

# EFFECT OF GOODS AND SERVICE TAXES ON INDIAN ECONOMY

## *An Analytical Analysis*

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**Abstract :** The Goods and Services Tax (GST) is a value-added tax levied on most goods and services sold for domestic consumption. The GST is paid by consumers, but it is remitted to the government by the businesses selling the goods and services. In effect, GST provides revenue for the government. GST is an Indirect Tax which has replaced many Indirect Taxes in India. The Goods and Service Tax Act was passed in the Parliament on 29th March 2017. The Act came into effect on 1st July 2017; Goods & Services Tax Law in India is a comprehensive, multistage, destination-based tax that is levied on every value addition. In simple words, Goods and Service Tax (GST) is an indirect tax levied on the supply of goods and services. This law has replaced many indirect tax laws that previously existed in India. Goods and Services Tax (GST) is the significant and enormous indirect tax structure designed to maintain and improve the economic growth of a country. The GST system is playing vital role in diminishing the surging or double taxation effects through integrating many central and state taxes. Consumer's tax burden is diminished from 20% to 30% approximately after introduction of GST. GST is a tax on goods and services with value addition at each stage having comprehensive and continuous chain of set of benefits from the producers or service producers give emphasis to the retailer's level where only the final consumer would bear the tax. After commencement of GST the Indian products became more competitive in the domestic and international markets. The GST is contributing to promote our economy and development of the country

**IndexTerms - Goods and Services Tax, Value-added tax, Indirect tax , Revenue, Parliament.**

### **Introduction**

The Goods and Services Tax (GST) is a value-added tax levied on most goods and services sold for domestic consumption. The GST is paid by consumers, but it is remitted to the government by the businesses selling the goods and services. In effect, GST provides revenue for the government. GST is an Indirect Tax which has replaced many Indirect Taxes in India. The Goods and Service Tax Act was passed in the Parliament on 29th March 2017. The Act came into effect on 1st July 2017; Goods & Services Tax Law in India is a comprehensive, multistage, destination-based tax that is levied on every value addition. In simple words, Goods and Service Tax (GST) is an indirect tax levied on the supply of goods and services. This law has replaced many indirect tax laws that previously existed in India.

### **Definition**

“GST is a comprehensive, multi-stage, destination-based tax that will be levied on every value addition.”

### *Advantages of GST*

GST will mainly remove the Cascading effect on the sale of goods and services. Removal of cascading effect will directly impact the cost of goods. Since tax on tax is eliminated in this regime, the cost of goods decreases. GST is also mainly technologically driven. All activities like registration return filing, application for refund and response to notice needs to be done online on the GST Portal. This will speed up the processes.

### *Components of GST*

**CGST:** Collected by the Central Government on an intra-state sale (Eg: transaction happening within Maharashtra)

**SGST:** Collected by the State Government on an intra-state sale (Eg: transaction happening within Maharashtra)

**IGST:** Collected by the Central Government for inter-state sale (Eg: Maharashtra to Tamil Nadu)

### *How to calculate GST*

1. Determine the net price (the price without the GST). Let's make it €40
2. Find out the GST rate
3. To calculate the tax amount: multiply the net price by GST rate.
4. To determine the gross price: multiply the net price by GST (again, we'd get €4 ) rate and then
5. Add it to the VAT exclusive price.

### *How do you reverse calculate tax?*

To calculate the sales tax that is included in a company's receipts from items subject to sales tax, divide the receipts by 1 + the sales tax rate. For example, if the sales tax rate is 6%, divide the total amount of receipts by 1.06. If the sales tax rate is 7.25%, divide the total receipts by 1.0725.

### How GST is calculated on products sold at MRP? Inclusive Calculation

Suppose A sold Goods to B goods at an MRP 1000 on which GST is applicable at 18%. GST is calculated as Inclusive as Below

$$1000 \times 18/118 = 152.5 \text{ and}$$

$$\text{Actual product price. } 1000 - 152.5 = 847.5$$

The concept of MRP and RSP (defined under the legal metrology act) do not hold good in the GST regime, these concepts were used to determine value in the Central Excise Act, which has now been repealed to the extent inconsistent with GST Act. The levy section of GST states that a tax called GST should be levied on the transaction value. Transaction value means the price at which the goods or services are entered into a transaction for. Also note that GST should be separately mentioned on the invoice... it cannot be inclusive.

GST is never applicable on MRP.

MRP is always inclusive of GST.

GST is calculated on the taxable value of goods manufactured. Taxable value is determined as per the provisions of the ACT.

Suppose, if to manufacture a shirt total cost is Rs. 1000 and say GST rate is 5% So the MRP which can be printed on the shirt will be Rs. 1050.

### What is GST in India? Goods & Services Tax Law Explained

GST is one indirect tax for the entire country. So, before Goods and Service Tax, the pattern of tax levy was as follows: Under the GST regime, the tax will be levied at every point of sale. In case of intra-state sales, Central GST and State GST will be charged. Inter-state sales will be chargeable to Integrated GST.

### Multi-stage

There are multiple change-of-hands an item goes through along its supply chain: from manufacture to final sale to the consumer.

Let us consider the following case:

- Purchase of raw materials
- Production or manufacture
- Warehousing of finished goods
- Sale to wholesaler
- Sale of the product to the retailer
- Sale to the end consumer

Goods and Services Tax will be levied on each of these stages which make it a multi-stage tax.

### Value Addition

The manufacturer who makes biscuits buys flour, sugar and other material. The value of the inputs increases when the sugar and flour are mixed and baked into biscuits. The manufacturer then sells the biscuits to the warehousing agent who packs large quantities of biscuits and labels it. That is another addition of value after which the warehouse sells it to the retailer. The retailer packages the biscuits in smaller quantities and invests in the marketing of the biscuits thus increasing its value. GST will be levied on these value additions i.e. the monetary worth added at each stage to achieve the final sale to the end customer.

In most cases, the tax structure under the new regime will be as follows:

Transaction	New Regime	Old Regime	Remarks
Sale within the State	CGST + SGST	VAT + Central Excise/Service tax	Revenue will be shared equally between the Centre and the State
Sale to another State	IGST	Central Sales Tax + Excise/Service Tax	There will only be one type of tax (central) in case of inter-state sales. The Center will then share the IGST revenue based on the destination of goods

### Illustration

- Let us assume that a dealer in Gujarat had sold the goods to a dealer in Punjab worth Rs. 50,000. The tax rate is 18% comprising of only IGST.

In such case, the dealer has to charge Rs. 9,000 as IGST. This revenue will go to the Central Government.

- The same dealer sells goods to a consumer in Gujarat worth Rs. 50,000. The GST rate on the good is 12%. This rate comprises of CGST at 6% and SGST at 6%.

The dealer has to collect Rs. 6,000 as Goods and Service Tax. Rs. 3,000 will go to the Central Government and Rs. 3,000 will go to the Gujarat government as the sale is within the state.

*Tax Laws before GST*

In the earlier indirect tax regime, there were many indirect taxes levied by both state and center. States mainly collected taxes in the form of Value Added Tax (VAT). Every state had a different set of rules and regulations. Interstate sale of goods was taxed by the Center. CST (Central State Tax) was applicable in case of interstate sale of goods. Other than above there were many indirect taxes like entertainment tax, octroi and local tax that was levied by state and center. For example, when goods were manufactured and sold Excise Duty charged by the center was charged by the center. Over and above Excise Duty, VAT was also charged by the State.

The following is the list of indirect taxes in the pre-GST regime:

Central Excise Duty, Duties of Excise, Additional Duties of Excise, Additional Duties of Customs, Special Additional Duty of Customs, Cess, State VAT, Central Sales Tax, Purchase Tax, Luxury Tax, Entertainment Tax, Entry Tax, Taxes on advertisements, Taxes on lotteries, betting, and gambling. CGST, SGST, and IGST have replaced all the above taxes.

However, the chargeability of CST for Inter-state purchase at a concessional rate of 2%, by issue and utilization of c-Form is still prevalent for certain Non-GST goods such as:

- (i) Petroleum crude;(ii) High-speed diesel;(iii) Motor spirit (commonly known as petrol);(iv) Natural gas;  
(v) Aviation turbine fuel; and (vi) Alcoholic liquor for human consumption.

- Resale
- Use in manufacturing or processing
- Use in the telecommunication network or in mining or in the generation or distribution of electricity or any other power

*What changes has GST brought in?*

In the pre-GST regime, every purchaser including the final consumer paid tax on tax. This tax on tax is called Cascading Effect of Taxes. GST avoids this cascading effect as the tax is calculated only on the value-add at each stage of transfer of ownership. This indirect tax system under GST improve the collection of taxes as well as boost the development of Indian economy by removing the indirect tax barriers between states and integrating the country through a uniform tax rate.

*Illustration*

Based on the above example of biscuit manufacturer along with some numbers, let's see what happens to the cost of goods and the taxes in the earlier and GST regimes.

*Tax calculations in earlier regime*

Action	Cost	10% Tax	Total
Manufacturer	1000	100	1100
Warehouse adds label and repacks @ 300	1400	140	1540
Retailer advertises @ 500	2040	204	2244
Total	1800	444	2244

Along the way, the tax liability was passed on at every stage of the transaction and the final liability comes to rest with the customer. This is called the **Cascading Effect of Taxes** where a tax is paid on tax and the value of the item keeps increasing every time this happens.

*Tax calculations in current regime*

Action	Cost	10% Tax	Actual Liability	Total
Manufacturer	1000	100	100	1100
Warehouse adds label and repacks @ 300	1300	130	30	1430
Retailer advertises @ 500	1800	180	50	1980
Total	1800	-	180	1980

In the case of Goods and Services Tax, there is a way to claim credit for tax paid in acquiring input. What happens in this case is, the individual who has paid a tax already can claim credit for this tax when he submits his taxes. In the end, every time an individual is able to claim input tax credit, the sale price is reduced and the cost price for the buyer is reduced because of a lower tax liability. The final value of the biscuits is therefore reduced from Rs. 2,244 to Rs. 1,980, thus reducing the tax burden on the final customer. GST also brought with it a single nation-wide system of waybills by the introduction of "E-way bills". This system started on 1st April 2018 for Inter-state movement of goods and 15th April 2018 for intra-state movement of goods in a staggered manner. By this system, manufacturers, traders & transporters are benefitted by a common portal where e-way bills can be generated and presence of its visibility to all stakeholders in the process of moving goods from the place of its origin to its destination. Tax authorities are also in vantage as this reduces the time at check -posts and help reduce tax evasion.

*Short-Term Benefit*

From the viewpoint of the consumer, they would now have paid more tax for most of the goods and services they consume. The majority of everyday consumables now draw the same or a slightly higher rate of tax. Furthermore, the GST implementation has a cost of compliance attached to it. It seems that this cost of compliance will be prohibitive and high for the small scale manufacturers and traders, who have also protested against the same. They may end up pricing their goods at higher rates.

*Long Term benefits*

Talking about the long-term benefits, it is expected that GST would not just mean a lower rate of taxes, but also minimum tax slabs. Countries where the Goods and Service Tax has helped in reforming the economy, apply only 2 or 3 rates – one being

the mean rate, a lower rate for essential commodities, and a higher tax rate for the luxurious commodities. Currently, in India, we have 5 slabs, with as many as 3 rates – an integrated rate, a central rate, and a state rate. In addition to these, cess is also levied. The fear of losing out on revenue has kept the government from gambling on fewer or lower rates. This is very unlikely to see a shift anytime soon; though the government has said that rates may be revisited once the RNR (revenue neutral rate) is reached. The impact of GST on macroeconomic indicators is likely to be very positive in the medium-term. Inflation would be reduced as the cascading (tax on tax) effect of taxes would be eliminated. The revenue from the taxes for the government is very likely to increase with an extended tax net, and the fiscal deficit is expected to remain under the checks. Moreover, exports would grow, while FDI (Foreign Direct Investment) would also increase. The industry leaders believe that the country would climb several ladders in the ease of doing business with the implementation of the most important tax reform ever in the history of the country.

### A Brighter Economy

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. Last but not least, the GST, because of its transparent character, will be easier to administer. Once implemented, the proposed taxation system holds great promise in terms of sustaining growth for the Indian economy.

In indirect taxes, Goods and Services Tax (GST) or Value Added Tax (VAT), as a tax system, has been preferred all over the world and it is considered as “One Nation, one Tax”. Goods and Services Tax (GST) tax will contribute to removing market distortions and encourage the growth of the economy. A basis pre-requisite for introduction of GST meaningfully is that both the Centre and the State should replace existing taxes like Excise, State Sales Tax or VAT, CST, Entry Tax and all other cascading-type Central/ State levies on goods and services. It is really a big relief for business, as even today, because of layers of taxes and exemptions, the cost of tax compliance in India is too high. The word tax is derived from the Latin word ‘taxare’ meaning to estimate. “A tax is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority” and is any contribution imposed by government whether under the name of toll, tribute, impost, duty, custom, excise, subsidy, aid, supply, or other name.” The first known system of taxation was in Ancient Egypt around 3000 BC - 2800 BC in the first dynasty of the Old Kingdom [8].

In India, with each passing year steadily moved towards GST by taking steps such as introduction of State VAT in India (from 2003 to 2008), integration of central level CENVAT (in 2004) and introduction of Negative list (in 2012). The smart young man, Pritam has shown great zeal and has taken immense pains to successfully compile all important pieces of legislation together. Pritam has covered all the key areas about GST, steps to be taken for being GST ready, chronology of events, various articles on GST etc in a very lucid manner.

This Constitutional Amendment Bill (Bill) was introduced in the Lok Sabha by the finance minister in March 2011 (Ministry of Finance 2011). The Bill seeks to amend the Constitution to authorize the levy, collection and appropriation of the GST by both the centre and the states. The statement of objects and reasons of the Bill is unimpeachable and reads as:

- i). The GST would replace a number of indirect taxes presently being levied by the central government and the state governments and is intended to remove cascading of taxes and provide a common national market for goods and services.
- ii). The proposed central and state GST would be levied on all transactions involving supply of goods and services except those that are exempt or kept out of the purview of the GST [10].

The Constitution presently mandates exclusive tax jurisdictions to both the centre and the states through the mechanism of Article 246 and the Union and State Lists in the Seventh Schedule. It does not allow for concurrent jurisdiction for both the centre and the states over any tax base. The GST necessarily requires a concurrent jurisdiction to enable both the centre and states to simultaneously levy taxes on the supply of goods and services. There are a number of options available to enable states or centre to levy GST through constitutional amendments. The Bill seeks to achieve this by inserting a new Article 246(A) which will specifically empower Parliament and state legislatures to make laws with respect to taxes on goods and services imposed by the union and states respectively. The Bill proposes that Parliament retain the exclusive power to make laws in respect of taxes on goods and services involved in interstate trade.



Figure 1: GST Logo



Figure 2: The GST System

In GST regime, all supply such as sale, transfer, barter, lease, import of services etc of goods and or services made for a consideration will attract CGST (to be levied by Centre) and SGST (to be levied by State). As GST will be applicable on supply the previous taxable events such as manufacture, sale, provision of services etc. will lose their relevance.

Major milestones in Indirect Tax Reform:

- i). 1974 Report of LK Jha Committee suggested VAT
- ii). 1986 Introduction of a restricted VAT called MODVAT
- iii). 1991 Report of the Chelliah Committee recommends VAT/GST and recommendations accepted by Government
- iv). 1994 Introduction of Service Tax
- v). 1999 Formation of Empowered Committee on State VAT
- vi). 2000 Implementation of uniform floor Sales tax rates Abolition of tax related incentives granted by States
- vii). 2003 VAT implemented in Haryana in April 2003
- viii). 2004 Significant progress towards CENVAT
- ix). 2005-06 VAT implemented in 26 more states
- x). 2007 First GST stuffy released By Mr. P. Shome in January
- xii). 2007 F.M. Announces for GST in budget Speech
- xiii). 2007 CST phase out starts in April 2007
- xiv). 2007 Joint Working Group formed and report submitted
- xv). 2008 EC finalises the view on GST structure in April 2008 xv). 2009 proposed to be implemented from 1.4.2010
- xvi). 2016 Bill passed in parliament with amendments xvii). 2016 Proposed to be implemented from 1.4.2017

Around the world there are many differences in the way VAT (or GST, as we now tend to call such taxes) are understood and implemented. Nevertheless, there are certain common characteristics of such taxes which can help us in understanding and analyzing various related issues. VAT is a tax on consumption, paid ultimately by the final consumer. Budget 2012 has proposed certain conceptual changes in the way service tax in India is administered and this article seeks to summarize the role of key agencies and also highlights the challenges arising during the process of convergence of the new regime of the proposed Goods & Services Tax (GST). It seems that classification matters will continue to be relevant as long as exemptions and concessions (though justified) continue.

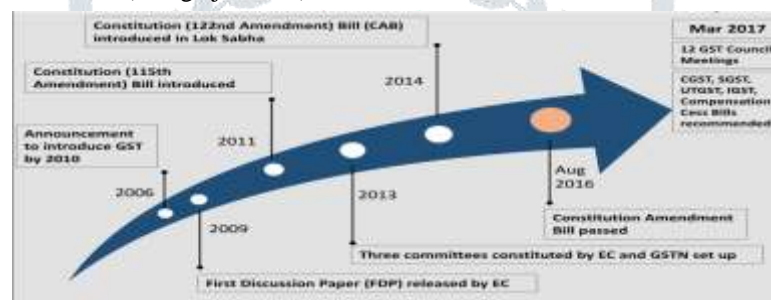


Figure 3: GST India Journey So far

Further, the proposals in the Union Budget 2012 underscore the increasing relevance for businesses to try to bring a degree of certainty on the tax treatment of revenues and limit surprises, especially when tax framework is in the state of evolution. Despite these strong indicators pointing towards the desirability of a single GST administrative agency at the national level, the actual movement has been in the opposite direction. It is well understood that the important question of role and responsibility of union and state governments on policy issues related to the GST base, tax rate, etc, are significant for a truly federal structure, its relation with an effective and efficient collection mechanism and collection agency is quite weak[5].

The rest of the paper is organized in the following manner. The section II offers the Intentions of this Cram, section III presents the Materials and Methods, the benefits of the GST system is explained in section IV, the section V gives the significance of GST Council, the outstanding features of GST is offered in section VI, the section VII illustrates the impact of GST on Indian economy, the Offences and Penalties suggested for non tax payers is in section VIII and section IX concludes this paper.

## II. INTENTIONS OF THIS SCRAM

The fundamental intention of this cram is to identify how the GST system will be an improvement over the previous taxation system in India. The major intentions of this Cram are:

- a). To understand the concept of Goods and Services Tax,
- b). To describe the silent features of proposed GST,
- c). To determine the need for GST,
- d). To know the anticipated benefits of GST.
- e). To scrutinize the possible impact of GST in Indian economy.

## III. MATERIALS AND METHODS

A new project has been launched to use data from the Goods and Services Tax (GST) more extensively. The project's goal is to reduce the response burden and collection costs of sub-annual surveys at Statistics Canada. This article provides

an overview of the work to date using GST data at Statistics Canada. We will provide a general description of the GST project and more specifically, of the development of the database, design of the editing and imputation system, calendarization and the estimation model. We will also discuss the key challenges in designing this type of project[6].

A National Council of Applied Economic Research study (NCAER 2009) has documented the misalignment in the allocation of resources as well as production inefficiencies caused by the present taxation regime. It has estimated that the implementation of a comprehensive GST across goods and services will increase gross domestic product (GDP) growth by between 0.9% and 1.7% while making industry more competitive. The White Paper on Black Money (Ministry of Finance 2012a) recognizes the need to control this scourge and foster the growth of the legitimate economy. At five different places, in different contexts, this paper underlines the importance of implementing GST promptly and efficiently. These include building up of data bases and their integration, preventing the generation of black money and monitoring specific sectors susceptible to the ingress of black money. While the Government of India (GOI) clearly recognizes the importance of putting in place a GST as early as possible, it is often felt that adequate and coherent efforts are not being made to achieve this end [3], [10].

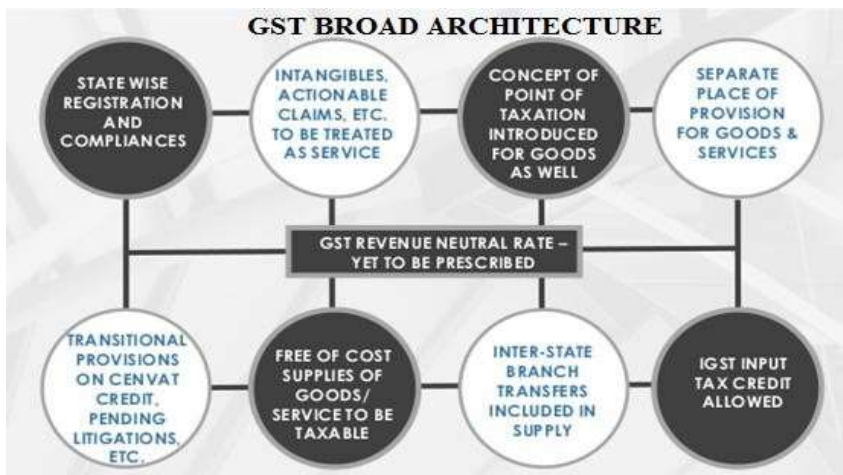


Figure 4: GST Broad Architecture

The term GST is defined in Article 366 (12A) to mean “any tax on supply of goods or services or both except taxes on supply of the alcoholic liquor for human consumption”. Thus, all supply of goods or services or both will attract CGST (to be levied by Centre) and SGST (to be levied by State) unless kept out of purview of GST. GST will be applicable even when the transaction involves supply of both (goods and services). In effect, works contracts will also attract GST. As GST will be applicable on supply the previous taxable events such as manufacture, sale, provision of services etc. will lose their relevance. GST is payable as per time of supply. The liability to pay CGST or SGST will arise at the time of supply as determined for goods and services. In this regard, separate provisions prescribe what will time of supply for goods and services. The provisions contemplate payment of GST at the earliest for

- a) **Goods :** Removal of goods or receipt of payment or issuance of invoice or date on which buyer shows receipt of goods
- b) **Services:** Issuance of invoice or receipt of payment or date on which recipient shows receipt of services.

At present the inter-State supply of goods attract the Central Sales Tax and now it provide that an interstate supply of goods and/ or services will attract IGST ((i.e. CGST plus SGST). GST would be payable on the \_transaction value. Transaction value is the price actually paid or payable for the said supply of goods and/or services between un-related parties. The transaction value is also said to include all expenses in relation to sale such as packing, commission etc. Even subsidies linked to supply will be includable. As regards discounts/ incentives, it will form part of transaction value if it is allowed after supply is affected. However, discounts or incentives given before or at the time of supply will be permissible as deduction from transaction value.

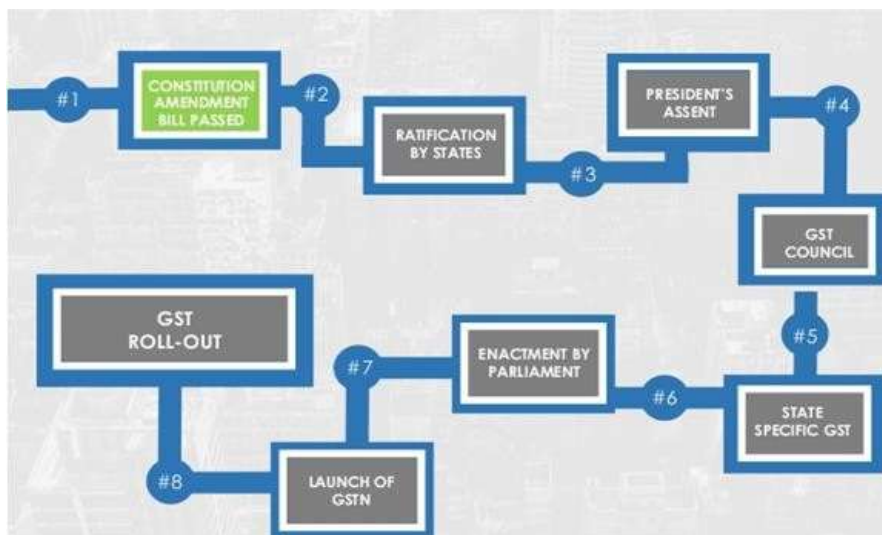


Figure 5: GST So far Implemented from April -2017

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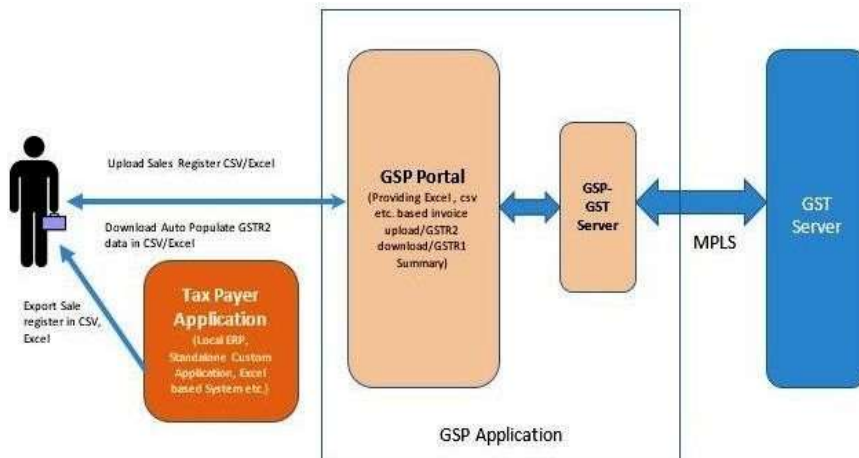


Figure 6: GST Information Technology Architecture

#### IV. BENEFITS OF GST BILL

The tax structure will be made lean and simple. The entire Indian market will be a unified market which may translate into lower business costs. It can facilitate seamless movement of goods across states and reduce the transaction costs of businesses. It is good for export oriented businesses because it is not applied for goods/services which are exported out of India. In the long run, the lower tax burden could translate into lower prices on goods for consumers. The suppliers, manufacturers, wholesalers and retailers are able to recover GST incurred on input costs as tax credits. This reduces the cost of doing business, thus enabling fairer prices for consumers. It can bring more transparency and better compliance. Number of departments (tax departments) will reduce which in turn may lead to less corruption. More business entities will come under the tax system thus widening the tax base. This may lead to better and more tax revenue collections. Companies which are under unorganized sector will also come under the tax regime.

The benefits of GST legislation will be uniformity of laws across the board, greater transparency, neutrality in tax rates on various products; credit availability on interstate purchases and reduction in compliance requirements. If GST is implemented in the true spirit, it will have many positives for the stakeholders and will lead to a better tax environment. Introducing GST will do more than simply redistribute the tax burden from one sector or group in the economy to another. The introduction of the GST brings about a macroeconomic dividend as it reduces the overall incidence of indirect taxation and therefore the overall tax burden by removing the many distortions of the present sales tax system. There are four important macroeconomic channels through which this happens:

First, the failure to tax all goods and services distorts consumption decisions; it weakens the signaling power of relative prices. GST reduces these distortions and enables all economic agents to respond more effectively to price signals.

Second, the unrefunded taxation of capital goods discourages savings and investment and retards productivity growth. This is perhaps the most important gain through introduction of GST in an emerging economy like India.

Third, for a given constellation of exchange rates and price levels, violation of the destination principle places local producers at a competitive disadvantage, relative to producers in other jurisdictions.

Fourth, differences in tax bases of different States and the Central government greatly increase costs of doing business. The GST based tax reform provides a real policy opportunity to do something about this problem without waiting for prior and sweeping political economy changes.

One of the MOST important step for introduction of Goods and Service Tax (GST) i.e. the 122nd Constitutional Amendment Bill (CAB) for introduction of GST is taken up for discussion in Lok Sabha on 24.02.2015.

#### V. ROLE OF GST COUNCIL

The CAB is silent on the key aspects of GST [9] such as

- i). How the model GST law would be?
- ii). Which taxes, cesses, surcharges will be subsumed in GST?
- iii). Which goods and services are subject to or exempt from GST?
- iv). What will be the rate of GST including floor rates?
- v). What will be the threshold limit of GST?

However, to address the aforesaid issues, CAB provides that GST Council will be formulated. The GST Council will consist of Union Finance Minister, Union Minister of State and State Finance Minister. On the aforesaid issues, GST Council will have the power to make recommendations to Centre and States.

## VI. OUTSTANDING FEATURES OF GST

Keeping in view the report of the Joint Working Group on Goods and Services Tax, the views received from the States and Government of India, a dual GST structure with defined functions and responsibilities of the Centre and the States is recommended. An appropriate mechanism that will be binding on both the Centre and the States would be worked out whereby the harmonious rate structure along with the need for further modification could be upheld, if necessary with a collectively agreed Constitutional Amendment.

Outstanding features of the proposed model are as follows:

- i). The GST shall have two components: one levied by the Centre (hereinafter referred to as Central GST), and the other levied by the States. Rates for Central GST and State GST would be prescribed appropriately, reflecting revenue considerations and acceptability. This dual GST model would be implemented through multiple statutes (one for CGST and SGST statute for every State). However, the basic features of law such as chargeability, definition of taxable event and taxable person, measure of levy including valuation provisions, basis of classification etc. would be uniform across these statutes as far as practicable.
- ii). The Central GST and the State GST would be applicable to all transactions of goods and services made for a consideration except the exempted goods and services, goods which are outside the purview of GST and the transactions which are below the prescribed threshold limits.
- iii). The Central GST and State GST are to be paid to the accounts of the Centre and the States separately. It would have to be ensured that account-heads for all services and goods would have indication whether it relates to Central GST or State GST with identification of the State to whom the tax is to be credited.
- iv). Since the Central GST and State GST are to be treated separately, taxes paid against the Central GST shall be allowed to be taken as input tax credit (ITC) for the Central GST and could be utilized only against the payment of Central GST. The same principle will be applicable for the State GST. A taxpayer or exporter would have to maintain separate details in books of account for utilization or refund of credit. Further, the rules for taking and utilization of credit for the Central GST and the State GST would be aligned.
- v). Cross utilization of ITC between the Central GST and the State GST would not be allowed except in the case of inter-State supply of goods and services.
- vi). The problem related to credit accumulation on account of refund of GST should be avoided by both the Centre and the States except in the cases such as exports, purchase of capital goods, input tax at higher rate than output tax etc. where, again refund/adjustment should be completed in a time bound manner.
- vii). To the extent feasible, uniform procedure for collection of both Central GST and State GST would be prescribed in the respective legislation for Central GST and State GST.
- viii). The administration of the Central GST to the Centre and for State GST to the States would be given. This would imply that the Centre and the States would have concurrent jurisdiction for the entire value chain and for all taxpayers on the basis of thresholds for goods and services prescribed for the States and the Centre.
- ix). The present threshold prescribed in different State VAT Acts below which VAT is not applicable varies from State to State. A uniform State GST threshold across States is desirable and, therefore, it is considered that a threshold of gross annual turnover of Rs.10 lakh both for goods and services for all the States and Union Territories may be adopted with adequate compensation for the States (particularly, the States in North-Eastern Region and Special Category States) where lower threshold had prevailed in the VAT regime.
- x). The States are also of the view that Composition or Compounding Scheme for the purpose of GST should have an upper ceiling on gross annual turnover and a floor tax rate with respect to gross annual turnover. In particular, there would be a compounding cut-off at Rs. 50 lakh of gross annual turnover and a floor rate of 0.5% across the States. The scheme would also allow option for GST registration for dealers with turnover below the compounding cut-off.
- xi). The taxpayer would need to submit periodical returns, in common format as far as possible, to both the Central GST authority and to the concerned State GST authorities.
- xii). Each taxpayer would be allotted a PAN-linked taxpayer identification number with a total of 13/15 digits. This would bring the GST PAN-linked system in line with the prevailing PAN-based system for Income tax, facilitating data exchange and taxpayer compliance.
- xiii). Keeping in mind the need of tax payer's convenience, functions such as assessment, enforcement, scrutiny and audit would be undertaken by the authority which is collecting the tax, with information sharing between the Centre and the States.





Figure 7: Salient Features of GST

## VII. IMPACT OF GST ON INDIAN ECONOMY

At the union level, there are two large government organisations, each separately responsible for administration and collection of “direct taxes” (being taxes mainly on income and wealth) and another responsible for management and collection of “indirect taxes” (being taxes mainly on consumption and production). These two departments function under the overall control of two boards called the Central Board of Direct Taxes (CBDT) and Central Board of Excise and Customs (CBEC). These boards are responsible not only for overall supervision and control of the field departments, but are also entrusted with all policymaking and decisions in the areas of union taxation [5].

Reduces tax burden on producers and fosters growth through more production. The [current taxation structure](#), pumped with myriad tax clauses, prevents manufacturers from producing to their optimum capacity and retards growth. GST will take care of this problem by providing tax credit to the manufacturers [1], [2], [4], [7]. India is proposing to implement dual GST “In dual GST” regime, all the transactions of goods and services made for a consideration would attract two levies i.e. CGST (Central GST) and SGST (State GST). Taxes that will be subsumed in GST: GST would be levied on all the transactions of goods and services made for a consideration.

### a). IMPACT OF GST ON PUBLIC

Here in India, the maximum population is of the middle class and lower middle class where people either belong to service class or they depend on agriculture for their living. In this scenario, the most important question is what is the impact of GST on a common man or a middle-class family. There are lots of question in the mind of a common man in these days such as: Is there anything new for him or it’s like an old material in a new package? Is there any tax relaxation for him in new tax provisions or it will increase the prices of goods and services for him?

After GST, there is a single tax provision in the supply chain where each person is able to take tax benefit of all the taxes which he already paid and eventually the prices become low. As well as he came to know that how much tax he has paid on goods and what is the actual value of his goods. Again there is better tax administration facility in GST so manipulation in taxes is not possible. GST has a wider scope so it will cover a maximum number of the assesses at each stage tax benefit will generate and at the end consumer get benefit for this. For the general public, the actual impact of any economy is when the prices of their necessity become affected. For public in large when prices become low for the day to day goods and services which are consumed, the economy is good otherwise if the inflation rate is higher, then the public gets unsatisfied with the changes done by the government.

### b). IMPACT OF GST ON BUSINESS

The main aim of implementation of new tax regime is one nation, one tax, one market. GST has replaced a dozen of central and state levies such as excise, VAT and service tax. Impact of GST on several sectors is mentioned below:-

#### i). SMALL AND MEDIUM ENTERPRISES

The combining of Central (CGST) and state (SGST) taxes in the new tax regime, enterprises who annual turnover of Rs 20 lakh or above (10 lakhs in some specific states) will have to follow all the GST provisions. The new GST rule will adversely influence the SMEs working capital. Under the previous tax regime, the exemption limit for SMEs was Rs. 5 lakhs, whereas in the new tax regime the exemption limit is enhanced to Rs. 20 lakhs ( 10 lakhs in some specific states) which have a positive impact. Ease of doing business removes cascading effect (double taxation), reduces the tax burden on new businesses, improved logistics and faster delivery of services are some of the positive points of the newly implemented of Goods and Services Tax (GST).

**ii). IMPACT ON REAL ESTATE INDUSTRY**

The real estate is one of the important sectors which play the significant role in generating employment in India. Under the Goods and Services Tax Regime, all under- construction houses or properties imposed 12 percent on property value (excepting stamp duty and registration charges). It must be noted that 12 percent tax rate will not be applicable to ready-to-move-in houses and completed projects, as such no indirect taxes applied in the sale of under constructed properties. Stamp- duty and registration charges will bear by the buyer in case of uncompleted projects or under-construction projects. The GST rate on under-constructed houses or projects increased from 6.5 percent previous regime to 12 percent in the new regime. The actual GST rate on real- estate sector is 18 percent. A total cost of building charged by the developer, out of them one- third of the tax to be deducted from the land value.

The GST provides an option of claiming input tax credit, which will not be available on ready-to-move-in projects. Under GST, either developer will have to bear the high tax burden or further pass to end- consumers and increase the overall prices of houses or projects to meet the requirements of the new tax burden. House of Hiranandani Chairman and managing director of Surendra Hiranandani said:- “While developers might still get some benefits for projects that are in nascent stages, they will have to bear the tax burden for the ready-to-move-in projects since they are kept out of the GST ambit.”

**iii). IMPACT ON AUTOMOBILE SECTOR**

Automobiles sector is one of the sectors in India which manufacturer large number of cars annually. Under the Goods and Services Tax (GST) several taxes imposed by the central and state government such as road tax, excise, sales tax, VAT, motor vehicle tax and registration duty will be eliminated in the new tax regime. Though still, there is some confusion due to different tax rates and exemptions furnished by several states to the manufacturers/ dealers for producing bus/ bike/ cars. Recently, the GST Council has increased chess on mid-sized to hybrid variant to luxury ones, from 15 percent to 25 percent. A new rule has been implemented in the Act in the motor vehicles has the capacity to transport up to 13 people would impose 25 per cent chess. Under the new indirect tax regime, which subsumed several central and state levies in the biggest tax reform since Independence, cars imposed highest GST rate i.e. 28 percent tax.

**Impact of GST on Banking and Financial Sectors**

Banks in India have been levying service tax on most transactions enabled by their systems. These include but are not limited to digital fund transfers, issuance of ATM cards and Cheque books, and ATM withdrawals beyond a specific limit. With GST on financial services, these services will be taxed at the rate of 18% instead of the 15% service tax rate that was being charged earlier. For example, if you withdraw money from an ATM other than your bank’s ATM after exceeding the “free transaction limit”, you are typically charged Rs 20 plus a service tax, which comes to around Rs 23. With the imposition of GST, this amount will go up to Rs 23.60.

However, deeper analysis reveals that such an increase in cost should not be considered a negative GST impact on financial services sector. In the long run, banks will be able to transfer the advantage of input tax credit enabled under GST to the customers. Furthermore, services like fixed deposits (FDs) and other bank account deposits that were outside the circle of service tax will continue to remain outside the GST ambit. A major advantage of GST on financial services and other sectors is that it is a transparent tax and has reduced the number of indirect taxes. It integrates different taxes and ensures that the tax burden is fairly divided between different entities involved in the system. In addition, GST is essentially technology based. The advanced software systems used in its calculation and filing works will reduce the chances of manual errors and will lead to better decision making.

The term ‘financial services’ has not been specifically defined by the GST Law. However, to understand the implications of this tax on the financial services sector, we need to consider the supply of goods and services that involve the extension of credit support. These services include but are not limited to: Loans, Lease, Hire purchase, Conditional sales, Securitization or assignment of receivables vi). Acquisition or sale of shares and securities

The compliance towards GST can take some effort in the above fields because of the nature of operations conducted by banks and NBFCs concerning credit products, lease transactions, hire purchase, actionable claims and other funds and non-funds-based services. The GST rate on banking services and services provided by the NBFCs has been raised from 15% to 18% with the execution of this reform from July 01, 2017 onwards.

**Impact of GST on Companies**

According to the report by Edelweiss Securities stated that advertising and consumer promotion spending will be recovered in the second half of FY17, along with 15% percent growth. According to the reports, it is expected that customers will spend a more money on FMCG in the festive months rather than the other months in a financial year. To increase customer base, some FMCG companies have decided to invest money in advertisements. Some of the renowned FMCG companies including Marico, PepsiCo, Dabur, and Parle have big expectations with the festive seasons and are trying to enhance their investments in ads over coming months. It is expected that in the period of October to December accounts for 40 percent of ad- industry revenues.

**Impact of GST on Health Care Systems**

The Goods and Services Tax is a unified, consumption-based tax on the supply of selected goods and services. It was officially implemented by the government of India on 1 July, 2017. The GST system is applicable on most of the commercial supplies including the healthcare and pharmacy industry products and services. The impact of GST on healthcare and pharmaceutical sector is becoming known with time. Let’s find out the GST rate on various medical

supplies and how it impacts the people and businesses in general. While the tax rate on some medical commodities was increased, the tax on many other medical supplies and services is reduced under GST. However, the increase in tax on some basic and most crucial medical facilities such as kidney and heart operations have increased the troubles of the middle-class people of the country. Most of these healthcare services are kept under the GST slabs of 12 and 18 percent which has significantly increased the cost for individuals. Take a look at the revised GST rates on healthcare services/supplies and their impacts.

#### F) GST ON FMCG SECTOR

FMCG sector is the major taxation contributor in the economy of a country. It consists 50% Food and Beverage sector and 30% is Household and Personal Care. The multiplicity of the taxation leads to the company's decision on manufacturing location and distribution of goods by keeping in mind to avail tax benefits. Thus implementation of GST will really influenced on FMCG sector and ultimately it will impact on the economy of our country.

#### EMPLOYMENT SECTOR

From the history of GST which is implemented in different countries of the world, it is observed that international corporate houses will feel more comfortable in investing and expanding their business in the particular country, where GST is implemented, due to remove of tax horror. And hence foreign investment will follow the second largest consumer market of world. The flow of investment of corporate houses through starting their various business will definitely increase the job opportunities and hence erosion of unemployment. Finally this will create a stable environment by avoiding a largest groups inclination towards illegal activities, anti-social activities etc., which is the most significant requirement for development of a country. Manufacturing sector: The manufacturing sector of Indian Economy has complex tax structure in nature and it deals only 16% share in GDP. India is able to shift its agricultural economy to a manufacturing and service economy. The proposed GST in India will bring positive change by eliminating cascading effect of current taxation system. First step of manufacture concern is to calculate cost of production in financial statement and GST helps by reducing cost of production that create incremental value for customers and remain a challenge for every business.

#### INFORMATION TECHNOLOGY ENABLED SERVICES:

According to proposed GST if 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. Introduction of GST will help in uniform simplified and single point taxation and ultimately reduces its price.

##### **Impact on Textiles:**

For smooth taxation, the textile Industry has been divided into some broad categories such as cotton, Silk, Woolen, Khadi and Handloom, Synthetic fiber, carpet weaving, artificial silk, Jute, Hemp and Mesta textiles, readymade garments and miscellaneous textile products etc. The present taxes vary based on these categories. Moreover, Textile sector is dominated by unorganized players who are given tax exemption on size basis of their operation. The key concern for textile industry includes the followings on the basis of these factors:

- i). Different taxation is for cotton and manmade fibre.
- ii). Dispute over fabric vs. garments classification
- iii). Zero duty for cotton fibres as compared to high Excise duty structure on man-made fiber segment.
- iv). Composite milks are taxed at higher rate in comparison to power looms.

However, as the current taxation system is production based, it leads to block input taxes which results in higher cost of production. But, as GST is consumption based Tax, after its implementation it will eliminate block input taxes for its uniform role of tax.

##### **Impact on small enterprises:**

In GST tax regime, the small scale enterprises are categories in three ways:

- i). Below Threshold: need not to register for GST
- ii). Between threshold and composition turnovers: will have the option to pay a turnover based tax or opt to join the GST regime
- iii). Above threshold limit: will need to be within framework of GST. With the implementation of GST will help the manufacturers and traders by reducing payable taxes. It is expected to encourage compliance as well as widen tax base adding up to 2% GDP [11].

#### **Telecommunication Sector:**

The proposed GST regime appears to be unfavorable for the telecommunication sector as well. The dual framework of GST regime could be the direct spike in the service tax rate from 14% to 18-20%. The proposed GST appears to be silent on whether the telecommunication can be considered under the category of goods and services. Being a regressive taxation system, the burn of increased tax rates will directly be faced by the end consumer unless the credit is passed on to the next in business chain [1], [4], [11].

#### **Impact of GST on Government Sectors**

The Government's favourable policy regime including liberalization of the FDI policy framework and launch of major national development programs including Make in India and Digital India along with a robust business environment has

ensured the inflow of foreign capital into the country. Improved governance, favourable conditions to conduct business, transparency in government procedures and responsive policy making with an immediate focus on effective implementation of government reforms will continue to evolve India into a preferred destination for foreign investment. India is thus set on a growth trajectory that promises all-round development, economic welfare and strong macroeconomic indicators. GST as a radical reform is acting as enablers for boosting the domestic environment which in turn is improving the country's stature globally.

### VIII. GST – OFFENCES AND PENALTIES

The Offences and penalties are suggested for non-payers of GST:

(1) Where a taxable person who –

- i). Supplies any goods and/or services without issue of any invoice or issues an incorrect or false invoice with regard to any such supply;
- ii). Issues any invoice or bill without supply of goods and/or services in violation of the provisions of this Act, or the rules made there under;
- iii). Collects any amount as tax but fails to pay the same to the credit of the appropriate Government beyond a period of three months from the date on which such payment becomes due;
- iv). Collects any tax in contravention of the provisions of this Act but fails to pay the same to the credit of the appropriate Government beyond a period of three months from the date on which such payment becomes due;
- v). Takes and/or utilizes input tax credit without actual receipt of goods and/or services either fully or partially, in violation of the provisions of this Act, or the rules made there under;
- vi). Obtains fraudulently refund under this Act;
- vii). Falsifies or substitutes financial records or produces fake accounts and/or documents or furnishes any false information or return with an intention to evade payment of tax due under this Act;
- viii). Is liable to be registered under this Act but fails to obtain registration; furnishes any false information with regard to particulars specified as mandatory, either at the time of applying for registration, or subsequently;
- ix). Obstructs or prevents any officer in discharge of his duties under the Act;
- x). Transports any taxable goods without the cover of documents as may be specified in this behalf;
- xi). Suppresses his turnover leading to evasion of tax under this Act; fails to keep, maintain or retain books of account and other documents in accordance with the provisions of this Act or the rules made there under;
- xii). Fails to furnish information and/or documents called for by a CGST/SGST officer in accordance with the provisions of this Act or rules made there under or furnishes false information and/or documents during any proceedings under this Act;
- xiii). Supplies, transports or stores any goods which he has reason to believe are liable to confiscation under this Act;
- xiv). Issues any invoice or document by using the identification number of another taxable person; tampers with, or destroys any material evidence;
- xv). Disposes off or tampers with any goods that have been detained, seized or attached under this Act; shall be liable to a penalty of rupees ten thousand or an amount equivalent to the tax evaded or input tax credit availed of or passed on irregularly, or the refund claimed fraudulently, as the case may be, whichever is higher.

(2) Any registered taxable person who repeatedly makes short payment of tax shall be liable to a penalty of rupees ten thousand or ten percent of the tax short paid, whichever is higher; Explanation. For the purposes of this sub-section, a taxable person shall be deemed to have made short payments repeatedly, if there were short payments in three returns during any six consecutive tax periods;

(3) Any person who

- a). Aids or abets any of the offences specified in clauses (i) to (xviii) of sub-section (1) above;
- b). Acquires possession of, or in any way concerns himself in transporting, removing, depositing, keeping, concealing, supplying, or purchasing or in any other manner deals with any goods which he knows or has reason to believe are liable to confiscation under this Act or the rules made there under;
- c). Receives or is in any way concerned with the supply of, or in any other manner deals with any supply of services which he knows or has reason to believe are in contravention of any provisions of this Act or the rules made there under; fails to appear before the CGST/SGST officer, when issued with a summon for appearance to give evidence or produce a document in an enquiry;
- d). Fails to issue invoice in accordance with the provisions of this Act or rules made there under, or fails to account for an invoice in his books of account; shall be liable to a penalty which may extend to rupees twenty five thousand.

### CONCLUSION

The GST will reduce cascading effect of previous indirect taxation system and offer liberation to the producers and consumers by subsuming the several indirect taxes. Due to the effect of the GST, the various taxes such as Duties of Excise, Additional Duties of Excise, Additional Duties of Customs and Special Additional Duties of Customs, Service

Tax and Central Excise Duty are replaced. The Manufacturer, Wholesaler, Retailer and Information Technology Field are getting the benefits through easily recovered input taxes in form of tax credits. Thus implementation of GST will lead commercial benefit, more employment opportunities and would essentially lead to economic development that will improve GDP of the country. It is noteworthy to mention that GST will give India a world class tax system by grabbing different treatment to manufacturing and service sector. But these will critically depend on a neutral and rational design of the GST. Further, tax payer education or public awareness programmed, workshops, training and various seminars on GST must be conducted in all states by their respective state governments.

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