International Journal of Business Quantitative Economics and Applied Management Research
Volume-3, Issue-5, October-2016 ISSN No: 2349-5677

GOODS AND SERVICE TAX: AN ADVANTAGE FOR INDIAN ECONOMY

Dr. Mateen Ahmed Siddiqui
Professor, Deccan School of Management, Hyderabad
mateen_ahmedsiddiqui@yahoo.com

Abstract

Goods and Service Tax (GST) is a system of indirect taxation, which will merge the present existing multiple taxes into one single system of taxation. "Goods and Services Tax" 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. Currently, companies and businesses pay different indirect taxes in the form of VAT, service tax, sales tax, entertainment tax, octroi etc. Once GST is implemented, all these taxes would cease to exist. There would be only one tax, that too at the national level, monitored by the central government. GST is also different in the way it is implemented at the final point of consumption and not at the manufacturing stage. At present, separate tax rates are applied to goods and services. Under GST, there would be only one tax rate for both goods and services. The goods and services Tax will indeed be a further considerable improvement towards a comprehensive indirect tax reforms in the country. Integration of goods and services taxation would give India a world class tax system and improve tax collections.

Key Words: goods and services tax, economic development, Indian economy.

I. INTRODUCTION

The proposed GST is likely to change the whole scenario of current indirect tax system. It is considered as biggest tax reform since 1947. Currently, in India complicated indirect tax system is followed with imbrications of taxes imposed by union and states separately. GST will unify all the indirect taxes under an umbrella and will create a smooth national market. Experts say that GST will help the economy to grow in more efficient manner by improving the tax collection as it will disrupt all the tax barriers between states and integrate country via single tax rate. GST was first introduced by France in 1954 and now it is followed by 140 countries. Most of the countries followed unified GST while some countries like Brazil, Canada follow a dual GST system where tax is imposed by central and state both. In India also dual system of GST is proposed including CGST and SGST.

Effects of GST on different sectors:

FMCG:-

With the implementation of Goods and Service Tax, FMCG sector would really change. FMCG sector consist 50per cent Food and Beverage sector and 30per cent is Household and Personal care. FMCG 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. FMCG 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, GST would surely impact on FMCG sector as taxes affect the cost to the company.

Food Sector:-

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 GST 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. While in some countries, food is taxed at a standard rate which is as low as 3per cent in Singapore and Japan at the inception of the GST. Even in international jurisdictions, no distinction 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.

ITES:-

The proposed GST rate under the IT industry is not yet decided. While the discussed combined rate of GST for the product is 27per cent. According to proposed GST if the software is transferred through electronic form it would be regarded as service (intellectual property).and if it is transferred through media or any other tangible property then it should be treated as goods. Implementation of GST will help in uniform simplified and single point taxation and thereby reduced price.

Benefits and opportunities of GST:- Section 3, The Goods and Services Tax have many benefits and will create various opportunities on various stakeholders like business, industry, government and consumers.

II. LITERATURE REVIEW

1. Agogo Mawuli (May 2014) studied, "Goods and Service Tax-An Appraisal" and found that GST is not good for low-income countries and does not provide broad based growth to poor countries. If still these countries want to implement GST then the rate of GST should be less than 10per cent for growth.

2. Dr. R. Vasanthagopal (2011) studied,"GST in India: A Big Leap in the Indirect Taxation System" and viewed that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy.

3. Ehtisham Ahmed and Satya Poddar (2009) studied, "Goods and Service Tax Reforms and Intergovernmental Consideration in India" and found that GST introduction will provide simplier and transparent tax system with increase in output and productivity of economy in India. But the benefits of GST are critically dependent on rational design of GST.

4. Nitin Kumar (2014) studied, "Goods and Service Tax- A Way Forward" and concluded that implementation of GST in India help in removing economic distortion by current indirect tax system and expected to encourage unbiased tax structure which is indifferent to geographical locations.

5. Pinki, Supriya Kamma and Richa Verma (July 2014) studied, "Goods and Service Tax- Panacea For Indirect Tax System in India" and concluded that the new NDA government in India is positive towards implementation of GST and it is beneficial for central government, state government and as well as for consumers in long run if its implementation is backed by strong IT infrastructure.

III. OBJECTIVES OF THE STUDY

The study uses an exploratory research technique based on past literature from respective journals, reports, newspapers and magazines covering wide collection of academic literature on Goods and Service Tax. Available secondary data was comprehensively used for the study. The objectives of the study are:

1. To study about GST and its impact on the Indian economy.
2. To assess the merits and demerits of GST.

IV. RESEARCH METHODOLOGY

Being an explanatory research it is based on secondary data of journals, articles, newspapers and magazines. Considering the objectives of study descriptive type research design is adopted to have more accuracy and rigorous analysis of research study. The accessible secondary data is intensively used for research study.

V. CONCEPT

GST is an indirect tax which will include almost all the indirect taxes of central government and states governments into a unified tax. As the name suggests it will be levied on both goods and services at all the stages of value addition. It has dual model including central goods and service tax (CGST) and states goods and service tax (SGST). CGST will subsume central indirect taxes like central excise duty, central sales tax, service tax, special additional duty on customs; counter veiling duties whereas indirect taxes of state governments like state vat, purchase tax, luxury tax, octroi, tax on lottery and gambling will be replaced by SGST. Integrated goods and service tax (IGST) also called interstate goods and service tax is also a component of GST. It is not an additional tax but it is a system to examine the interstate transactions of goods and services and to further assure that the tax should be received by the importer state as GST is a destination based tax.

VI. FUNDAMENTSLS OF PROPOSED GST

BOUNDRIES OF GST

It is applied to all taxable goods and services except the exempted goods and services and on transactions below a certain threshold limit as fixed by the government. 2) The goods which are exempted are alcohol, electricity and real estate. [Proposed article 366(12A)] 3) All the petroleum products including ATF, natural gas diesel, petrol, etc are primarily exempted from GST till the GST Council announces date of their addition. 4) Tobacco products are included in GST along with central excise tax.

IMPOSITION AND COLLECTION OF GST

Both the state and central legislative assemblies have to pass the legislation then only GST will come into existence. A law made by central govt. on GST will not overrule a state GST law. (proposed article 246A) 2) GST has two components CGST and SGST as discussed above. CGST will be collected by central government whereas states governments will collect SGST. 3) Even in the matter of imports, and goods which are crossing the boundries of states the central government will completely have the right to levy the IGST and distribute it to the state governments. The proportion of distribution between center and states is decided on recommendation of GST Council.(proposed article 269A)

FURTHER 1percent TAX TO BE ADDED

1) Further 1per cent tax on interstate taxable supply of goods which is levied by center and directly portioned to the exporter state (origin state). 2) This tax will be charged for two years or for longer time period recommended by GST Council.

PAYMENTS TO STATES

1) For maximum of 5 years union will compensate states for the revenue losses arising out of GST implementation.

2) This compensation will be made on the recommendation of GST Council.

VII. MERITS OF GST

Once the GST is implemented taxation for both manufacturing and services will be decreased and payable fairly resulting in improved tax base and minimized exemptions. It is anticipated to help in establishing an effective and transparent tax administration. It is expected to remove the cascading effects of taxes and help in establishing of common national market.

To mention few more merits of GST are as follows

International Journal of Business Quantitative Economics and Applied Management Research
Volume-3, Issue-5, October-2016 ISSN No: 2349-5677

CST-IGST-GST: CHANGING SCENARIO

Presently the central sales tax is rendered on interstate sale of goods. 2per cent standard rate of CST is levied and dispersed to exporter state as it is origin based tax. The input credit of CST can be offset with CST liabilities only. CST is paid only on interstate sale of goods and not on supply (transportation) of goods.

In the present ambit of CST large business houses build their own godowns in different states and transfer their goods among states avoiding the CST, which decreases their product cost. With this system of tax evasion large business houses make huge profits at cheaper costs, which is not possible for the MSMEs as they had to pay the tax for the transfer of goods from one state to another. This further increases the cost price for MSMEs, further hindering their chances of survival.

But, in proposed GST tax regime IGST is levied on interstate commerce and supply (both) of goods and services. Due to this an effective logistics system will come up which will prevent the tax dodging through warehousing by big corporate. This will protect small and medium enterprises from unhealthy competition of big corporate.

INTERNAL PRODUCTION BY BUSINESS HOUSES

The CST based indirect tax system supports large business houses who would like to manufacture every product internally thereby avoiding a large chunk of tax to the government.
But in proposed GST system there is no CST and cascading effect which will lead to outsourcing, subcontracting and division of labour. Because of this specialization will increase in future which will help in reducing the cost of production. With the reduced prices domestic goods will be more competitive in international market which will result in increased export and help country to reduce current account deficit.

ONE TAX BASED COMPUTATION:

The multiple tax computation under CST will perish under GST which will lead to single tax base system for both state and central governments. Initially state governments will lose tax revenue due to less taxable value of goods. But in later years due to availability of cheap goods the number of taxpayers will increase and overall tax collection of states will also boost. This increase in tax revenue will lead to fiscal consolidation which is demanded by current state of Indian economy. As per CRISIL recent report GST is best reckon for fiscal consolidation as there is not much scope to cut government expenditure in India.

CHEAPER EXPORTS AVAILABLE

Indian domestic sector can achieve its targeted 3.5 per cent share of world exports by 2020, with the implementation of GST as the domestic goods will be available more competitively in international market which will automatically lead to increase of exports as no GST will be levied on export.

EASY TAX STRUCTURE: the replacement of GST as a substitute to multiple taxes of central and state governments will have a much easier system to implement Reduction in the accounting complexities for business will make the manufacturing sector more competitive and boost the economy by 1%-2%.

VIII. DEMERITS OF GST

As per 13 finance commission the RNR (Revenue Neutral Rate) should be 12per cent whereas state empowered committee demanding 26.68per cent. Union government is reckoning the rate band should be 15%-20% which is very high as compare to other counties. Due to high RNR Competitive edge of India in Asian giants will decrease and domestic industry may be wrecking. Tax evasion and smuggling will increase. The poor people would be the worst effected lot by the implementation of GST which will have a negative impact on human development index. So, before implementing GST, RNR should be minimized. This can be achieved by inclusion of petrol, liquor, land, electricity within the ambit of GST which will enhance the tax base and increase revenue of government.

DISTRIBUTION OF REVENUE TO STATES:- Currently, VAT is highest contributor in tax revenue of state governments. But after GST reform this will subsumed along with surcharge and cess into GST. Due to which state governments will occur revenue loss for sure and they will be more dependent on finance commission for tax devolution (currently 42%). To neutralize their revenue losses states are demanding compensation from union government. As per 14 finance commission union has to compensate states for maximum of five years with tapering effects. For first three years 100per cent compensation reduced to 75per cent and 50per cent in fourth and fifth year respectively. This reimbursement by central government will increase the fiscal burden and possibly will not discharge the fiscal deficit target of 3per cent by March 2017 announced by finance minister in 2015 budget.

This fiscal target must be achieved for faster economy growth and full capital account convertibility in future. Industrialized states will be at loss in GST regime due to its destination based feature. It will demotivate the manufacturing industry and incite states to import more in order to increase their tax revenue. It is not good for manufacturing industry as well as for India because boosted manufacturing sector is the main driver of our economic growth in future. For temporarily relief to industrialized states additional 1per cent tax for two years on interstate sale and supply of goods is proposed in GST. Bit with 1per cent additional tax, the main objective of GST to minimize cascading effect of taxes is fading out. So, to minimize cascading effect this additional tax at least should not be levied on supply of interstate goods.

REGISTRATION CUTOFF LIMIT:- At present there are different threshold limits for VAT (5 lacs), service tax (10 lacs) and excise duty (1.5 crore). But for implementation of GST common threshold limit for all indirect taxes is required. It will turn into a conflict between state and center. States want to fix the limit as 10 lacs opposing 25 lacs limit suggested by union. It is suggested that with the lowering of GST threshold limit there would be a large increase of revenue for the governments, but this also requires a better infrastructure, ITES and increased access to database which is not there presently in different states.

IT infrastructure will play a vital role in implementing IGST as union will electronically distribute IGST to states. To grapple the data base a strong network is required which is managed by GSTN (Goods and Service Tax Network) proposed in GST. GSTN has major responsibility to tackle biggest challenge of IT infrastructure in a time bound manner.

OTHER ISSUES

Union government need to coordinate with 30 states for "input credit" due to transfer of credit in SGST. State tax officials training and development before implementation of GST. Effective credit mechanism is essential for GST. Owing to CENVAT it is not a problem but for states again it is a major challenge. It is estimated that the real estate market will fall by the introduction of GST, as under GST the taxes will increase by 8 per cent which will result in 12 per cent fall in demand of houses.

IX. CONCLUSION

Due to distilment environment of Indian economy, it is demand of time to implement GST. With the increase in production and consumption of goods and services and levying of different taxes at different levels, the difficulty in management, assessment and collection of taxes is also increasing. Thus, a simplify, user -friendly and transparent tax system is required which can be fulfilled by implementation of GST. Its implementation stands for a clear tax system which will colligate most of current indirect taxes and in long term it will lead to higher output, more employment opportunities and flourish GDP by 1.5-2per cent. It can also be used as an effective tool for fiscal policy management if implemented successfully due to nation-wide same tax rate. It execution will also results in lower cost of doing business that will make the domestic products more competitive in local and international market. No doubt that GST will give India a world class tax system by grabbing different handling to manufacturing and service sector

REFRENCES

1. Agogo Mawuli (2014): "Goods and Service Tax- An Appraisal"Paper presented at the the PNG Taxation Research and Review Symposium, Holiday Inn, Port Moresby,29-30.
2. Dr. R. Vasanthagopal (2011), "GST in India: A Big Leap in the Indirect Taxation System", International Journal of Trade, Economics and Finance, Vol. 2, No. 2, April 2011.
3. Ehtisham Ahamad and Satya Poddar(2009), "Goods and Service Tax Reforms and Intergovernmental Consideration in India", "Asia Research Center",LSE,2009.
4. Girish Garg, (2014),"Basic Concepts and Features of Good and Service Tax in India".
5. Nitin Kumar (2014), "Goods and Service Tax in India-A Way Forward", "Global Journal of Multidisciplinary Studies", Vol 3, Issue6, May 2014.
6. Pinki, Supriya Kamna, Richa Verma(2014), "Good and Service Tax – Panacea For Indirect Tax System In India", "Tactful Management Research Journal",Vol2, Issue 10, July2014