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RESEARCH ARTICLE

GOODS AND SERVICES TAX: THE NEW ECONOMIC REFORM, CHALLENGES AND OPPORTUNITIES IN IMPLICATION AND THE WAY AHEAD.

Dr. Arvind Kumar Singh[1] and Karan Veer Singh[2].

1. Assistant Professor Amity University Lucknow Campus, Lucknow.
2. Research Scholar Dr. APJ Abdul Kalam Technical University, Lucknow & Assistant Prof. Rameshwaram Institute of Technology and Management, Lucknow.

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Abstract

India is a federal country where Indirect Tax is levied by Federal and State Government. Value AddedTax is levied by State Governments Starting with understanding tax. Tax is a compulsory contribution to state revenue, levied by the government on workers' income and business profits, or added to the cost of some goods, services, and transactions. There are 2 taxation system in India i.e. directand indirect tax. Amidst economic crisis across the globe, India has posed as a beacon of hope with ambitious growth targets, supported by slew of strategic missions like ‘Make in India’, ‘Digital India’, etc. now the time has come from 1, July 2017 Goods and Services Tax (GST) is going to apply in throughout the nation. GST is expected to provide the much needed stimulant for economic growth in India by transforming the existing basis of indirect taxation towards free flow of goods and services within the economy and also eliminating the cascading effect of tax on tax. GST is a reform in theindirect tax system. Indirect taxes are levied onmanufacturing of goods provision of serviceand consumption. The indirect tax is domain of Central Government. There willbe a standard rate of GST across various goodsand services, which could broadly be in linewith international rates. World over, GST hasbeen implemented in over 150 countries.Goods and Service tax bill is officially knownas the constitution (one hundred and twentysecond amendment) bill, 2014. The GSTimplementation in India is Dual in nature, i.e.it would consist of two components: onelevied by Centre (CGST) and another leviedby States and Union Territories (SGST). GSTwas first introduced by France in 1954. Mostof the countries followed unified GST whilesome countries like Brazil, Canada follow adual GST system. The present research paper is an attempt to study the concept of Goods and Service tax over the current taxation system in India also we find recent changes and tax slabs under it and we also came to know that what pros and cons are available with this tax system and their impact on Indian economy.

Corresponding Author:- Arvind Kumar Singh.
Address:- Assistant Professor Amity University Lucknow Campus, Lucknow.

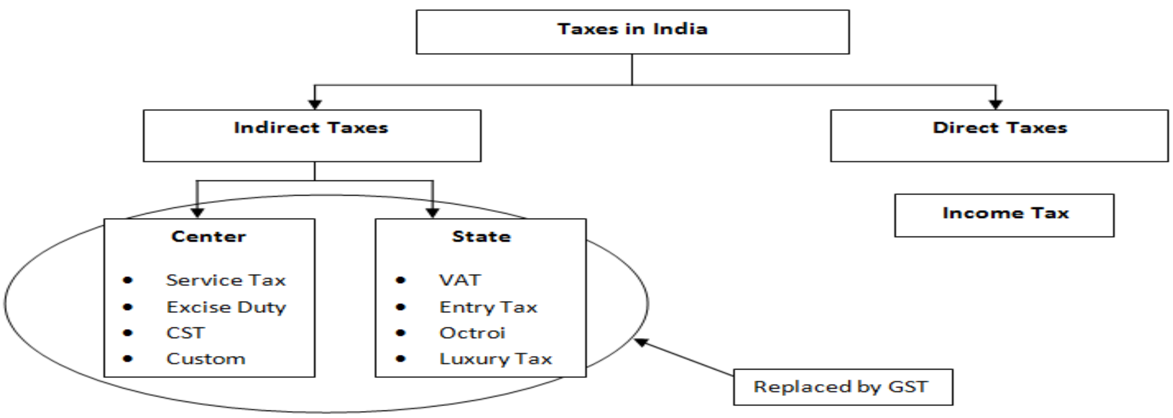
Objectives:-

1. To study the impact of Goods and Services tax on Indian economy
2. To study the Challenges and opportunities available by GST for Indian economy
3. To study the various tax slabs and list of products which comes under GST

Introduction:-

India is notorious for its complex tax system. For new businesses and start-ups, it becomes impossible to navigate through various direct and indirect taxes. Constant changes to taxes like Service Tax are making things even worst. But now, the things are set to change with new Goods and service tax – commonly known as GST. Lets understand what is GST, how it is different from other taxes, GST applicability, GST rates, its impact on your business and latest updates about GST bill. To make things easy to understand, I will start with an example:

Mr. Saxena is a businessman who wants to start a business. For this he needs various raw materials which have to be imported from China and will need to be brought to Gurgaon where he has his factory – by road through various states. Once he gets down on the process of estimating his costs he is in little trouble.First, he needs to pay a customs duty for importing the materials on top of the shipping charges. This is fine but there are a lot of other taxes which he seems to be unable to comprehend. Also he finds out that when he has his final product ready he will have paid the Central and State Governments at least 10 different taxes not all of which are exclusive of each other. On diving deeper he finds many cases where a tax is also taxed by the government.Let's understand how GST will work like a single taxation system.



Petrol prices are the perfect example. The price charged to dealers by the Oil Marketing Companies is Rs. 25.46 currently for a litre of petrol. Now Excise Duty is collected at Rs. 21.48 per litre by the Central Government and adding the dealer commission the price now is Rs. 49.22. This is not the end and Value Added Tax is now charged at 27% which takes the final price to Rs. 62.51 in Delhi. At first it may seem fair that both the Governments tax the product but it is not that innocuous. There is a tax on a tax here! The State Government charges 27% of the final amount in which Central Excise Duty has already been borne by the businessman.

The Goods and Services Tax promises to alleviate this problem among many others. It is being hailed as the game changer for India's economy and is being labelled as the biggest change in the Constitution since India's independence. The Goods and Services tax or commonly referred to as the GST will replace the indirect taxes levied by the Central and State Governments and provide for a single and streamlined process. It presents India as a unified market to business owners and also aims at bringing a lot of black money back into the mainstream economy. The tax will be implemented at every step of value creation.

Example of GST Calculation:-

Let us assume that the GST is set at 20%. Suppose that the manufacturing cost of a Product A is 100 and assuming a GST of 20% the total amount is Rs. 120. The next step of taxation would be when the Product is sold to consumers, let's say at a price of 150. So the GST will charge another 20% on just the difference of Rs. 150 and Rs. 120 i.e. only 20% on Rs. 30 which is equal to Rs. 6. So the final price is Rs. 150 + Rs. 6. Unlike the case of petrol pricing there is no tax on a tax now. This eliminates the cascading effect of taxes which is very prevalent in our economy and has been simplified to an elemental level in the example.Since the GST will be applied at every step of value creation it will be very difficult for black money owners to participate anywhere in the value chain with the GST without accounting for all other transactions. The GST is estimated to provide an immediate boost of 0.9% – 1.4% of the GDP.

Review of Literature:-

Pinki et al. (2014) 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. Kumar (2014) studied, "Goods and Service Tax - A way forward" and concluded that after implementation of GST in India many indirect tax system will be finished and there will be only one tax i.e. GST which is expected to encourage unbiased tax structure. Sehrawat and Dhanda (2015) studied, "GST in India: A Key Tax Reform" and concluded that due to dissilent environment of India economy, it is demand of time to implement GST. Sehrawat. M (2015) studied GST in India – A key tax reform concluded that GST will give India a world class tax system by grabbing different treatment to manufacturing and service sector. Anushuya and Narwal (2014) studied, "Application of CGE Modals In GST" and concluded that both GST & CGE are very popular all over the world but GST is a powerful concept in the field of indirect taxes. Chaurasia et al. (2016) Studied, "Role of Goods and Services Tax in the growth of Indian economy" and concluded that in overall GST will be helpful for the development of Indian economy and this will also help in improving the Gross Domestic Products of the country more than two percent.Khurana, Sharma et al. (2016) studied, "GST- A positive reform for Indirect taxation system" concluded that the GST will provide relief to producers and consumers by providing wide and comprehensive coverage of input tax credit set-off, service tax set off and subsuming the several taxes. Prajapati Hitesh (2016) studied Challenges and Implementation of GST in India talked about the challenges in implementation of GST like IT sector is not boomed, threshold limit of turnover for dealers under GST is another bone of contention between the government and the Empowered Committee etc. Shakir, Shaik, Sameera, Firoz et al. in (2016) studied Goods and Services Tax (GST) Leads to Indian Economic Development Stated in conclusion that GST in the Indian framework will lead to commercial benefits which were untouched by the VAT system and would essentially lead to economic development. Hence GST may usher in the possibility of a collective gain for industry, trade, agriculture and common consumers as well as for the Central Government and the State Government.

Research methodology:-

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

Gst impact on indian economy:-

Reduce tax burden on producers and foster growth through more production. This double taxation prevents manufacturers from producing to their optimum capacity and retards growth. GST would take care of this problem by providing tax credit to the manufacturer. Various tax barriers such as check posts and toll plazas lead to a lot of wastage for perishable items being transported, a loss that translated into major costs through higher need of buffer stocks and warehousing costs as well. A single taxation system could eliminate this roadblock for them. A single taxation on producers would also translate into a lower final selling price for the consumer. Also, there will be more transparency in the system as the customers would know exactly how much taxes they are being charged and on what base. GST would add to government revenues by widening the tax base. GST provides credits for the taxes paid by producers earlier in the goods/services chain. This would encourage these producers to buy raw material from different registered dealers and would bring in more and more vendors and suppliers under the purview of taxation. GST also removes the custom duties applicable on exports. Our competitiveness in foreign markets would increase on account of lower cost of transaction. The proposed GST regime, which will subsume most central and state-level taxes, is expected to have a single unified list of concessions/exemptions as against the current mammoth exemptions and concessions available across goods and services.

The introduction of Goods and Services Tax would be a very noteworthy step in the field of indirect tax reforms in India. By amalgamating a large number of Central and State taxes into a single tax, it would alleviate cascading or double taxation in a major way and pave the way for a common national market. From the consumer point of view, the biggest advantage would be in terms of reduction in the overall tax burden on goods and services. Introduction of GST would also make Indian products competitive in the domestic and international markets. Last but not the least, this tax, because of its transparent character, would be easier to administer. However, once implemented, the system holds great promise in terms of sustaining growth for the Indian economy. In view of the important role that India is expected to play in the world economy in the years to come, the expectation of GST being introduced is high not only within the country, but also in neighbouring countries and in developed economies of the world.

(a) Increased FDI:-
The flow of Foreign Direct Investments may increase once GST is implemented as the present complicated/ multiple tax laws are one of the reasons foreign Companies are wary of coming to India in addition to widespread corruption.

(b) Growth in overall revenue:-
It is estimated that India could get revenue of $15 billion per annum by implementing the Goods and Services Tax as it would promote exports, raise employment and boost growth. Over a period, the dilution of the principles may see that only part of this is accruing.

(c) Single point taxation:-
The biggest benefit of GST is an elimination of multiple indirect taxes. All taxes that currently exist will not be in picture. This means current taxes like excise, octroi, sales tax, CENVAT, Service tax, turnover tax etc will not be applicable and all that will fall under common tax called as GST. Uniformity in tax laws will lead to single point taxation for supply of goods or services all over India. This increases the tax compliance and more assesses will come into tax net.

(d) More Competitive Product:-
As GST will address cascading effect of tax, inter-state tax, high logistics cost it will make manufacturing more competitive. This will bring advantage to businessman and consumer.

(e) Increase in exports and employment:-
GST could also result in increased employment, promotion of exports and consequently a significant boost to overall economic growth and factors of production -land labour and capital.

(f) Saving more Money:-
For a common man, GST applicability means the elimination of double charging in the system. This will reduce the price of goods and services & help common man for saving more money. It is expected that price of FMCG products, small cars, cinema tickets, electrical wires etc is expected to reduce.

(g) Ease of business:-
GST will bring one country one tax concept. This will prevent unhealthy competition among states. It will be beneficial to do interstate business.

(h) More Employment:-
As GST will reduce cost of product it is expected that demand of product will increase and to meet the demand, supply has to go up. The requirement of more supply will be addressed by only increasing employment.

(i) Increase in GDP:-
As demand will grow naturally production will grow and hence it will increase gross domestic product. It is estimated that GDP will grow by 1-2% due to GST.

Impact on the general public:-
According to this Bill, services will not be taxed over 18% and 5% tax will be levied on mass consumption products such as packaged salts and spices although food grains and other agricultural products are not going to be taxed. For most other products and services, the nearest tax slab will be applicable. Items generally used by the common man such as toothpaste, oil, soap and others will be taxed between 12% to 18% as opposed to the current rate which is over 20%. Other products such as washing machines, refrigerators, air conditioners will be taxed at 28% as against the current rate of 30%-31%, thus making them cheaper. Luxury products such as luxury cars, aerated drinks and tobacco products would also attract a tax slab of 28%. GST Bill would not be very helpful for individuals working in offices who receive subsidized products, services or eatables as more will have to be paid due to these items being

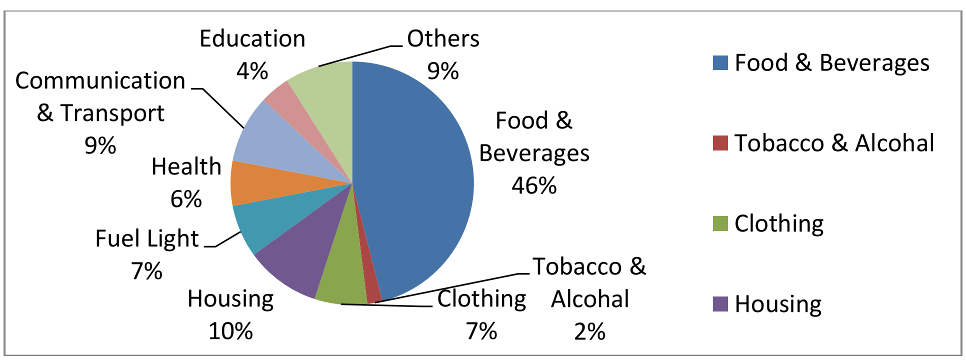
placed under the tax net. This also includes membership at fitness clubs, taxi services or even health insurance. Small firms would also be hit as if a supplier of the company is not registered, then the purchaser will have bear the brunt of the GST on such a sale. The government also plans to set up an authority in order to see if there is any reduction in the rate of tax to the consumer by companies after GST has been passed.

Implication of gst & various tax slabs:-
However, unlike how most would have expected, the current four bills that have been passed do not put forth a single uniform rate across all categories. Instead a multi-tier tax slab has been put forth with four different tax rates i.e., 5%, 12%, 18% and 28%. The reasoning behind this is that luxury goods cannot be taxed at the same rate as daily necessities. Additionally, there would also be goods that are tax-exempted and zero-rated which implies that there are six categories of products and services under the bill. An additional cess on demerit goods such as aerated drinks, luxury cars and tobacco products would be levied. Table below reveals that the percentage of taxes before and after implementation of GST, like on package products we pay 4-5% taxes but after the implementation of GST it would be total 18%, which shows that all package products would turn costly which will affect common man. After package products we see that on readymade garments we also pay 4-5% of taxes but after GST it will be 18% so our readymade garments would also be costly like this jewellery, mobile, credit cards etc. would also turn costly but cars, home appliance etc. would be cheaper.

Table1:- Tax before and after implication of GST.

GOODS	BEFORE	AFTER
Package Products	4-5%	18%
Readymade Garments	4-5%	18%
Jewellery	3%	18%
Mobile and credit cards	15%	18%
Cars	30-44%	18%
Home appliance	12.5% & 14.5%(Excise and VAT)	18%

The CGST Bill will allow the centre to impose and collect tax on intrastate supply for products and services. Compensation to states due to loss of revenue that may be incurred as a result of GST implementation will be taken care of by the Compensation GST Bill while the Union Territory Goods and Services Tax will allow imposition and collection of tax on supply of products and services that are intrastate by Union Territories. Consumer Price Index (CPI) measures change in price level of a market basket of consumer goods and services purchased by households like Food Beverage, Tobacco, Alcohol, Clothing, Housing, Fuel light etc. The CPI is a statistical estimate constructed using the prices of a sample of representative items whose prices are collected periodically. In this figure we can see sector wise weight age under the current CPI.



Impact of CPI on CPI Basket (Source: Edel Invest Research):-
Table below reveals the impact of GST after implementation, it can be understood clearly from the table which shows the rate of goods increasing and decreasing after implementation of GST this table also shows some goods on which there is no implementation of GST. The first row shows the goods whose rate will decrease after GST and second row shows increase in rates of goods after GST.

Table 2:- Source: www.gstindia.com.

Decrease	No GST	Increase
Television	White & Whole meal	Mobile Phone
Refrigerator	Cooking oil	Computer
Air-Conditioner	Beef, Mutton, Lamb, Chicken, Pork	I-pod & Tablet
Spark plug, Brake pad, Car Battery	Local Fruits	Photocopy Machine
Home theatre system	Diesel	Digital Photo printing
Hair Dryer	Petrol Unleaded	Transportation of Goods
Electric Fan & Toaster	Rice	Drinking Water
Gas Cook set- Double Burner	Fresh Vegetable	Magazines
Electronic Iron	Fresh Fish	Fish Balls
Cotton Bath Towel	Powdered Milk	Canned Sardine & Tuna
Colour Pencil	Chicken & Duck Eggs	Lipstick
Toothbrush, Toothpaste	Public Transport	Nail Colour
Antiseptic Liquid, Creams	Motor Oil	Motorcycle 110 CC
Dinning Set	Engine Oil	Watches
Diapers	Private Clinic X-Ray	Ice Cream
Car 850 CC	Toll	Cheese
Cloths (readymade and raw)	Chilli	Oats and Cereals
Plastic Mat	Alcohol	Chilli Sauce, Oyster Sauce etc.
Imported Fruits	Tobacco	-----
Soft Drink	----	-----

Challenges:-

Legislative challenge:-

The federal character of the constitution of India is essentiallyautonomy of the states to raise their own revenue andconstitution provided the power to the union and stategovernment to collect tax and levy tax as per the concurrent,union and states list. It is really restricting the governmentfrom bringing any change in this structure.

Benefit to the Indian economy:-

The socio-economic conditions of the States in India are muchdifferent than the countries of the European Union. Hence, it isargued that before implementing GST there should be a clearconsensus whether there would be a net benefit for the Indianeconomy and/or whether Indian economy is ready to absorbthe benefits of the GST regime.

Consensus:-

GST reflects that socio-economic conditions of countriesdiffer; hence, a GST framework successful in any particular country may not necessarily be successful in other countries. Though GST has a number of administrative, compliance and other benefits, to what extent such a tax regime would be suitable in the socio-economic context of the Indian economy, is a matter of debate. From country experiences, it can be observed that GST is particularly suitable for countries with homogeneous commercial and demographic features.

Effective credit mechanism:-

The success of GST model will depend on effective creditmechanism to avoid cascading effect of multi-stage taxation insupply chain. The challenge for the government to introduce aseamless mechanism of credit across India.

Nature of taxes:-

The taxes that are generally included in GST would be exciseduty, countervailing duty, cess, service tax, and state levelVATs among others. But, there are numerous other states andunion taxes that would be still out of GST.

Management and Infrastructure:-

Success of any tax reform policy or managerial measuresdepends on the inherent simplifications of the system, whichleads to the high conformity with the administrative measuresand policies. Simple system of the tax makes it more powerful.

Challenge like bullock cart stuck in the mud:-
GST involves not only considerable work but also formidablechallenges. Unlike in many other countries where GST is acentralised tax in India it is liveable by both central and stategovernments. This implies that both the structure andadministration of the levy will have to emerge after detailednegotiations and bargaining between the centre, 29 states andthe two Union Territories with legislature.

More negotiation is necessary: There are a number of issues on which negotiations arenecessary to reach a consensus between the centre and thestates and among the states themselves. The first issue relatesto the inclusion of taxes within the ambit of GST. The bone ofcontention relates to inclusion of purchase taxes on foodgrains,taxes on motor spirit and high speed diesel (GSD), and octroior entry tax in lieu thereof.

Opportunities:-

To broaden the tax base:-
The important gains from the GST reform are that it isexpected to broaden the tax base, reduce distortions in theeconomy through a more comprehensive input tax credit,enhance export competitiveness by comprehensively relievingdomestic consumption taxes on exports, ensure greaterregional equity by getting rid of inter-state sales tax and havinga destination-based tax, and help create a seamless nationalmarket by removing inter-state trade barriers.

Reducing cost for taxpayers:-
Reform will significantly reduce the compliance cost fortaxpayers by simplifying and harmonizing the tax structure andby making the administration uniform across states.

To end cascading effects:-
It will be the major contribution of GST for thebusiness.Currently, there aredifferent state level and centre levelindirect taxlevies that are compulsory one after another on thesupply chain till the time of its utilization.

To develop harmonization:-
Constitutional provision does not allow both the Central andState Governments to tax both goods and services in aninclusive manner. The government has therefore recognizedthe need for harmonization of goods and services tax so thatboth can be levied in a comprehensive and rational manner in anew taxation regime – namely, Goods and Services Tax(GST).

Terminate multiple chain of taxation:-
The main benefit of Goods and Services tax is to eliminatemultiple chain of the taxation. The terminate in the number oftaxation applicable in a chain of transaction will help to cleanup the current mess that is brought by existing indirect taxlaws.

Conclusion:-

Moving to GST regime will bebeneficial for the economy on multiple counts.GST is not simply VAT plus service tax, but amajor improvement over the previous systemof VAT and disjointed services tax – a justifiedstep forward. A single rate would helpmaintain simplicity and transparency bytreating all goods and services as equal withoutgiving special treatment to some ‘special’goods and/or services. Due to number of states and challenges lay ahead. it would takeconsiderable time to finalize the structure and operationalaspects of the tax. GST will face many challenges after its implementation and will result to give many benefits. In overall through this study we conclude that GST play a dynamic role in the growth and development of our country.In view of this, the most optimistic scenariois that it would not be before 2016 that the tax would beimplemented, even if the process of amending the Constitutionis completed.Every country has to adopt the structure it canadminister. It is neither a gorilla, nor a chimpanzee, but agenus-like primate (Rao et al. 2011).The GST System is basically structured to simplify current Indirect Tax system in India. 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. Many Indirect Taxes like Sales Tax, VAT etc., will be finished because there will be one tax system i.e. GST, that will reduce compliance present burden.In India,Implementation of GST would also greatlyhelp in removing economic distortions causedby present complex tax structure and will helpin development of a common national market.

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