



The concept of GST

Dr. Rachna Garg

Lecturer in ABST, SSS Govt. Girls P.G. College Dausa, Rajasthan, India

Abstract

The Good and Services Tax (GST) is the major and important indirect tax reform since 1947. The core idea of GST is to replace existing tax system like Excise Duty, Service Tax, Sales Tax and VAT. It will be imposed on manufacturing, selling 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.

Keywords: tax, indirect tax, goods and service tax (GST), India

Introduction

The Goods and Services tax is a vast concept that simplifies the giant tax structure by supporting and enhancing the economic growth of a country. GST is a comprehensive tax levy on manufacturing, sale and consumption of goods and services at a national level. The Goods and Services Tax Bill or GST Bill, also 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. GST will be an indirect tax at all the stages of production to bring about uniformity in the system. On bringing GST 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, GST 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 VAT at the State level, GST would unify these taxes and create a uniform market throughout the country. Integration of various taxes into a system will bring about an effective cross-utilization of credits. The current system taxes production, whereas the GST will aim to tax consumption

Benefits of GST

- It would introduce two-tiered One-Country-One-Tax regime.
- It would subsume all indirect taxes at the center and the state level.
- It would not only widen the tax regime by covering goods and services but also make it transparent.
- It would free the manufacturing sector from cascading effect of taxes, thus by improve the cost-competitiveness of goods and services.

- It would bring down the prices of goods and services and thus by, increase consumption.
- It would create business-friendly environment, thus by increase tax-GDP ratio.

Negative Impact

The primary reason why growth can be affected, at least in the first year, will be because the tax on services that account for around 60 per cent of the GDP is expected to increase under GST while taxes on manufactured products that make up 17 per cent of the GDP can move lower. There is a typical tendency to prepone consumption if taxes are expected to move higher. But in this case, since most services are non-discretionary and since tax rates on goods can move lower, output can contract slightly following the roll-out. A panel regression analysis done by Sonal Verma and Neha Saraf of Nomura on 11 countries for the period between 1961-2015 to study the impact of change in effective tax rate shows that for countries where tax rates moved higher, GDP growth picks up in the year prior to the GST implementation (year T-1), likely reflecting pre-ponement of consumption in anticipation of higher prices. "This is followed by a temporary (though insignificant) negative impact on GDP growth due to weaker consumption in the year T, as firms pass on tax increases into higher output prices. Beyond that, growth does rebound, perhaps due to efficiency gains from a more streamlined tax structure and better tax compliance." However, there is a consensus among most economists that the GST will be positive for the economy over the longer term as it simplifies the tax structure, increasing compliance, reduces tax evasion, expands tax base and significantly improves the functioning of the logistics network.

Impact of GST on Indian economy

Removal of tax barriers on introduction of uniform GST across the country with seamless credit will make India a common market leading to economy of scale in production

and efficiency in supply chain. It will expand trade and commerce. GST will have favourable impact on organized logistic industry and modernized warehousing. GST will remove cascading effect of taxes imbedded in cost of production of goods and services and will provide seamless credit throughout value chain. This will significantly reduce cost of indigenous goods and will promote 'Make in India'. The sectors which have long value chain from basic goods to final consumption stage with operation spread.

In multiple states such as FMCG, pharma, consumer durables, automobiles and engineering goods will be the major beneficiaries of GST. Tax policies play an important role on the economy through their impact on both efficiency & equity and its high time India braced itself for a relook at the current status. Historically, India has relied too much on indirect taxation because of political compulsions, an agrarian economy, low income levels and lack of infrastructure to track personal income. In order to simplify and rationalize indirect tax structures, government of India attempted various tax policy reforms at different points of time. While VAT was a welcome change during 2005, over the years, people have identified shortcomings in the structure while levying VAT both at Central level and State level. Also, CENVAT has the limitation of non-inclusion of several taxes such as VAT, ACD, surcharge etc. In the present state-level VAT scheme, there is a cascading effect on account of CENVAT element. Lastly, there is lack of integration of VAT on goods with tax on services at the state level and hence the cascading effect of service tax. To address such issues, a comprehensive tax reform (GST is a part) having an extensive base to kick-start the applicability of an efficient and harmonized consumption tax system has been proposed.

Conclusion

Manufacturers/Retailers/Dealers would see reduced cost of the goods sold within the state or intra-state under GST. But the sectors which contribute to the Gross Domestic Product of a nation viz. petroleum, alcohol, real estate etc. are still standing outside the GST. The ultimate outcome will be continuing distortions in price determination in the economy. There is a long way to go and many hurdles to surpass before the GST becomes a success. The final standard GST rate, exemptions granted, compensations to States etc. will determine the actual benefit to the economy. Apart from all shortcomings it has been concluded that the new tax scheme will bring a few revenue generation and overall synchronization of taxes in the government. The introduction of the Goods and Services Tax will be a very noteworthy step in the field of indirect tax reforms in India. By merging a large number of Central and State taxes into a single tax, GST is expected to significantly ease double taxation and make taxation overall easy for the industries. For the end customer, the most beneficial will be in terms of reduction in the overall tax burden on goods and services. Introduction of GST will also make Indian products competitive in the domestic and international markets.

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