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GOODS AND SERVICE TAX: IT'S IMPACT ON INDIAN ECONOMY

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ABSTRACT

This paper is an analysis of what the impact of Goods and Services Tax (GST) will be on Indian Tax Scenario. In this research paper, the researcher stated a brief description of the historical scenario of Indian taxation and its tax structure. Then the need arose for the change in tax structure from traditional to GST model. GST has a detailed discussion in this paper as the background, silent features and the impact of GST in the present tax scenario in India. The Goods and Services Tax is a value added tax to be implemented in India. GST is the only indirect tax that directly affects all sectors and sections of our economy. Ignorance of law is no excuse but is liable to panel provisions, hence, why not start learning GST and avoid the cost of ignorance. Therefore, we all need to learn it whether willingly or as compulsion. The GST aimed at creating a single, unified market that will benefit both corporate and the economy. The changed indirect tax system- GST is planned to execute in India. Several countries implemented this tax system followed by France, the first country introduced GST. The GST is a new story of Value Added Tax (VAT) which gives a widespread set off for input tax credit and subsuming many indirect taxes at state and national level. The GST Implementation and the drafting of GST law are still under process and a clear picture will be available only after 1st July, 2017. The GST Council fixed the tax rates on 1211 items, most of which will likely become cheaper as the new rates will be lower than the current effective levels. The GST is the One Hundred and First Amendment Bill of the Constitution of India, Officially known as the Constitution Act, 2016. India is a centralized and democratic country; therefore the GST will be implemented parallel by the central and state governments as Central Goods and Services Tax (CGST) and State Goods and Services tax (SGST) respectively. The objective will be to maintain a commonality between the basic structure and design of the CGST, SGST and SGST between the states. In this article, the researcher started with the general introduction of GST and tried to highlight the objectives of the proposed GST is trying to achieve. Thereafter, the researcher discussed the possible challenges and threats; and then, opportunities that GST brings before Indians to strengthen India's free market economy.

***Keywords:* GST, VAT, SGST, CGST,**

INTRODUCTION

The primary attempt to implement Goods and Services Tax (GST) in India was made on November 10, 2009 to give boost to indirect tax structure and create a common market. Several deadlines have already been set to implement GST in India but all has been extended due to several obstacles in its way. GST is expected to revolutionize the Indian tax system and is the biggest tax reform since Independence. It will integrate and simplify the process of indirect taxation and will replace the complicated taxes such as State Value Added Tax (VAT), Central Excise, Service Tax, Entry Tax or Octroi and other indirect taxes. GST is levied on supply of goods and services and it combines other taxes such as state/ local tax, entertainment tax, excise duty, surcharges, octroi, etc. It will be applicable on transaction value which includes packaging, commission and other expenses incurred during sales. It will bring uniform taxation across country and will allow full tax credit from inputs and capital goods on procurement which can later be set off against GST output liability. The reform gives equal footing to the big enterprises and Small and Medium Enterprises (SME) alike and removes the tax differentiation on stock transfer.

On the other hand, under the current system, VAT is levied partially at state and central level and at multiple points which creates a cascading effect. Due to which the manufacturer has to shell out towards huge tax aggregates that is not sustainable in the long run. GST is aimed to simplify such tax hurdles and will be ultimately borne by the customer. The Tax policies play an important role on the economy through their impact on both efficiency and equity. A good tax system should keep in view issues of income distribution and at the same time also endeavor to generate tax revenues to support government expenditure on public services and infrastructure development. Cascading tax revenues have differential impacts on firms in the economy with relatively high burden on those not getting full offsets. Analysis of the tax levy can be extended to international competitiveness of the adversely affected sectors of production in the economy. Such domestic and international factors lead to inefficient allocation of productive resources in the economy. This results in loss of income and welfare of the affected economy. Even though the country has moved on the path of tax reforms since mid1980s, yet, there are various issues which need to be restructured so as to boost productivity and international competitiveness of the Indian exporters.

1. Sales of services to consumers are not appropriately taxed with many types of services escaping the tax net.
2. Intermediate purchases of inputs by the business firms do not get full offset and part of non-offset taxes may get added up in prices quoted for exports thus making exporters less competitive in world markets (Poddar and Ahmad, 2009).

3. The proposed reform on moving to a 'Goods and Services Tax' would impact the national economy, international trade, firms and consumers.
4. GST is a tax on both goods and services across the Supply chain/ Value chain. It is levied at every stage of supply/ Value Addition.
5. The GST on Inputs (known as ITC - Input Tax Credit) is generally available as credit for set- off against the GST on the output supply.
6. New Article 366 (12A) of the Indian constitution defines Goods and Service Tax (GST) to mean any tax on supply of goods or service or both except taxes on the supply of the alcoholic liquor for human consumption. New Article 366 (26A) defines service to mean anything other than goods. Existing Article 366 (12) defines goods to include all materials, commodities and articles.
7. Goods and Services Tax (GST) in India is proposed to be the maiden REFORM (and not an amendment) in the existing indirect taxation structure. The proposed GST is a long pending and much awaited tax reform which India which is hoped to iron out the wrinkles in the existing indirect taxation system. This comprehensive tax policy is expected to be one of the most important contributors to the India's growth story.

HISTORY OF TAXATION

A tax is a financial charge or other levy imposed upon a taxpayer by a state or the functional equivalent of a state such that failure to pay is punishable by law. *According to Black's Law Dictionary, "A tax is a pecuniary burden laid upon individual or property owners to support enforced contribution, enacted by legislative authority".* In simple words, tax is nothing but money that people have to pay to the Government, which is used to provide public service.

Tax policies play an important role on the economy through their impact on both efficiency and equity. A good tax system should keep in view issues of income distribution and at the same time also endeavor to generate tax revenues to support government expenditure on public services and infrastructure development. Cascading tax revenues have differential impacts on firms in the economy with relatively high burden on those not getting full offsets. This argument may be extended to international competitiveness of the adversely affected sectors of production in the economy. Such domestic and international factors lead to inefficient allocation of productive resources in the economy. This results in loss of income and welfare of the affected economy.

Value added tax was first introduced by Maurice Laure, a French economist in 1954. The tax was designed such that the burden is borne by the final consumer. Since, VAT can be applied on goods as well as services; it has also been termed as goods and services tax (GST). Over the past four decades, VAT has been an important instrument of indirect taxation with 130 countries having adopted this, resulting in one- fifth of the world's tax revenue. Tax reform in many of the developing countries has focused on moving to VAT. Most of these countries have gained from it, and hence the suggestions that others stand to gain from its adoption.

In order to simplify and rationalize indirect tax structures, Government of India (GoI) attempted various tax policy reforms at different points of time. Through 1950s to 1970s, base of the indirect taxes particularly excise duties was widened. In case of excise duty, attempts were made to curb the consumption of luxury and semi luxury items, mopping excess profits in the case of commodities in short supply and for encouraging exports. In 1975-76, a general levy of one per cent ad valorem covering all goods produced for sale or other commercial purposes not specified in the central excise tariff was imposed with exemptions for a few items. Around the same time, it became evident that indirect taxes lead to undesirable effects on prices and allocation of resources. The Government of India constituted the Indirect Taxation Enquiry (ITE) Committee in 1976 headed by Shri L. K. Jha to study the structure of indirect taxes, central, state and local level taxes and suggest policy reforms. It submitted its report in 1978. The committee found a major problem with indirect tax regime as it had caused unintended distortion in the allocation of resources and cascading effects. The committee recommended that indirect taxation should move towards taxation of final products and introduce modified form of VAT.

The government introduced the Long Term Fiscal Policy (LTFP) on 19^{th} December, 1985 for prudent fiscal management. LTFP was expected to provide a definite direction and coherence to annual budgets and to bring about a greater predictability and stability in the economic system. It would provide rule based fiscal and financial policies rather than discretionary approach. Further, it would also facilitate effective coordination of different dimensions of economic policies. Major reforms in excise and customs taxation were proposed under LTFP. These reforms were considered for progressively moving from discretionary, quantitative restrictions and physical controls to non- discretionary fiscal methods. The major reforms announced under Union excise taxation aimed at reducing the number of effective rates after harmonization of the tariff classification with the custom nomenclature and implementing a modified system of value added taxation, i.e., Modified Value Added Tax (MODVAT). Excise duty is collected as Central Value Added Tax (CENVAT) introduced in 2000 through renaming of MODVAT of 1986. However, fillip to tax policy reforms came in with the introduction of economic reforms in 1990s. It was realized that a complex tax structure involving both the Centre and the states taxing production and sales of commodities was not fostering efficiency in the economic activities. The presence of central sales tax acted as constraint to inter- state trade movement and contradicted the idea of India being a common market. The 1990s tax reforms brought structural changes in the tax system. These reforms aimed at correcting imbalances in the sources of revenues through increasing the share of direct taxes.

"A well designed destination- based GST on all goods and services are the most elegant method of eliminating distortions and taxing consumption. Under this structure, all different stages of production and distribution can be interpreted as mere tax pass- through, and the tax essentially 'sticks' on final consumption within the taxing jurisdiction" (Kelkar, 2009 a).

"What would be the design of the GST? The broad framework of GST is now clear. This is on the lines of the model approved by the Empowered Committee of the State Finance Ministers. The GST would be a dual tax with both Central and the State GST component levied on the same base. Thus, all goods and services barring a few exceptions will be brought into the GST base. Importantly, there would be no distinction between goods and services for the purpose tax with a common legislation applicable to both" (Kelkar, 2009 b).

LITERATURE REVIEW

Since, it is one of the contemporary issues in the Indian government; a very less work has been done in this regard which provide great scope of further studies with suggestions of new reforms and analysis of their impact on Indian economy. The efforts of few have been briefed out below:

Sharma M. & Neha (2014) in their paper entitled, "A Study on Goods and Services Tax in India" explained the benefits and current status of GST in India. They explained the current scenario of GST in India and various shortcomings of GST. They concluded that implementation of GST would reduce the problem of cascading effect, distortion and tax evasion to maximum extent possible.

Kumar, N. (2014) in his paper entitled, "Goods and Services Tax in India: Away forward" explained the concept and features of GST. He has rightly pointed out that GST an extension of present VAT that will make the tax system broad and inclusive. He has concluded that economic distortion caused by present tax structure can be removed by implementing GST and it will help to develop common national market.

Garg, G. (2014) analyzed the impact of GST on Indian Tax Scenario in his paper entitled, "Basic Concepts and features of Goods and Service Tax in India". He explained the various objectives, challenges, opportunities, salient features and benefits of GST. He concluded by explaining the impact of GST on food industry, FMCG industry, housing and construction industry and financial services.

Nitisha Gupta (2014) in her paper entitled, "Goods and Service Tax: It's impact on Indian Economy" found that integration of goods and services taxation would give India a world class tax system and tax collections will be improved. She stated implementation of GST will create business friendly environment as price level and inflation rates would come down over a period of time due to uniform tax rates. She explained how GST will work in India? She concluded that GST may lead to collective gain for industry, trade, agriculture and common consumers as well as for the Central Government and the State Government.

OBJECTIVES OF GOODS AND SERVICE TAX

The following are the objectives of GST:

1. To know the various benefits of implementation of GST in India.
2. To know various challenges in implementation of GST System in India.
3. To eliminate the cascading impact of taxes on production and distribution cost of goods and services.

The exclusion of cascading effects i.e., tax on tax will significantly improve the competitiveness of original goods and services which leads to beneficial impact to the Gross Domestic product (GDP) growth. It is felt that the GST would serve a superior reason to achieve the objective of streamlining indirect tax regime in India which can remove cascading effects in supply chain till the level of final consumers only when all such above mentioned indirect taxes are completely included in GST. It is understood that alcohol, tobacco and petroleum products will not be enclosed by GST as alcohol and tobacco are considered as Sin Goods and governments do not like to allow free trade on these property.

RESEARCH METHODOLOGY

This is basically qualitative and descriptive research in which data has been collected through secondary sources like Government Reports, International and National Journals, news articles and websites and media reports.

Challenges for implementing Goods & Services Tax system

Lot of changes at planning and implementation level will be required where administration to be made in line with IT infrastructure. To implement GST, cooperation from state government is required as the states where consumption of goods and services are high will enjoy more revenue than states which have low consumption of goods and services. Determining threshold limit is a great challenge right now as low limit will bother small scale traders and service providers but high revenue for government whereas high threshold limit will result in less revenue for the government due to meager tax base. Heavy expenditure on Information Technology (IT) infrastructure including Tax Information Exchange System (TINXSYS) is required that too in a time bound manner for enhancing operational efficiency, enabling voluntary compliance and enhancing tax payer's convenience. Determination of rate of tax on goods and services is a great challenge for the government due to problem of consensus between centre and state in this regard. Since, there will be dual model of GST, so there will be different tax rates at State level and Centre level and there further subdivision of these taxes will be difficult depending upon necessity, location and resources of each state.

Benefits of Goods and Services Tax Implementation

GST provide comprehensive and wider coverage of input credit setoff, the people can use service tax credit for the payment of tax on sale of goods etc.

1. It will make the taxation system more transparent and simple and easy to understand.
2. It will reduce the overall cost of goods and services to final consumer as cascading agent of taxation will be overcome.
3. It will facilitate free flow of goods and services and thereby reducing overall transaction cost.
4. Since, GST is not levied on goods and services which are exported so it provides an incentive to Export Oriented Units (EOUs), Special Economic Zones (SEZs) and Export Processing Zones (EPZs). The GST will be levied on goods or services imported into the country with destination principle where the imported goods or services are consumed that state will enjoy the tax revenue.
5. Since intermediaries in the supply chain can claim the tax credit which will reduce the cost the cost of doing business.
6. It will reduce the scope of corruption in the economy as a whole.
7. It will increase the tax base as more firms will come under the tax regime which ultimately increases the tax revenue collection for the government.
8. GST will guarantee the consistency of taxes over the states, irrespective of place of production or consumption.
9. The normal taxation rate on organizations will fall which will decrease the expenses of Indian goods and services and make them competitive in the global market and ultimately GDP would increase.
10. The taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions.

11. For paying GST, 13/15 digit PAN- linked identification in line with Income tax will be allotted which will ease the tax payment system.

RECOMMENDATIONS

Government should ensure that a basic framework of GST law will be common for all state. The definitions such as: goods, dealer, business, sale, turnover, service, supply etc. should be same for all states. This will facilitate consistent implementation of GST across country. The taxable event should be clearly defined. Under the current excise and service tax laws, there is considerable litigation on basic issues such as taxable event. Under the GST regime, it is very important that taxable event like: 'supply of goods 'and 'supply of services' are defined in an unambiguous manner. There should be no distinction between goods and services under the GST regime. Distinction between goods and services could lead to overlapping of taxes. The entire purpose of GST is defeated since; such a differentiation would not be materially different from the current indirect tax regime prevalent in the country. Further, increasingly, a lot of business transactions are executed by way of bundled contracts where there is supply of goods and rendering of services as part of the same transaction which makes the distinction between goods and services rather blurred.

An ideal GST should subsume most of the indirect taxes. The proposed GST model does not subsume all taxes and commodities such as petroleum products, liquor, stamp duty, property tax, toll tax, passenger tax, various commodity cases, motor vehicle tax, airport tax, electricity duty, royalty on mining, pollution cases, petroleum products including natural gas, etc. All the above taxes should be necessarily subsumed in the GST regime to avoid multiple tax levies. One of the foundations of an effective GST implementation is that, the GST should be simple and the fax structure should be transparent without any hidden levies or duty impact.

Currently, there is substantial confusion whether services such as rent, construction etc. are services or not. Also, whether sale of immovable property attracts state VAT or no has been a matter of substantial litigation under works contracts category. Further, there are registration and stamp duties applicable on sale of immovable property. In this background, taxability of real estate transactions should be dearly spelt out and the availability of input credits should be clearly spelt out to avoid litigation.

It is recommended that Export refund mechanism should be simple and fast which will intensify export. The current export refund mechanism is subject to lot of interpretational issues. Further, there are a plethora of export refund schemes. This has resulted in huge refund backlogs for tax authorities and blockage of funds. It is recommended that Railways should include in the GST regime. It will help to track goods which transfer from one state to another as well as chances of tax evasion will decrease. Stamp Duty should also be subsumed under GST. Presently stamp duty taxed concurrently by the Centre and State. It‘s not clear is it going to subsumed or not. If subsumed under GST then big relief to real estate industry- to claim input tax. Dr. Vijay Kelkar, Chairman of the 13th Finance Commission has suggested that activities like: housing, construction and railways should be included in the proposed GST to increase the tax base and enhance collections, either immediately or during a subsequent phase. He added that construction sector is a significant contributor to the national economy and housing expenditure dominates the personal consumption expenditure, so the two sectors would increase the tax base. He said that the inclusion of the railway sector in the tax regime will provide a level playing field to road and air transportation sector. The inclusion will also ensure that all Inter- State transportation of goods can be tracked through the proposed IT network and, in fact, the railways itself would benefit from the inclusion.

It is recommended that from the First year onward rate of Goods and Services should be same. This will be as per GST’s main objective to make Indirect tax code simple and also this will help to avoid unnecessary complication whether it is Goods or Services i.e. ‚Software, Works Contract. Multiplicity of rates in goods or services in GST may lead to complexity of interpretation as well as implementation.

It is recommended that threshold limit should be same for Goods as well as Services service. As per the proposed scenario, for CGST, the government will come up with different threshold limit for Goods and Service. If governments want separate tax rate and threshold limit for goods and services then government have to come with exhaustive list for identifying goods and service.

It is recommended that the rate structure (Exempted goods, Special rated goods, concessional rated goods, standard rated goods, specified rated services) should be common for SGST & CGST, common for both goods and services and common across all states.

It is recommended that for units having multiple jurisdictional presences, the legislature may consider continuing the Large Taxpayer Unit (LTU)/ Centralized Registration Concept for CGST (i.e., Tele-Communication Companies).

CONCLUSION

GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. GST is livable on all supply of goods and provision of services as well combination thereof. All sectors of economy whether the industry, business including Govt. departments and service sector shall have to bear impact of GST. All sections of economy viz., big, medium, small scale units, intermediaries, importers, exporters, traders, professionals and consumers shall be directly affected by GST. One of the biggest taxation reforms in India. The Goods and Service Tax (GST) is all set to integrate State economies and boost overall growth. GST will create a single, unified Indian market to make the economy stronger. Experts say that GST is likely to improve tax collections and Boost India's economic development by breaking tax barriers between States and integrating India through a uniform tax rate. Under GST, the taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions.

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