

# An exploratory study on evolution & implementation of gst in india

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## ABSTRACT

This paper is a brief description of the historical scenario of Indian taxation and its tax structure. Then why there is a need for the change in tax structure from traditional system to GST model. Goods and service tax is a new story of VAT which gives a widespread setoff for input tax credit and subsuming many indirect taxes from state and national level. Evolution of GST has been detailed in this paper as the background, silent features, Problems, efforts of government etc. The implementation of a comprehensive GST in India is expected to lead to efficient allocation of factors of production thus leading to gains in GDP and exports. Though a number of initiatives by the various machineries at the Centre, the present taxation regime is marked as cumbersome, complicated and unfriendly. It is in this perspective, the Central government has entrusted Dr.Vijay Kelkar, Chairman of 13th Finance Commission to suggest a rational, scientific and modern but unified system of taxation in tune with developed nations form the base behind the introduction of Goods and Service Tax (GST) in India.

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## INTRODUCTION

Goods and Services Tax (GST) will indeed be an important perfection and the next logical step towards a widespread indirect tax reforms in India. As per, First Discussion Paper released by the Empowered Committee of the State Finance Ministers on 10.11.2009, it has been made clear that there would be a —Dual GST in India, i.e. taxation power lies with both by the Centre and the State to levy the taxes on the Goods and Services. The scheme was supposed to be implemented in India from 1st April 2016, According to the Taskforce, an all India GST would be in the nature of a revolution in India's indirect Tax structure since independence because GST would merge all Indirect Taxes imposed by the centre and states ,so there is one country ,one single Indirect Tax. As such GST would substantially bring down cascading burden of various Indirect Taxes Imposed by centre and state together which falls on a final consumer. Most importantly, GST would be a destination based Tax imposed on final consumption wherever a commodity is sold or a service is rendered. It has been proposed that GST revenues shall be shared between the centre and states as all other Indirect Taxes would be subsumed in GST.

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## **What is GST?**

= ‘G’ – Goods ‘S’ – Services ‘T’ – Tax

—Goods and Service Tax (GST) is a comprehensive tax levy on manufacture, sale and consumption of goods and service at a national level under which no distinction is made between goods and services for levying of tax. It will mostly substitute all indirect taxes levied on goods and services by the Central and State governments in India. GST is a tax on goods and services under which every person is liable to pay tax on his output and is entitled to get input tax credit (ITC) on the tax paid on its inputs (therefore a tax on value addition only) and ultimately the final consumer shall bear the tax.

## **OBJECTIVES OF GST:**

One of the main objective of Goods & Service Tax (GST) would be to eliminate the doubly taxation i.e. cascading effects of taxes on production and distribution cost of goods and services. The exclusion of cascading effects i.e. tax on tax till the level of final consumers will significantly improve the competitiveness of original goods and services in market which leads to beneficial impact to the GDP growth of the country. Introduction of a GST to replace the existing multiple tax structures of Centre and State taxes is not only desirable but imperative. Integration of various taxes into a GST system would make it possible to give full credit for inputs taxes collected. GST, being a destination-based consumption tax based on VAT principle.

## **LITERATURE REVIEW**

This section covers the review of literature of some of the important studies, research papers and articles on the various aspects of GST System.

Garg (2014) focused on the impact of GST (Goods and Services tax) with a brief description of the historical scenario of Indian taxation and its tax structure and discussed the possible challenges, threats and opportunities that GST brings to strengthen our free market economy. Shah (2014) highlighted the objectives of proposed GST and discussed the possible challenges, threats and opportunities that GST bring before is to strengthen our force marked economy. Almost all countries that have established the Goods and Services Tax (GST) system adopt the consumption type GST in which all purchases of capital goods from other firms are deductible from a firm's sale (Shoup, 1990)

Jaiprakash (2014) in his research study mentioned that the GST at the Central and the State level are expected to give more relief to industry, trade, agriculture and consumers through a more comprehensive and wider coverage of input tax set-off and service tax setoff, subsuming of several taxes in the GST and phasing out of CST. Responses of industry and also of trade have been indeed encouraging. Thus GST offers us the best option to broaden our tax base and we should not miss this opportunities to introduce it when the circumstances are quite favorable and economy is enjoying steady growth with only mild inflation.

Saravanan Venkadasalam (2014) has analyses the post effect of the goods and service tax (GST) on the national growth on ASEAN States using Least Squares Dummy Variable Model (LSDVM) in his research paper. He stated that seven of the ten ASEAN nations are already implementing the GST. He also suggested that the household final consumption expenditure and general government consumption expenditure are positively significantly related to the gross domestic product as required and support the economic theories. But the effect of the post GST differs in countries. Philippines and Thailand show significant negative relationship with their nation's development. Meanwhile, Singapore shows a significant positive relationship. It is undeniable that those countries whom implementing

GST always encounter grows. Nevertheless, the extent of the impact varies depending on the governance, compliance cost and economic distortion. A positive impact of GST depends on a neutral and rational design of the GST such a way it is simple, transparent and significantly enhances involuntary compliance. It must be actual, not presumptive, prices and compliance control would be exercised through an auditing system.

The earlier studies covered the concept & objectives of GST But it is very important to study the evolution and Implementation of GST in India.

### **TAX STRUCTURE IN INDIA**

Taxes in India are levied by the Central Government and the State Governments. Some minor taxes are also levied by the local authorities such as Municipality or Local Council.

I. Subsumed Indirect Taxes in GST A: The proposed Taxes of the Centre to be subsumed in GST are

1. CENVAT
2. Service Tax
3. All central surcharges & cess
4. Custom duty 5. Excise duty

II. The proposed Taxes of the States to be subsumed in GST are

1. VAT
2. Entertainment tax,
3. Entry tax
4. Luxury tax
5. Taxes on Betting, Gambling and Lottery
6. All State surcharges and cess

Since both CENVAT and VAT as well as service tax will lose their independent identity, GST shall be in the nature of a dual tax imposed by the centre and state depending upon the jurisdiction but revenues shared in an agreed proportion so that centre's share goes into central goods and service tax account (CGST A/c) and state share goes into state goods and service tax account (SGST A/c). The tax rates would be at 4 slabs of 5%, 12%, 18% and 28%.Luxury and demerit goods will be taxed at 28% plus cess. As GST would be on final Consumption, there shall be not tax at the manufacturing stage which itself would reduce the cascading burden of indirect taxes on final consumers.

### **BENEFITS OF GST**

- Reduces transaction costs and unnecessary wastages: A single registration and a single compliance will suffice for both SGST and CGST provided government produces effective IT infrastructure and integration of states level with the union.
- Eliminates the multiplicity of taxation: The reduction in the number of taxation applicable in a chain of transaction will help to reduce the paper work and clean up the current mess that is brought by existing indirect taxation laws.
- One Point Single Tax: They would be focus on business rather than worrying about their taxation that may crop at later stages. This will help the business community to decide their supply chain, pricing modalities and in the long run helps the consumers being goods competitive as price will no longer be the function of tax components but function of sheer business intelligence and innovation.
- Reduces average tax burdens:- The cost of tax that consumers have to bear will be certain and it is expected that GST would reduce the average tax burdens on the consumers.
- Reduces the corruption:-As the no. of taxes reduces so does the no of visits to multiple

departments reduces and hence the reduction in corruption.

In all cases except a few products and states, there would be uniformity of tax rates across the states.

## IMPLEMENTATION

- Real Estate Industry: Construction and Housing sector need to be included in the GST tax base being high tax revenue generating sector and for reduction in no. of tax legislations involved.
- FMCG Sector:.. Implementation of proposed GST and opening of Foreign Direct Investment (F.D.I.) are expected to fuel the growth and raise industry's size.
- Rail Sector: There have been suggestions for including the rail sector under the GST umbrella to bring about significant tax gains and widen the tax net so as to keep overall GST rate low. This will have the added benefit of ensuring that all inter–state transportation of goods can be tracked through the proposed Information technology (IT) network.
- Information Technology enabled services: At present, if the software is transferred through electronic form, it should be considered as Intellectual Property and regarded as a service and if the software is transmitted on media or any other tangible property, then it should be treated as goods and this classification is full of litigation. As GST will have uniform rate for Goods and Services and no concept of state revenue being VAT or central revenue being service tax and hence, the reduction in litigation.
- Transport Sector: Truck drivers spend more than half of their time while negotiating check post and tolls. At present there are more than 600 check points and more than ton types of taxes in road sector.

After the introduction of GST, the time spend by the road transport industry in complaining with laws will reduce and service is going to be better which will boost the goods industry and thus the taxes also.

- Impact on Small Enterprises: There will be three categories of Small Enterprises in the GST regime.
- Those below threshold limit of Rs.1.5 Crores would not be covered.
- Those between the threshold and composition turnovers will have the option to pay a turnover based tax i.e. composite tax or opt to join the GST regime.
- Those above threshold limit will need to be within framework of GST. Possible downward changes in the threshold in some States consequent to the introduction of GST may result in obligation being created for some dealers.

## CONCLUSION

GST is the most logical steps towards the comprehensive indirect tax reform in our country. Since independence GST will give more relief to final consumers, industry, trade and agriculture through a more comprehensive and wider coverage of input tax set-off and service tax set-off, subsuming of several Central and State taxes in the GST and phasing out of CST. The subsuming of major Central and State taxes in GST would reduce the cost of locally manufactured goods and services. This is likely to increase the competitiveness of Indian goods and services in the international market and to boost Indian exports. GST would bring down the cascading & Tax burden on final consumers, prices will also fall, Consumption and Demand would go up, investment would increase and as a result GDP would go up. A higher GDP would result in higher Tax revenues

(higher tax GDP ratio) which will bring down fiscal deficit to half its size and revenue deficit to zero. Besides GST would integrate Indian economy with rest of the world as more than 130 countries already have GST in place.

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