

Goods and Services Tax in India – A Review

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ABSTRACT

A tax policy plays a significant role on the national economy of a country. The tax revenues act as a major source helps to invest the funds in public service and infrastructure development. A tax is a compulsory contribution to state revenue, levied by the government on personal income and business profits, or added to the cost of some goods, services, and transactions. The taxes in India can classify into two types direct taxes and indirect taxes. The impact and incidence of tax on the same person called as direct tax and the impact and incidence on other persons called as indirect tax .The Goods and Services Tax is a proposed indirect tax system merging most of the existing taxes into single system of taxation. The present paper intends to analyse the implications of Goods and Services Tax in India and to understand the basic concepts and features of Goods and Services Tax in India. One of the basic intension to implement the GST is to ensuring uniformity in collecting and levying taxes. The present study intends to discuss the impact of GST on various sectors in the economy as well as the relevance of GST.

Key words: *Goods and Services Tax, Indirect Tax, Relevance of GST*

1. INTRODUCTION

The India has the federal form of government and federal financial system .in the federal form of government both the central and state governments are essence to raising the revenue resources to discharge their functional social welfare duties towards different stakeholders. The successful operation of federal system of administration is depending on strong and adequate financial system in the country. India is the world biggest democratic country which follows federal tax system for collecting and levying various taxes. To remove cascading effect of taxes and provide a common nation-wide market for goods and services, India is moving towards introduction of Goods and Services Tax (GST). Under the proposed tax reform both Central and State Governments will have concurrent taxation power to levy tax on supply of goods and services. It is expected that the proposed regime will improve tax collection and minimize leakage, as both Central and State Tax Administrations will monitor and assess same set of taxpayers (Sacchidananda Mukherjee 2015).

One of the main objectives of GST is 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 GDP growth (GirishGarg 2014).The goods and Service tax is the major indirect tax reform which is mainly impact different sectors in the economy .the value added tax was considered as major improvement over the pre-existence of central excise duty and sales tax in central and state level respectively. Now the Goods and Service tax will be a further significant breakthrough, the next logical step towards a comprehensive indirect tax reform in the country.(shilpapakhi).The implementation of proposed goods and service tax will impact on different sectors on Indian economy .The government of India takes significant steps to implement the new indirect tax reform by replacing old tax system in order overcome the barriers in the existing tax regime the will act as a tool .

3. OBJECTIVES OF THE STUDY

- To understand the concept of Goods and services Tax
- To Know the impact of GST on Indian Economy

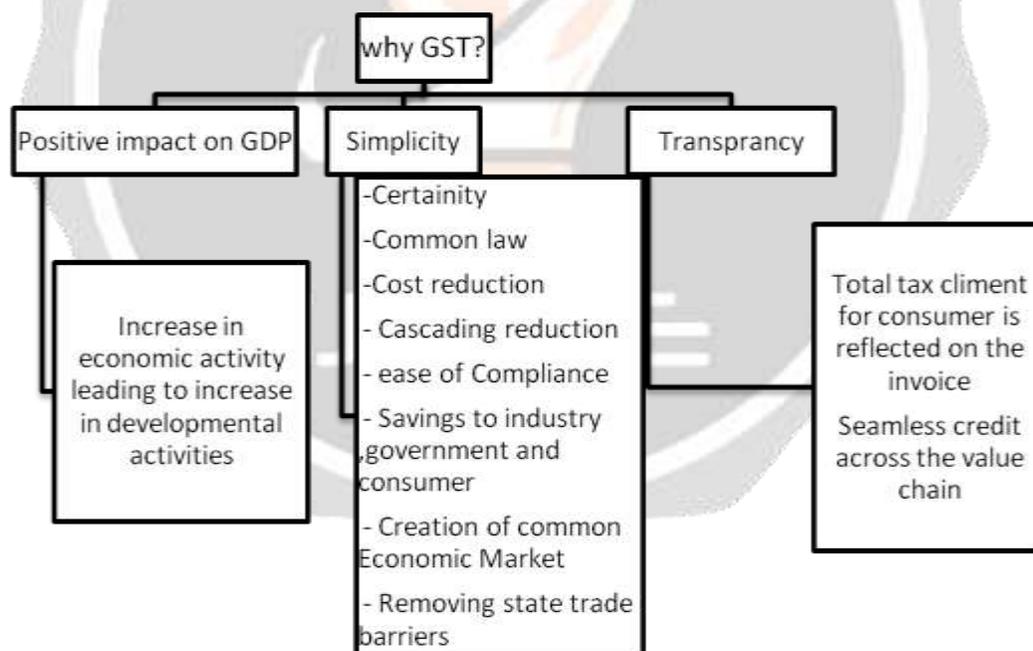
4. CONCEPTUAL FRAME WORK

Tax policies play an important role on the economy through their impact on both efficiency and equity. A effective 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. 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.¹

GST is a proposed system of indirect taxation in India merging most of the existing taxes into single system of taxation. It was introduced as The Constitution (One Hundred and First Amendment) Act 2016. The GST is administered & governed by GST Council and its Chairman is Union Finance Minister of India. GST would be a comprehensive indirect tax on manufacture, sale and consumption of goods and services throughout India, to replace taxes levied by the central and state governments. This method allows GST-registered businesses to claim tax credit to the value of GST they paid on purchase of goods or services as part of their normal commercial activity. Taxable goods and services are not distinguished from one another and are taxed at a single rate in a supply chain till the goods or services reach the consumer. Administrative responsibility would generally rest with a single authority to levy tax on good².

4. RELEVANCE OF GST

The significant breakthrough in indirect tax reform by replacing value added tax (VAT).Towards Goods and Services Tax .One of the basic objective to introduce the goods and services tax is to avoid cascading effect or double taxation ,maintain uniformity in levying and collection of taxes and also ensuring the simplicity and transparency in the new tax reform. The relevance of GST means justification for implementing the proposed indirect tax reform by replacing the existing system. The GST is a landmark Indirect tax reform in India.



Source:Tax Research Department, The Institute of Cost Accountants of India ,An Insight of Goods & Services Tax (GST) in India

¹Tax Research Department, The Institute of Cost Accountants of India (Statutory Body under an Act of Parliament)

² [https://en.m.wikipedia.org/wiki/goods_and_services_tax_\(india\)](https://en.m.wikipedia.org/wiki/goods_and_services_tax_(india))

Benefits of Goods and Services Tax³

(A) To Trade

- Reduction in multiplicity of taxes
- Mitigation of cascading/ double taxation
- More efficient neutralization of taxes especially for exports
- Development of Common National Market or Common Economic Market
- Simpler tax regime with fewer rates and exemptions
- Increase in cost or price competitiveness' for domestic industries with reduction in Tax cost and also reduced cost of compliance

(B) To Government

- Simpler tax system
- Broadening tax base
- Improved compliance and revenue collections
- Efficient use of resources
- Investments out of savings by consumers - due to mitigation of cascading Effect, contributes to increase in availability of funds out of savings of Consumer - which may be used for financing developmental activities?

(C) To Consumer

- Reduction in cost of goods and services due to elimination of cascading Effect of taxes
- Increase in purchasing power and real income
- Increase in savings due to decrease in cost
- Increase in investments due to increase in savings

5. IMPACT OF GST ON VARIOUS SECTORS

The main objective of the proposed GST is to remove the cascading effect means the double taxation .the goods and services tax is the destination based indirect tax system that will helps to remove the double taxation or cascading effect .The proposed tax system will helps to maintain the uniformity in collection and levying the taxes. Now the proposed GST consist of different components such as Integrated Goods and Services Tax(IGST),Central Goods and Services Tax(CGST),State Goods and Services Tax(SGST).

The proposed GST will helps to replace the different indirect taxes like service tax, value added tax, excise duty, Counter vialling duty, Special additional Duty of customs, central Sales Tax. The GST will have both positive and negative impact on various sectors in the economy like Information Technology, Automobile, Service sector, E-commerce, Textile, Telecommunication, and Financial Services etc. The implementation of GST will help in imposing uniform, simplified and single point of taxation so that it helps to reduce the prices. The food sector having the significant impact by GST on those, who are living under subsistence level. The food item includes grains,cereals,meat,fish,vegetable,snacks and dairy products.

The impact of GST on tax revenue is the major issue while inviting the proposed indirect tax reform i.e. GST.The impact of GST on tax revenue having two folds aspects,by eliminating the cascading effect of multiple central and state taxes. The GST helps to reduce the cost of doing business and increase profitability, this will helps to attract investments and finally GDP growth. The simplifying tax regime will helps to ensure tax compliance and increase tax revenue.

The next aspect which will have a significant impact by the GST is manufacturing Sector. The manufacturing sector is act as a growth engine for economic growth and development of a country. It has been a major contributor to the growth and development of many developing economies. The new indirect tax regime means Goods and Services Tax propagate a positive impact on manufacturing sector which contributes 16% to the GDP by ensuring cascading tax are reduced and it boost the manufacturing sector to achieve faster growth.

³Tax Research Department, The Institute of Cost Accountants of India (Statutory Body under an Act of Parliament)

The Indian economy majorly contributed by service sector .it contributes export and large scale employment. The Indian service sector covers variety of services like hotel, trade, transport, finance, communication etc. The Goods and Services Tax (GST) would help the transportation sector in improving its efficiency besides reducing the logistics cost.

CONCLUSION

So the tax policy plays a significant role on economy on both efficiency and equity. A good tax system will ensure about the income distribution and revenue generation to the government to make expenditure on public services and infrastructure development. One of the significant breakthroughs in the indirect tax system in India is the implementation of Goods and Services Tax .One of the major intension to take the steps to make reforms in indirect tax system is to ensure simplicity, transparency and uniformity in levying and collecting taxes. The present paper intends to discuss the tax reforms takes place in India especially relating to indirect tax.

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