will bring more transparency into the system and enhance competitiveness as well as efficiency of the manufacturing sector and its overall governance. Implementation of GST would create a level playing field for domestic manufacturers and help them to compete better with their global counterparts. GST would aid manufacturers in accessing seamless credit across the entire supply chain.

Thus, from the above discussion we can say there shall be gainers and losers both in the GST regime. But only a well-designed GST is the best way to get rid of distortions of the existing process of multiple taxation. Therefore, all taxes on goods and services levied by Central and state governments should be included under GST.

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