

## Gst – a major taxation reform in india

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Tax is an important source of revenue for a Government. A Government can take care of the welfare of its people by using the money collected through taxes. A tax is a mandatory financial charge or some other type of levy imposed upon a tax payer by a Government or the in order to fund various public expenditures.

Taxes consist of direct or indirect taxes. Most countries have a tax system in place to pay for public/common/agreed national needs and government functions: some levy a flat percentage rate of taxation on personal annual income, some on a scale based on annual income amounts, and some countries impose almost no taxation at all, or a very low tax rate for a certain area of taxation.

Tax money helps to ensure the roads you travel on are safe and well-maintained. Taxes fund public libraries and parks. Taxes are also used to fund many types of government programs that help the poor and less fortunate, as well as many schools!

Goods and Services Tax (GST) is an indirect tax which was introduced in India on 1 July 2017 and was applicable throughout India which replaced multiple cascading taxes levied by the central and state governments.

### **KEY / SALIENT FEATURES OF GST**

#### ➤ **One Nation One Tax**

The launch of the Goods and Services Tax (GST), the biggest tax reform since independence, makes our country to become ‘One Nation One Tax’. The one national GST unifies the country's \$2 trillion economy and 1.3 billion people into a common market, which took 17 years. The GST will eliminate the effect of the current multi-layered tax system as well as the cross-state tax heterogeneity by fixing the final tax rate.

According to Government of India, nearly 50% of regularly using items including food items are included in exempted categories which do not attract GST now. The GST council and other GST authorities notifies list of exempted goods time to time. Such goods are not fallen under payment of GST tax.

Essential category of goods and services (common goods and services) are charged lower GST rate of 5%. Essential goods and services (Commonly used) are the goods and services for necessary items and items of basic importance.

A major share of GST tax payers falls under this category of Standard Goods and Services. There are two slabs of GST under standard goods and services. Standard Goods and services fall under one slab attract 12% GST and the items under 2<sup>nd</sup> slab attract 18% GST.

A GST rate of 28% is levied at present against Goods and Services of special category of Goods and Services. The luxury items also fall under this special category of goods and services.

#### ➤ **Dual Gst Tax**

(GST) is a complete value-added tax (VAT) on the supply of goods or services. The first country to introduce such a kind of value added tax system was France in 1954. Most countries have a single unified GST system that means ‘a single tax’ will be applicable all around the country. However, in many countries like Brazil and Canada, there is a dual GST

system where dual GST is charged by both the federal and state or provincial governments in the country. In India, a dual GST is followed i.e., a Central Goods and Services Tax (CGST) and State Goods and Services Tax (SGST) are charged on the tax value of every purchase or supply of goods and services.

➤ **ITC– Input Tax Credit**

Input credit means at the time of paying tax on output, you can reduce the tax you have already paid on inputs and pay the balance amount.

When you buy a product/service from a registered dealer you pay taxes on the purchase. On selling, you collect tax. You adjust the taxes paid at the time of purchase with the amount of output tax (tax on sales) and balance liability of tax (tax on sales *minus* tax on purchase) has to be paid to the government. This mechanism is called input tax credit.

**ADVANTAGES OF GST**

➤ **GST Helps Indian Economy In Long Run.**

The Goods and Services Tax (GST) is expected to provide the much needed stimulant for economic growth in India by transforming the existing base of indirect taxation towards the free flow of goods and services. GST is also expected to eliminate the cascading effect of taxes. India is projected to play an important role in the world economy in the years to come.

➤ **Simplified Taxation System**

Due to the elimination of cascading of taxes, the potential benefits of GST to Indian economy are many and would lead to a number of goods being available at a much cheaper rate.

➤ **Digitalised GST process**

GST has a much wider impact on the way business enterprises will conduct business in India. It is change from physical to digital. As enterprises take steps to comply with the GST regime, they must use new agile models of sourcing and delivery through a better supply chain.

➤ **No Chance For Tax Evasion**

Until now there is no official indirect taxation recording and tracking system in India. With GST –Network, commonly known as GSTN, all merchants have to register for GST and they can prepare, file taxes, rectify returns and pay indirect tax liabilities on this platform.

➤ **Uniformed Rates Across States**

Being a single tax on the supply of goods and service, the new system would lead to substantial benefits. All the products and services will be provided at same price in all the states, as the rate of tax will be same in all over India. This is the main advantages of GST in India.

➤ **Boon for SMEs**

At present, the ability of SMEs to reach out to potential customers across India is limited, due to the Central Sales Tax (CST) on sales between states. This, in turn, increases the purchase cost of such products for the customers. SMEs will be able to get rid of this problem with the introduction of GST.

➤ **Benefits To Common Man**

On the face of it, GST seems to be a mixed bag with some of the necessities becoming cheaper, while the others might get more expensive. While in the longer run the Goods and Service Tax might have a favourable effect on most of the sectors of our Indian economy.

Generating greater revenue to the Ex-chequer

The Goods and Services Tax (GST) will increase the government's revenue in the long term, than in the short term, as tax compliance increases and GDP growth is

strengthened.

#### *DISADVANTAGES OF GST*

##### ➤ **Multiple State Registrations**

The business units who registered themselves under the GST will have to set aside additional resources for the capital liquidity and for the compliances. Tax liability will be added compliance to the business unit as the voluntary registration is also deemed as a normal registration with tax liability. The threshold limit of 20 lakh is aggregate including every state of operation.

##### ➤ **Professional Assistance Is Needed**

New startups or small businesses that lack knowledge of GST may require professionals for managing their taxes. Small businesses, taxpayers do not have much knowledge about online registration and filing returns. They will have to depend on professional assistance as the government has digitized the taxation system. To initiate a payment, filing returns, submissions etc.

##### ➤ **Some Important Items To Get Costly**

The following things/items are expected to become costlier under GST for the common man:

- Mobile bills
- Renewal premium for life insurance policies
- Banking and investment management services
- Basic luxuries for a common man like WIFI and DTH services, online booking of tickets may become costlier.
- Residential rent
- Health care

##### ➤ **Unstable Economy**

Some Economist says that GST in India would impact negatively on the real estate market. It would add up to 8 percent to the cost of new homes and reduce demand by about 12 percent. Some Experts says that CGST (Central GST), SGST(State GST) are nothing but new names for Central Excise/Service Tax, VAT and CST. Hence, there is no major reduction in the number of tax layers.

#### **CONCLUSION**

In this paper, an attempt has been made to give an over view of the Goods & Services Tax in India with its salient features, merits & demerits. Every new attempt includes lot of challenges and difficulties. GST is also not free from this phenomenon. Though, there are some demerits in GST, the fundamental purpose is to create a common Tax system throughout the country. It also tries to avoid tax evasion. The tax collections through GST will definitely helps to improve the infrastructural and other social needs of the people of India. Let us hope for a developed India through this major taxation reform in our country.

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