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# Goods and service tax: a roadmap for new indian economy

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**ABSTRACT:** GST also known as the Goods and Services Tax is defined as the giant indirect tax structure designed to support and enhances the economic growth of a country. More than 150 countries have implemented Goods and Service Tax so far. Even in the worldwide economic crisis India showed remarkable survival in its economic system. The proposed Goods and Services Tax is expected to be another milestone in the Indian economic growth. The radical aim of Goods and Service Tax is to uniform the separated indirect tax system in India and to avoid the cascading effect in taxation. The impact going to make by Goods and Service Tax will be a transformation in the entire tax system and will go beyond Indian borders. The implementation of Goods and Service Tax will reduce tax burden on manufacturers and thus encourages for the higher production. This process will increase the export of India and it will increase the total Gross National Product. Avoidance of cascading effect empowers the manufacturers to produce to their optimum capacity and retards growth in the Indian Economy.
***Keywords:*** Goods and service tax, Indirect Tax, Impact of Indian economy, value added tax, cascading effect.

## INTRODUCTION

The idea of Goods and Service Tax in India was mooted by Vajpayee government in 2000 and the constitutional amendment for the same was passed by the Loksabha on 6th May 2015 but is yet to be ratified by the Rajyasabha. However, there is a huge hue and cry against its implementation. It would be interesting to understand why this proposed Goods and Services Tax regime may hamper the growth and development of the country.

The Goods and Services Tax (GST) is a vast concept that simplifies the giant tax structure by supporting and enhancing the economic growth of a country. Goods and Services Tax is a comprehensive tax levy on manufacturing, sale and consumption of goods and services at a national level. The Goods and Services Tax Bill, is referred to as The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014, initiates a Value added Tax to be implemented on a national level in India. Goods and Services Tax will be an indirect tax at all the stages of production to bring about similarity in the system.

On bringing Goods and Services Tax into practice, there would be amalgamation of Central and State taxes into a single tax payment. It would also enhance the position of India in both, domestic as well as international market. At the consumer level, Goods and Services Tax would reduce the overall tax burden, which is currently estimated at 25-30%.

Under this system, the consumer pays the final tax but an efficient input tax credit system ensures that there is no cascading of taxes- tax on tax paid on inputs that go into manufacture of goods. In order to avoid the payment of multiple taxes such as excise duty and service tax at Central level and Value Added Tax at the State level, Goods and Services Tax would unify these taxes and create a uniform market throughout the country. Integration of various taxes into a Goods and Services Tax system will bring about an effective cross-utilization of credits. The current system taxes production, whereas the Goods and Services Tax will aim to tax consumption.

## IMPACT OF GOODS AND SERVICE TAX

Goods and Service Tax has a positive impact on the economy and on various sectors which are as follows:

1. **Fast Moving Consumer Goods Sector**

   The Indian Fast Moving Consumer Goods sector is the fourth largest sector in the economy with a total market size in excess of 13.1 billion. Fast Moving Consumer Goods are popularly named as consumer packaged goods. Items in this category include all consumables (other than groceries/pulses) people buy at regular intervals. Fast Moving Consumer Goods is also one of the fastest growing sectors among all the sectors in the Indian economy.

   With the implementation of Goods and Service Tax, Fast Moving Consumer Goods sector would really change. Fast Moving Consumer Goods sector consist nearly 50% Food and Beverage sector and the remaining 30% is Household and Personal care. Fast Moving Consumer Goods 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. Fast Moving Consumer Goods 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, Goods and Service Tax will surely impact on Fast Moving Consumer Goods sector as taxes affect the cost to the company.

2. **Food Industry**

   According to the National Restaurant Association of India‘s, India Food Service Report, the current size of the Indian food service industry is Rs.2,47,680 crore and is projected to grow to Rs.4,08,040 crore by 2018 at the rate of 11%. This growth is further fueled by the growth of the great Indian middle class.

   Rapid growth in urbanization, growing awareness of western lifestyles, more women joining the workforce, and higher disposable income were some of the factors that contributed to the growth of the restaurant industry. As a result, we find ourselves waiting in queues in most of the restaurants during the weekend.

   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 Goods and Services Tax 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.

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 Goods and Services Tax. Even in international jurisdictions, no difference 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.

**3. Information Technology**

Under the previous tax regime, the sale of packaged software attracts both Value Added Tax and Service Tax. Value Added Tax rate is around 5% in most of the states and service tax rate is 15%. Excise duty is also applicable in the case of manufacturing of Information Technology products.

Here now, the proposed Goods and Services Tax rate under the Information Technology industry is yet to be decided. During the discussion the combined rate of Goods and Services Tax for the product is 27%.

According to propose Goods and Services Tax, if the transformation of software through electronic form it would be regarded as service. If it is through media or any other physical property then it should be treated as goods. Implementation of Goods and Services Tax will help in equally simplified and single point taxation and thereby reducing price.

**4. Infrastructure Sector**

A special economic zone (SEZ) is a dedicated zone wherein businesses enjoy simpler tax and legal compliance. SEZs are located within a country's national borders; however, they are treated as a foreign territory from taxability perspective.

***Some of their key objective includes*:**

- Increase in Foreign Trade by promotion of exports of goods and services
- Increased Foreign Investment
- Domestic Job creation and;
- Effective Administration and Compliance Procedures.
- Better Infrastructure Facilities

To promote entrepreneurs to set up units in these Economic Zone, various attractive financial policies have been established. These policies include promotional offers and simplicity in investing, taxation, trading, quotas, customs and labor regulations. Moreover, units set up in these zones are offered special tax holidays.

The Indian infrastructure sector largely comprises power, road, port, railways and mining. And the indirect tax levy is various and special for each of them, and it is complex in nature. However, this sector enjoys different exemptions and concessions as it is important on national front. With the implication of Goods and Services Tax 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

Small and Medium Enterprises (SMEs) have been considered as the primary growth driver of the Indian economy for decades. It is further evident from the fact that today they have around 3 million Small and Medium Enterprises in India contributing nearly 50% of the industrial output and 42% of India's total export. For a developing country like India and its demographic diversity, Small and Medium Enterprises have emerged as the leading employment-generating sector and has provided balanced development across sectors.

In the small scale enterprises there are three categories:-

- Those below portal need not to register for the Goods and Services Tax.
- Those between the portal and composition turnovers will have the option to pay a turnover based tax or opt to join the Goods and Services Tax regime.
- Those above portal limit will need to be within framework of Goods and Services Tax. In respect of the central Goods and Services Tax the situation is slightly complex. Goods and Services Tax is expected to encourage compliance and which is also expected to widen tax base adding up to 2% to Gross Domestic Product. Manufacturers, traders will have to pay less tax with the implication of Goods and Services Tax.

## Conclusion

To design an equitable tax structure, the country requires a well defined tax system. The laws must be as simple as it can in order to comply with all groups of peoples in India. At the end there is no doubt it is the biggest ever change in tax structure of India. There will be fall in prices of some commodities but on the other hand price of some other goods and services will rise. There is threat of inflation too and states may face reduction in their financial resources. But countrywide it will be a great change. Thus it will enhance the production of the country which will ultimately lead to increased Gross Domestic Product. The experts are expecting a growth of 1.5% - 2% in GDP, once the GST is implemented in India.

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