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An Insight into the GST in India

Dr. Avtar Dixit – Assistant Professor, Govt. PG College Bilaspur Rampur.

Anuj Kumar Solanki- Research Scholar (Commerce), Research Centre: Govt. PG College Bilaspur Rampur

Directorate of Research, Nehru Kendra MJP Rohilkhand University Uttar Pradesh.

Abstract:

This article provides an overview of the Goods and Services Tax (GST) system in India and its impact on the Indian economy. The article discusses the benefits of Goods and Services Tax, such as the simplification of the tax system, the reduction of the tax burden on businesses, and the creation of a common market. The article also examines the challenges in the implementation of Goods and Services Tax, such as the need for greater clarity on the Goods and Services Tax rates for certain goods and services.

Past practices for GST in India:

The concept of GST (Goods and Services Tax) was first introduced by a committee headed by R. V. Easwar, former Justice of the Delhi High Court, in 2000. The committee recommended the introduction of a comprehensive indirect tax to replace the existing multiple taxes and levies that were levied on the supply of goods and services in India.

In 2004, the Kelkar Task Force on Indirect Taxes, headed by Vijay Kelkar, also recommended the introduction of GST in India. The task force suggested that the GST should be implemented in a phased manner, starting with the central level and later integrating the state-level taxes.

In 2006, the Finance Minister of India, P. Chidambaram, announced the government's intention to introduce GST by April 2010. However, due to various challenges and obstacles, the introduction of GST was delayed.

Finally, after several years of discussions and negotiations between the central and state governments, the GST was introduced in India on July 1, 2017, replacing the existing indirect tax system. The introduction of GST is considered to be the most significant tax reform in India's economic history.

Introduction of GST:

GST stands for Goods and Services Tax. It is a comprehensive indirect tax that is levied on the supply of goods and services in India. GST was introduced in India on July 1, 2017, replacing a complex system of multiple taxes and levies, such as central excise, service tax, value-added tax, etc. GST is a destination-based tax system, which means that the tax is levied at the point of consumption and is collected by the state where the goods or services are consumed. The GST system is designed to simplify the tax structure, reduce the tax burden on businesses, and create a common market across India.Goods and Services Tax is an indirect tax levied on the supply of goods and services in India. The GST was introduced in India on July 1, 2017, replacing a complex system of multiple taxes and levies, such as central excise, service tax, value-added tax, etc. The introduction of GST is considered to be the most significant tax reform in India's economic history.

GST Model Used by India:

India has implemented a dual GST system, which means that both the central and state governments levy GST on the supply of goods and services. The central government levies Central Goods and Services Tax (CGST), and the state governments levy State Goods and Services Tax (SGST). In addition, an Integrated Goods and Services Tax (IGST) is levied on the inter-state supply of goods and services. The dual GST system was implemented in India to maintain the fiscal autonomy of the states and to ensure a smooth transition to the new tax system.

The GST model adopted by India is based on the Canadian GST model, which was introduced in Canada in 1991. However, India has made several modifications and adjustments to the Canadian GST model to suit its federal structure and unique socio-economic conditions. The Indian GST system also incorporates some features of the value-added tax (VAT) systems of other countries, such as Australia, New Zealand, and Singapore. The Indian GST system is designed to simplify the tax structure, reduce the tax burden on businesses, and create a common market across India.

Features of GST:

Here are some key features of the GST system in India:

- GST Rates: GST rates in India are broadly classified into four categories - 5%, 12%, 18%, and 28%. Some goods and services, such as essential commodities, are exempt from GST.
- Input Tax Credit: Input tax credit is a mechanism that allows taxpayers to claim a credit for taxes paid on inputs used in the production of goods or services. Under the GST system, businesses can claim input tax credit for taxes paid on inputs and services used in the course of business.
- Composition Scheme: The Composition Scheme is designed for small businesses with a turnover of up to INR 1.5 crores. Businesses opting for the scheme are required to pay a fixed percentage of their turnover as GST and are not allowed to claim input tax credit.
- GST Network (GSTN): The GSTN is a non-profit, private limited company set up to provide a common IT infrastructure for the implementation of GST. It facilitates GST registration, returns filing, and tax payments.
- GST Returns: GST returns are filed electronically through the GSTN portal. There are various types of returns under GST, such as GSTR-1, GSTR-2, GSTR-3B, etc. The frequency of returns filing varies based on the turnover of the business.
- GST Council: The GST Council is a constitutional body that is responsible for making recommendations to the central and state governments on issues related to GST. It consists of the Union Finance Minister and the Finance Ministers of all states.

Overall, the introduction of GST has simplified the tax system in India, reduced the compliance burden for businesses, and helped in the creation of a common market across India. However, there have been some challenges in the implementation of GST, such as the need for greater clarity on the GST rates for certain goods and services, and the technical glitches in the GSTN portal.

GST in other countries:

As of 2021, more than 160 countries around the world have implemented GST or a similar value-added tax (VAT) system. Some of the countries that have implemented GST or VAT include Canada, Australia, New Zealand, South Korea, Malaysia, Singapore, China, the European Union, and many others. The specific features and rates of GST or VAT may vary from country to country, but the basic principle is the same: a consumption-based tax levied on the value-added at each stage of the supply chain.

GST and the Old Taxation System in India:

The GST system in India replaced a complex and fragmented system of multiple taxes and levies that were levied on the supply of goods and services in the country. Here are some key differences between the old tax regime and the GST system:

- Simplified Tax Structure: The GST system has simplified the tax structure by replacing a plethora of indirect taxes such as central excise, service tax, VAT, and others with a single tax.
- Common National Market: The introduction of GST has led to the creation of a common national market by removing inter-state barriers to trade.
- Input Tax Credit: Under the GST system, businesses are allowed to claim input tax credit on the tax paid on purchases, which was not possible under the old tax regime.
- Reduced Tax Burden: The GST system has reduced the overall tax burden on businesses by eliminating the cascading effect of taxes.
- Technology Driven: The GST system is technology-driven, with online registration, return filing, and payment of taxes, which has made compliance easier for businesses.

Overall, the introduction of the GST system in India has led to a more efficient and streamlined tax system, which has benefited businesses and consumers alike.

Rates of GST in India:

The Goods and Services Tax (GST) rates in India are divided into five different tax slabs, which are:

- 0% GST Rate: This rate applies to essential goods such as fresh meat, vegetables, and dairy products.
- 5% GST Rate: This rate applies to goods such as processed food, footwear, and medical devices.

- 12% GST Rate: This rate applies to goods such as computers, processed foods, and toiletries.
- 18% GST Rate: This rate applies to goods such as consumer durables, smart phones, and financial services.
- 28% GST Rate: This rate applies to luxury items such as high-end cars, yachts, and aircraft, as well as goods such as cigarettes and tobacco products.

Apart from these rates, there is also a special rate of 0.25% on rough precious and semi-precious stones and 3% on gold and silver. Additionally, some items such as petroleum products and alcohol for human consumption are currently excluded from the purview of GST and are taxed separately by the state and central governments.

It is important to note that these rates are subject to change by the GST Council based on the evolving economic and fiscal conditions in the country.

Impact of GST on Indian Economy:

The implementation of GST in India has had a significant impact on the Indian economy. Here are some of the key impacts:

- Boost to GDP: GST has led to the creation of a common national market, which has increased efficiency in the movement of goods and services, leading to a boost in GDP.
- Simplification of Tax Structure: GST has simplified the tax structure by replacing multiple taxes with a single tax, making it easier for businesses to comply with the tax laws.
- Increased Tax Compliance: GST has increased tax compliance as businesses are required to register under the GST system and file regular returns, leading to a reduction in tax evasion.
- Improved Competitiveness: GST has reduced the overall tax burden on businesses, making Indian goods and services more competitive in the global market.
- Reduction in Inflation: The implementation of GST has led to a reduction in inflation by removing the cascading effect of taxes and making the tax system more efficient.
- Formalization of the Economy: GST has led to the formalization of the economy as more businesses have come under the tax net, leading to greater transparency and accountability.

Overall, the implementation of GST in India has had a positive impact on the Indian economy, leading to increased efficiency, competitiveness, and formalization of the economy. However, there have also been some challenges in the implementation of GST, such as initial difficulties in adapting to the new tax system, compliance issues, and technology-related glitches.

How GST will reduce the Tax burden?

GST has reduced the tax burden on businesses in the following ways:

- Removal of Cascading Effect: Under the old tax regime, businesses had to pay tax on the tax component of the goods and services they purchased, leading to a cascading effect of taxes. GST has eliminated this cascading effect by allowing businesses to claim input tax credit on the tax paid on their purchases, which reduces the overall tax burden.
- Simplification of Tax Structure: The introduction of GST has simplified the tax structure by replacing multiple taxes with a single tax, which has reduced the compliance burden on businesses.
- Uniform Tax Rates: GST has introduced uniform tax rates across the country, which has eliminated the need for businesses to comply with different tax rates in different states.
- Threshold Limits: GST has also introduced threshold limits for businesses, below which they are not required to register for GST, which has reduced the compliance burden on small businesses.

Overall, GST has reduced the tax burden on businesses by eliminating the cascading effect of taxes, simplifying the tax structure, introducing uniform tax rates, and providing threshold limits for small businesses. This has made the tax system more efficient and reduced the compliance burden on businesses, leading to increased competitiveness and economic growth.

Challenges in the implementation of Goods and Services Tax:

The implementation of Goods and Services Tax (GST) in India was a massive undertaking, and it faced several challenges during its rollout. Here are some of the challenges faced during the implementation of GST:

- Complex Tax Structure: Although the GST system aimed to simplify the tax structure, it was still complex due to the different tax rates and the need to comply with state and central laws.
- IT Infrastructure: The GST system was technology-driven, which meant that businesses needed to comply with the online registration, return filing, and payment of taxes. However, the IT infrastructure was not adequately prepared, leading to glitches and difficulties in compliance.

- Training and Education: Businesses needed to train their employees to comply with the GST system, which was a massive undertaking. However, there was a lack of adequate training and education resources, which led to difficulties in compliance.
- Transitional Challenges: The transition from the old tax regime to the new GST system was challenging, leading to disruptions in supply chains and difficulties in the compliance process.
- Compliance Challenges: The GST system required businesses to comply with multiple regulations, such as filing regular returns and complying with the input tax credit rules, which led to compliance challenges.

The government had estimated that it would earn revenue of around Rs 91,000 crore per month. However, in the initial months, the collections were lower than expected. According to a report by the Comptroller and Auditor General (CAG) of India, the total GST revenue shortfall of the central and state governments was around Rs 2.35 lakh crore in 2017-18. The government took various measures to increase revenue collections, such as reducing rates on certain goods and increasing compliance measures. As a result, the collections started to increase, and in 2018-19, the revenue collected was around Rs 11.77 lakh crore, which was an increase of 12.5% over the previous year.

In the fiscal year 2019-20, the GST collections were impacted by the COVID-19 pandemic and the subsequent lockdowns. The revenue collections were lower than expected, and the government had to provide relief to taxpayers by extending the due dates for filing returns and reducing interest rates on late payments. The GST revenue collections in 2019-20 were Rs 6.2 lakh crore, which was lower than the government's target of Rs 13.71 lakh crore. In 2020-21, the GST collections started to recover, and the revenue collected was Rs 9.45 lakh crore, which was higher than the previous year. However, it was still lower than the government's target of Rs 12.2 lakh crore.

In this way, the implementation of GST in India has seen various changes in revenue collections, and the government has been taking steps to increase compliance and revenue collections. The GST Council regularly reviews the rates and procedures to ensure that the system is running smoothly.

Possibilities in Goods and Services Tax in India:

Goods and Services Tax (GST) is a significant tax reform in India that has the potential to bring several benefits to the Indian economy. Here are some of the possibilities in GST in India:

- Increased Tax Revenues: GST has the potential to increase tax revenues for the government by bringing more businesses under the tax net and reducing tax evasion.
- Boost to Economic Growth: GST has the potential to boost economic growth by increasing efficiency in the movement of goods and services and reducing the compliance burden on businesses.
- Formalization of the Economy: GST has the potential to formalize the economy by bringing more businesses under the tax net, leading to greater transparency and accountability.
- Increased Competitiveness: GST has the potential to increase the competitiveness of Indian goods and services in the global market by reducing the overall tax burden on businesses.
- Integration with International Tax Systems: GST has the potential to integrate with international tax systems, making it easier for Indian businesses to comply with international tax laws and reducing the compliance burden.
- Simplification of Tax Structure: GST has the potential to simplify the tax structure further by reducing the number of tax rates and introducing a more uniform tax system.

Overall, GST has several possibilities in India, including increased tax revenues, boost to economic growth, formalization of the economy, increased competitiveness, integration with international tax systems, and simplification of the tax structure. With the government's continued efforts to address the challenges in the implementation of GST, these possibilities can be realized, leading to a stronger and more efficient Indian economy.

Future aspects of GST in India:

The Goods and Services Tax (GST) system in India has undergone several changes and developments since its implementation in 2017, and it is expected to continue evolving in the future. Here are some possible future aspects of GST in India:

- Simplification of the Tax Structure: The government is expected to continue simplifying the GST tax structure by reducing the number of tax rates and introducing a more uniform tax system. This will further reduce the compliance burden on businesses and make the tax system more efficient.
- Technology Integration: The government is expected to further integrate technology into the GST system to make compliance easier for businesses. This could include the introduction of a mobile app for GST compliance and greater use of artificial intelligence and machine learning.
- Expansion of GST Base: The government is expected to continue efforts to expand the GST base by bringing more businesses under the tax net. This will increase tax revenues for the government and lead to greater formalization of the economy.

- Cross-border Trade: The government is expected to continue exploring the possibility of integrating the GST system with international tax systems to facilitate cross-border trade and make compliance easier for businesses.
- GST Council Reforms: The GST Council, which is responsible for making recommendations on the GST system, is expected to undergo further reforms to make it more efficient and effective in making policy decisions.

Overall, the future of GST in India is likely to focus on simplification of the tax structure, technology integration, expansion of the GST base, cross-border trade, and GST Council reforms. These efforts are expected to make the GST system more efficient, transparent, and competitive, leading to increased economic growth and development in India.

Conclusion:

In conclusion, the Goods and Services Tax (GST) is a significant tax reform in India that aims to simplify the tax structure, reduce the tax burden on businesses, and increase tax revenues for the government. Since its implementation in 2017, the GST system has undergone several changes and developments, and it is expected to continue evolving in the future.

The GST system in India has brought several benefits, including increased efficiency in the movement of goods and services, formalization of the economy, and increased competitiveness of Indian goods and services in the global market. However, the implementation of the GST system has also faced several challenges, including the complexity of the tax structure, compliance burden on businesses, and technological issues.

Despite these challenges, the government has continued to address the issues and work towards improving the GST system. With continued efforts to simplify the tax structure, integrate technology, expand the GST base, and make the system more efficient and effective, the GST system has the potential to bring significant benefits to the Indian economy in the years to come.

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