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RESEARCH ARTICLE

GOODS AND SERVICES TAX IN INDIA - A POSITIVE REFORM FOR INDIRECT TAX SYSTEM

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Abstract

The Good and services tax (GST) is the biggest and substantial indirect tax reform since 1947. The main idea of GST is to replace existing taxes like value-added tax, excise duty, service tax and sales tax. It will be levied on manufacture sale and consumption of goods and services. GST is expected to address the cascading effect of the existing tax structure and result in uniting the country economically. The paper highlights the background, objectives of the proposed GST and the impact of GST in the present tax scenario in India. The paper further explores various benefits and opportunities of GST. Finally, the paper examines and draws out a conclusion.

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Introduction:-

The word 'tax' is derived from Latin word 'taxare' which means to estimate. A tax is an enforced contribution, exacted pursuant to legislative authority. Indian Taxation System comprise of- Direct and Indirect Tax. Goods and Services Tax (GST) is one of the most discussed Indirect Taxation reforms. It is a comprehensive tax regime levied on manufacture, sales and consumption of goods and services. It is expected to bring about 2% incremental GDP growth of the country. So, GST is the need of the hour.

Section 1 of the article introduces the GST, its objectives and Present Indirect Tax structure as well as its major reforms. Section 2 of the article examines the impact of GST on the economy and studies the effect of GST on certain sectors. Section 3 of the article discusses various benefits and opportunities of GST. Section 4 laid down the key suggestions and conclusion of the article.

Introduction of Goods and Service Tax:-

Section 1, India is one of the 123 countries across the world that is following the VAT mode. White Paper with basic design for VAT was released on January 17, 2005 by the Finance Minister P.Chidambaram. VAT was introduced both at centre and state level. It was implemented in Haryana in 2003 and later on 1st April 2005 it was introduced in remaining states as an Indirect Tax in the Indian taxation system. VAT replaced central excise duty at the national level and the sales tax system at the state level. Thus, it improved the indirect taxation system of the country.

Goods and Service tax bill officially known as the constitution (one hundred and twenty second amendment) bill, 2014 proposes a national value added tax to be implemented in India from June 2016. The GST implementation in India is 'Dual' in nature, i.e. it would consist of two components: one levied by Centre (CGST) and another levied by States and Union Territories (SGST). However, base of tax levy would be identical.

Initially the idea was that there would be a national level Goods and Services tax. But as the release of first discussion by the empowered committee of the state Finance Ministers on 10.11.2009, it has been made certain that there would be a "Dual GST" in the country. Centre and state both governments are entitled to charge taxes on the goods and services. Almost 150 countries have introduced GST in some form. While countries such as Singapore

and New Zealand tax virtually everything at a single rate, Indonesia has five positive rates, a zero rate and over 30 categories of exemptions. In China, GST applies only to goods and the provision of repairs, replacement and processing services. GST rates of some countries are given below in **Table 1**:-

Table 1: Rate of GST (Some Countries)

Country	Rate of GST
Australia	10%
France	19.6%
Canada	5%
Germany	19%
Japan	5%
Singapore	7%
Sweden	25%
New Zealand	15%

World over in almost 150 countries there is GST or VAT, which means tax on goods and services. Under the GST scheme, no distinction is made between goods and services for levying of tax. This means that goods and services attract the same rate of tax. GST is a multi-tier tax where ultimate burden of tax fall on the consumer of goods/services. It is called as value added tax because at every stage, tax is being paid on the value addition. Under the GST scheme, a person who was liable to pay tax on output, whether for provision of service or sale of goods, is entitled to get input tax credit (ITC) on the tax paid on its inputs.

Since VAT was beneficial for the taxation system but with certain shortcomings which are expected to be overcome by the Goods and Service Tax. Thus, it would definitely a positive reform for the Indirect tax system in India.

Objectives of Goods and service tax:-

GST is proposed to fulfill the following objectives:

- GST would help to eliminate the cascading effects of production and distribution cost of goods and services. This would help to increase GDP and then to economic condition of the country.
- GST would eliminate the multiplicity of indirect taxation and streamline all the indirect taxes which would be beneficial for manufacture and ultimate consumer.
- GST would be able to cover all the shortcomings of existing VAT system and hopefully serve the economy health.
- Incidence of tax falls on domestic consumption
- The efficiency and equity of system is optimized
- There should be no export of taxes across taxing jurisdiction
- The Indian market should be integrated into single common market
- It enhances the cause of co-operative federalism.

Present Indirect Tax structure in India is very complicated and complex in nature. It consists of cascading effects of tax. These add to cost of goods and services through “tax on tax” which the final consumer have to bear.

There are manifolds in indirect taxation structure. It is bifurcated in five parts as depicted in **Table 2** below:

Table 2: Five Major types of Indirect Taxes in the country

Excise Duty	Service Tax	Sales Tax/VAT/CST	Custom Duty	Party Tax/Entertainment Tax
Entry no.84 List I, Schedule VII	Residuary entry no. 97, List I, Schedule VII	Entry no. 54 of List II (VAT) and 92 A of list I(CST)	Entry no.83, Unit I, Schedule VII	Entry no. 52 & 62 List II, Schedule VII
Taxable event is manufacture.	Taxable event is provision of service.	Taxable event is sales.	Taxable event is import & export.	Taxable event is entertainment and entry of Goods.

The major reforms being undertaken in Indian Taxation System in reference to Indirect Taxation System is presented in **Table 3** below:

Table 3: Reforms in Indirect Taxation System

Year	Reforms
1974	Report of LK Jha Committee suggested VAT should be introduced
1986	Introduction of a restricted VAT called MODVAT
1991	Report by the Chelliah Committee recommended either VAT or GST which was accepted by Government
1994	Introduction of Service Tax @ 5%
1999	Formation of Empowered Committee on State VAT
2000	Implementation of uniform floor rate of tax for VAT at the rate 1%, 4% and 12.5%. and Abolition of tax related incentives granted by States
2003	VAT implemented in Haryana in April 2003
2004	Significant progress towards CENVAT, MODVAT was abolished and credit account was merged with service tax and excise to provide for cross utilization.
2005-06	VAT implemented in 26 more states
2007	<ul style="list-style-type: none"> First GST released By Mr. P. Shome in January Finance Minister announces for GST in budget Speech and CST phase out starts in April 2007. Then, Joint Working Group formed and submitted report
2008	EC finalizes the view on GST structure in April 2008
2009	First discussion paper on GST was released and commission submitted report proposing GST to be implemented from 1.4.2010
2010	Department of Revenue commented on GST discussion paper and Finance Minister suggested probable GST rate.
2011	Team was set up to lay down road map for GST and 115th Constitutional Amendment Bill for GST was laid down in Parliament
2012	Negative list regime for service tax was implemented
2013	Parliamentary Standing Committee submitted its report on the Bill
2014	115th Amendment Bill lapsed and was reintroduced in 122nd Constitutional Amendment Bill

Review of literature:-

- Empowered Committee of Finance Ministers (2009) introduced their First Discussion Paper on Goods and Services Tax in India which analyzed the structure and loopholes if any in GST
- Vasanthagopal (2011) in the article GST in India: A Big Leap in the Indirect Taxation System discussed the impact of GST on various sectors of the economy. The article further stated that GST is a big leap and a new impetus to India's economic change.
- Seventy Third Report of Standing Committee on Finance (2012-2013) The Constitution (One Hundred Fifteenth Amendment) Bill, 2011
- Bird (2012) summarizes in the article The GST/HST: Creating an integrated Sales Tax in a Federal Country the impact of GST will be on Canada.
- Garg (2014) in the article named Basic Concepts and Features of Good and Services Tax in India analyzed the impact and GST on Indian Tax scenario and concluded that it will strengthen out free market economy.
- Kumar (2014) studied in the article Goods and Services Tax in India: A Way Forward background, silent features and concluded with the positive impact of GST on present complex tax structure and development of common national market.
- Indirect Taxes Committee of Institute of Chartered Accountants of India (ICAI) (2015) submitted a PPT naming Goods and Service Tax (GST) which stated in brief details of the GST and its positive impact on economy and various stakeholders
- The Institute of Companies Secretaries of India (ICSI) (2015) published a Referencer on Goods and Service Tax to provide the information on the concept of GST in details.
- Parkhi did an exploratory research in an article Goods and Service Tax in India: the changing face of economy and stated that implementation of GST is a changing face of India and the government is well equipped for that which is a symptom of fast paced economy.

Objective of the study:-

The paper uses an exploratory research technique based on past literature from respective journals, reports, newspapers 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. The objectives of the paper are:

1. To study about Goods and Service Tax and its impact on the economy.
2. To examine benefits and opportunities of Goods and Service tax.

Impact of goods and service tax:-

Section 2, GST has a positive impact on the economy and on various sectors which are as follows:

- **Fast moving consumer goods sector:-**

With the implementation of Goods and Service Tax, FMCG sector would really change. FMCG sector consist 50% Food and Beverage sector and 30% is Household and Personal care. FMCG sector is the major taxation contributor both direct and indirect in the economy. The multiplicity of the taxation influences the company's decision on manufacturing location and distribution of Goods. FMCG companies set their manufacturing units and warehouses where they can avail tax benefits. To transfer the stock from the warehouses among the states they have to pay taxes. So, GST would surely impact on FMCG sector as taxes affect the cost to the company.

- **Food Industry:-**

Since food constitutes a large portion of the consumer expense of lower income households, any tax on food would be regressive in nature. Therefore, extending GST to food processing sector will also cause difficulty in view of the fact that production and distribution of food is largely unorganized in India. On global front, most of the countries tax food at a lower rate keeping in view the considerations of fairness and equity. Even in countries such as Canada, UK and Australia where food constitute a relatively small portion of the consumer basket, food is taxed at zero rates. While in some countries, food is taxed at a standard rate which is as low as 3% in Singapore and Japan at the inception of the GST. Even in international jurisdictions, no distinction is drawn on the degree of processing of food. Hence, the benefit of lower or zero tax rates should also be extended to all food items in India regardless to degree of processing.

- **Information Technology enabled services:-**

The proposed GST rate under the IT industry is not yet decided. While the discussed combined rate of GST for the product is 27%. According to proposed GST if the software is transferred through electronic form it would be regarded as service (intellectual property).and if it is transferred through media or any other tangible property then it should be treated as goods. Implementation of GST will help in uniform simplified and single point taxation and thereby reduced price.

- **Infrastructure sector:-**

The Indian infrastructure sector largely comprises power, road, port, railways and mining. And the indirect tax levy is different and unique for each of them, and this is complex in nature. Although this sector enjoys different exemptions and concessions as it is important on national front. With the implication of GST the multiplicity of taxes will be removed and it would increase the tax base with continuation of exemptions and concessions for national interest and growth.

- **Impact on small enterprises:-**

In the small scale enterprises there are three categories:-

- Those below threshold need not to register for the GST.
- Those between the threshold and composition turnovers will have the option to pay a turnover based tax or opt to join the GST regime.
- Those above threshold limit will need to be within framework of GST.

In respect of the central GST the situation is slightly complex.GST is expected to encourage compliance and which is also expected to widen tax base adding up to 2% to GDP. Manufacturers, traders will have to pay less tax with the implication of GST.

Benefits and opportunities of GST:-

Section 3, The Goods and Services Tax have many benefits and will create various opportunities on various stakeholders like business, industry, government and consumers which are being discussed in **Table 4** below:

Table 4: Benefits on various Stakeholders

- | |
|---|
| <ul style="list-style-type: none"> • For Business and Industry : <ul style="list-style-type: none"> ○ Easy Compliance ○ Removal of Cascading ○ Improved Competitiveness • For Centre and State Governments: <ul style="list-style-type: none"> ○ Simple and easy to administer ○ Better controls on leakage ○ Consolidation of Tax base ○ Higher Revenue Efficiency • For the consumer: <ul style="list-style-type: none"> ○ Single and Transparent tax proportionate to the value of goods and services ○ Reduction of Prices |
|---|

Source: Seventy Third Report Of Standing Committee on Finance (2012-2013), The Constitution (One Hundred Fifteenth Amendment) Bill, 2011, pp. 11 available at <http://www.prsindia.org/uploads/media/Constitution%20115/GST%20SC%20Report.pdf>

The major benefits and opportunities from the Integrated Goods and Service Tax (IGST) as stated by *Institute of Companies Secretaries of India (ICSI)* are given below in **Table 5**:-

Table 5: Benefits from IGST

- | |
|--|
| <ul style="list-style-type: none"> • Maintenance of uninterrupted Input Tax Credit (ITC) chain on inter-State Transactions. • No upfront payment of tax or substantial blockage of funds for the inter-state seller or buyer. • No refund claim in exporting State, as Input Tax Credit (ITC). It is used up while paying the tax. • Self monitoring model • Level of computerization is limited to inter-State dealers. Central and State Government will be able to computerize their process expeditiously. • As all inter-State dealers will be e-registered and correspondence with them will be by e-mail, thus compliance will improve substantially. • Model can take 'Business to Business' as well as 'Business to Consumer' transactions into account. |
|--|

Source: *Referencer on Goods and Services Tax, ICSI*

Apart from the above the other benefits available for the assessee are:

- Reduction in multiplicity of taxes
- More efficient neutralization of taxes especially for exports
- Development of common national market
- Simple tax regime, fewer rates and exemptions as well as conceptual clarity.

Key findings and suggestions:-

Section 4, GST has the following implications:

- GST will widen the tax base, improve tax compliance and will remove unhealthy competition among states. It will redistribute the burden of taxation equitably among manufacturing and services.
- It ensures uniformity of tax system across the states. It will integrate the tax base and allow seamless flow of Input Tax Credit (ITC) resulting in reduced cost of goods and services.

- It will improve disclosure of economic transactions.
- It will mitigate cascading and double taxation thus enables better compliance. It will also lead to transparency in tax system resulting in difficulty of tax evasion.

The suggestions which are being drawn out from the study are as follows:

- Tax payer education or public awareness campaign need to be provisioned by Central Government. Public Workshops, training and various seminars on GST must be conducted in all states by their respective State Governments.
- States must analyze and deduce their revenue neutral rates, revenue implications as well as compensation packages.
- Government should construct a proper monitoring system for monitoring the dummy registrations and refunds problems.

Conclusion:-

It can be concluded from the above discussion that 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. Efficient formulation of GST will lead to resource and revenue gain for both Centre and States majorly through widening of tax base and improvement in tax compliance. It can be further concluded that GST have a positive impact on various sectors and industry. Although implementation of GST requires concentrated efforts of all stake holders namely, Central and State Government, trade and industry. Thus, necessary steps should be taken.

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