

# An overview of GST in Indian Economy

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## **Abstract**

Goods and Service Tax is the form of new tax structure of Indian Economy intended to include all indirect tax into one tax with seamless ITC and charged on both goods and services. It is the biggest tax reforms since 1947 in Indian Economy. It was supposed to be implemented from April 2010. GST will be levied on both goods and services at all the stage of value addition. It is the dual model including Central Goods and Service tax and State Goods and Service tax. This paper mainly focus an overview of GST concept, characteristics, periods of implementation in India, moreover this paper also tried to explain the advantages and challenges in India.

**Keywords:** Tax, Indirect tax, Goods and Service Tax (GST) India.

## **Introduction:**

Introduction of GST in India is the biggest tax reform measures since 1947. GST is the unification of all the complicated Indirect taxes into single tax form. GST is transform version of Value Added tax. VAT or Value added tax was first introduced France in 1954 and it is followed by 140 countries. The concept of VAT is applying a tax only on the value added by each person at each stage, by allowing the person input credit of taxes paid upto his stage of procurement. Thus the tax is expected to reduce the concept of "tax on tax", increase the gross domestic product of the economy and reduce prices. In the 2016 The Indian Congress approve the Goods and Service Tax legislation to simplify the current multi-layered federal, state, and local indirect tax structure. The GST bill unifies atleast ten types of indirect taxes into one tax to be collected at the state and federal levels. GST system where tax is imposed by central and state board, in India also GST will have three parts of CGST, SGST and IGST. THE central taxes like excise duty will be subsumed into CGST and state taxes like VAT into SGST. India is one of the 123 countries across the world that is following the VAT mode. Modal of basic design for VAT was released on January 2005 by Finance minister P. Chidambaram. VAT was introduced both at centre and state level. It was implemented in Haryana in 2003 and later on first April 2005, it was introduced in remaining states as an Indirect Tax in the Indian taxation system. VAT was replaced central excised duty at the national level and sales tax system at the state level.

Goods and Service Tax bill officially known as the constitution bill, 2014 proposes a national value added tax to be implemented in India from 2016. It was dual in nature i.e it would consist of two components, one levied by Centre (CGST) and another levied by State and Union territories. However base of tax levy would be identical.

Initially the idea was there would be a National level Good and Service Tax. But as the release of first discussion by the empowered committee of the state Finance Minister on 10.11.2019, centre and state governments are entitled to charge taxes on the Goods and Service Tax.

### Literature Review:

AgogoMawuli (May 2014) studied, “Goods and Service Tax –an Appraisal” found that GST is not suitable for poor countries. Tax rate should be less than 10% in case of poor countries.

Bird(2012) summarizes in the article The GST/HST: Creating an integrated Sales Tax in a Federal Country the impact of GST will be on Canada

Empowered Committee of Finance Ministers (2009) introduced their first Discussion Paper on Goods and Service Tax in India which analysed the structure and loopholes if any in GST.

Ehtisham Ahmed and SatyaPoddar (2009) studied “Goods and Service Tax Reforms and Intergovernmental Consideration in India”. They also founded that GST is transparent tax system with increase of output and productivity.

Nitin Kumar (2014) studied, ”Goods and Service Tax-A way forward”. He made a conclusion about implementation of GST that, in India GST will help in removing economic inefficacy of Indirect tax system and to encourage tax fair for unbiased tax paying.

### Objectives

- i) To recognize the concept of GST.
- ii) To examine the impacts of GST in Indian Economy.
- iii) To discuss about the Challenges and Quick results of GST in India.

### Methodology

The study focuses on study of Secondary data collected from various government reports, national and international journals and e-journals, publications from various websites focused on Goods and Service tax in India in various aspects.

### Time of Implementation

NDA Government was set an empowered committee in 2000, under the chairmanship of Asim Das Gupta to design GST model. Finance Minister P Chidambaram opined to implement GST from April 2010. In budget of 2007 setup an another empowered committee of state Finance Ministers to work with center. First detailed discussion on structure of GST submitted by empowered committee in November 2009. After making constitutional amendment (115) suggest that a dual GST module with GST council to draw up Laws for implementation of GST in March 2011. On 19 December 2014 making necessary changes in GST bill,NDA Government redefined it in 16 LokShabha as 122<sup>nd</sup> amendment of constitution. On 6<sup>th</sup> May 2016 it was passed in lower house of government. Finally having 2/3<sup>rd</sup> majority took decisions for implementation from 1<sup>st</sup> April 2016.

### Characteristics:

1. It is applied to all taxable goods and services except the exempted goods and services and on transactions below the threshold limits.
2. Exempted goods and services include alcohol for human consumption, electricity, custom duty, real estate.
3. Petroleum products [crude oil, HSD( high speed diesel), motor sprit(petrol), natural gas, ATF( aviation turbine fuel)] are initially exempted from GST , till the GST council announces that of their inclusion
4. Tabaco products are included in GST along with central excise tax.

### Imposing and Collecting Authority

1. Both central and state legislative assemblies are the authority of making law on taxation of GST.
2. CGST is collected by central government and SGST imposed and collected by state government.
3. IGST is levied on interested trade including imports which is collected by central government exclusively and distributed to imported states as GST. Regarding recommendation of GST council proportion of distribution made between Center and State

### GST Council

1. Chaired by union finance minister.
2. GST council constitute union minister of state incharge of revenue and minister in charge of finance or taxation
3. Decision of council is made by 3/4<sup>th</sup> majority and quorum of council
4. Make recommendations on
  - a. Taxes, charge, cess of central and states which will be integrate in GST
  - b. Goods and Services which may be exempted from GST
  - c. Promotion, distribution between centre and states IGST
  - d. Registration threshold limit for GST
  - e. GST floor rates.
  - f. Special rate during calamities
  - g. Provision with respect to special category states specially northeast
5. Dispute settlement.

### Proposed Tax Rates

Goods				Services
Exempts	Low rate	Standard rate	High rate	Standard rate
0%	5%	12% and 18%	28%	12% and 18%
Agricultural Goods	Necessary Goods	Distribution is undecided	Luxury Goods and Consumer durables	Distribution is undecided

### Advantages:

1. Unification of Indirect taxes into single tax
2. GST reduces cost of services.
3. Service provider companies with a turnover less than 20 lakh are exempted from GST
4. Companies with a turnover upto 75 lakh under GST taxation process are benefited from composition schemes and pay only 1% tax on turnover.
5. Reducing corruptions and sales without receipts.
6. GST brings accountability and regulation to unorganised sector.
7. GST replacing multiple states and central taxes
8. GST brings uniformity in taxation process.
9. Reduces logistics cost by eliminating border tax. 20% price drop in logistic cost for non bulk goods.

10. Minimises possibility of tax evasion.

## Results and Discussion

GST is applicable on supply of goods and services right from manufacturer up to final consumption as one tax policy as before it was faced multiple tax system at the same path right from production to final consumption. After implementation of GST, it replaces most of the indirect taxes and reduces the complicated tax system which was more difficult and complicated to monitor and administer it and hoped that GST will be a solution to all these problems. This reform hoped to give equal footing to the big enterprises as well as SMEs and aimed to GST as simpler in general, hurdles for its policy. This encourages corruption free economy and makes India as a common market. It is believed that it would make the tax procedure more fair, transparent and efficient as for revenue collection as well as for enhance the growth of the country.

### Who will have to pay GST?

GST will be paid by all manufacturers and sellers. It will also be paid by service providers such as telecom providers, consultants, chartered accountants etc. However, being an indirect tax, GST will be ultimately borne by the end consumers, just like in the previous process.

### Taxes to be subsumed into the GST

GST, the indirect tax which will subsume or replace almost all the indirect taxes of central government and states governments into a unified tax. CGST has subsumed central indirect taxes like central excise duty, central sales tax, service tax, special additional duty on customs; countervailing duties whereas SGST has replaced indirect taxes of state governments like state vat, purchase tax, luxury tax, entertainment tax, octroi, taxes on lottery, gambling and betting and state Cess and surcharges in so far as they relate to supply of goods and services.

### GST structure: comparison of Pre-GST and Post- GST model

GST in India is a single unified tax system aims at uniting India's complex tax structure to a "One nation- one tax" regime. It has dual model including central goods and service tax (CGST) and states goods and service tax (SGST). Thus, Integrated goods and service tax (IGST), it is not an additional tax but it is a system to examine the interstate transactions of goods and services. Under this three system both center and state administered the tax, collected and shared between them based on their nature of transaction as well as commodities so as to known as dual model (Sehrawat and Dhanda, 2015).

Table-1 : Before GST model vs. After GST model

Before GST		After GST		
Central Levies taxes	State levies Taxes	CGST	SGST	IGST
Central excise duty	VAT/Sales tax	Levied by the central government	Levied by the State government	Levied by the both central and state government
Additional excise duty	Purchase Tax			
Countervailing Duty	Central sales tax			
Additional special custom duty	Octroi and entry tax			
Service tax	Entertainment tax and Luxury tax			

Table I shows the pre GST and post GST model of indirect taxes levied by both central government and state government. The post GST model comprises three components as before it was only two, in addition in post GST, Integrated goods and service tax (IGST) which state to examine the interstate transactions of goods and services levied by both Center and state.

### GST Rates

GST council of India includes multiple tax rates in different items. These are 0%, 5%, 12%, 18% & 28% But at the same time many countries has taken single rate of GST such as Canada follows 5% ,Germany 19%, Japan 5%, Singapore 7%, Sweden 25% New Zealand 15%. In China, GST applies only to goods and the provision of repairs, replacement and processing services.

Table-2: Some selected items under Before GST rates and After GST rates regime

Item (selected)	Before GST	Under GST
Cereals,	0%	0%
Salt	0%	0%
Kerosene (PDS)	17%	5%
Sugar	5%	5%
Agarbatti	0%	12%
Candles and LED light	26%	12%
Preserved vegetables	0%	18%
Hairoil,soap& toothpaste	26%	18%
Cell phones	6%	18%
Air conditioners, refrigerators & washing machines	26%	28%
Cement	30%	28%

However, a few items like alcohol for human consumption, petroleum products viz. petroleum crude, petrol, high speed diesel, turbine fuel and electricity etc are proposed to be outside the purview of GST.

### How GST worked in GST regime

Table-3: Benefit of GST compare with non GST (A hypothetical Example of price of a car)

Under non GST	Rs& %	Under GST	Rs&%
Actual price	100	Actual price	100
Central excise duty	12.5%	Nil	-
Cess	1%	Nil	-
Octroi	4.5%	Nil	-
VAT	13.5%	Nil	-
Freight	5%	Freight	5%
Insurance	2%	Insurance	2%
-	-	GST	28%
<b>Total</b>	<b>Rs 143</b>	<b>Total</b>	<b>Rs 137</b>

By enabling with GST it is believed that the consumers are made benefitted in this way mentioned in the above table, but also hoped that in some cases or commodity wise consumers are bearing more now, as compared to previous. This will depends on the commodity wise tax rates.

#### Impact of GST on Consumer

i) **Single and transparent tax:** In previous multiple indirect taxes were levied by the Centre and State. Under GST, there would be only one tax over the whole nation from the manufacturer to the consumer, leading to transparency of taxes paid to the final consumer.

ii) **Relief from extra tax burden:** Under GST certain major Central and State taxes will also be subsumed and dropped out the multi tax policy. Other things remaining the same, the burden of tax on goods fall under GST and that would benefit the consumers because the overall tax burden on most commodities will come down, which will benefit consumers.

#### Impact of GST on Producer and industry

i) **Removal of cascading:** Since, with the introduction of GST, all the cascading effects of CENVAT and service tax would be removed with a continuous chain of set-off from the producer's point to the retailer's point, other major Central and State taxes would be subsumed in GST so the final net burden of tax on goods, under GST would fall in general.

ii) **Improved competitiveness among the producers:** Due to the abolition of multi tax structure such as VAT, octroi, custom duties lead to improve competitiveness among the trade industries and producers (Khurana and Sharma, 2016).

iii) **Easy to access:** GST has introduced robust and comprehensive Information Technology in India. Therefore, all tax payers after registration process returns, payments, etc. would be available to the taxpayers online, which would make compliance easy to access with GST regime.

iv) **Gain to manufacturers and exporters:** Subsuming of major Central and State taxes in GST, would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian manufacturing commodities in the international market and enhance the exports to the global market.

### GST as for Governments

i) **Easy to Control and administer:** By promoting e-governance and IT enhancement, multiple indirect taxes of Central and State government replaced by GST would be simpler and easier to administer than previous try to whole process become online from registrations to payments.

ii) **Better for tax leakage:** GST is a key resource of government revenue both for central as well as state government. It is aimed to maximum governance and minimum government intervention, which will lead to reduce the leakages as previous faced by tax commission. And easily they can access with producers, wholesalers, retailers in a specific chain system.

iii) **Better Revenue efficiency:** GST the destination based tax, decrease the cost of collection of tax revenues of the Government, as previous and will therefore, lead to higher revenue efficiency by comprising all the agents related with production to final consumption in a systematic way.

### Challenges under GST regime

i) **Poor IT Network:** Government has already enabled with Goods and service tax network (GSTN). GSTN has to develop GST portal which ensure technology support for GST Registration, but till today Indian IT networks such as internet as well as other IT equipment are not adequate to efficiently worked.

ii) **Difficult for common people:** The concept of GST and the whole process of GST to register and how to enable with GST, it is more difficult for common people to know it. At the same time very short period of time for registration leads confused to the general people.

iii) **Price Hiked:** From the time of implement of GST, many traders, retailers and shopkeepers try to increase the prices of the commodities by blaming the consumers that it is the effect of GST.

### Quick Results after implementation of GST in India

Though, it was hoped that GST will induce the growth rate of Indian economy, but after implementation of GST growth rate is slidely down after 3 months of short experienced. It cannot be say that in a very short period of time that GST is good or bad for the society as well as for the economy (Lourdunathan, 2017).

The World Bank said the unexpected slowdown in India's growth story is because of the delayed consequence of demonetization, sharp decline in the growth rate of public expenditures and uncertainty created by the introduction of GST. India's GDP may slow from 8.6% in 2015 to 7% in 2017 because of disruptions by demonetization and GST. Thus, The World Bank reduced India's GDP growth forecast to 7% for 2017-18 from 7.2% estimated earlier, blaming disruptions caused by demonetization and the implementation of the goods and services tax (GST). Both the Asian Development Bank as well as the Organization for Economic Cooperation and Development (OECD) has also cut their growth projections for India to 7% and 6.7%, respectively, for fiscal 2017-18.

### Policy Implications

Though, GST has some positive and some negative effects it is one the most significant change in tax structure in India after independence. The procedure for GST registration is more standard, thus it has increase the ease of doing business and has abolish the previous cascading procedures. It will redistribute the burden of taxation equitably among manufacturing and services and also lead to transparency in tax system resulting in difficulty of tax evasion. But it has some requirements to properly implement GST in India.

i) Public awareness and training campaign is needed to get a quick and efficient result of GST.

ii) For proper implementation of GST, it is required to first improve the IT sector, mainly development of internet in the whole nation, from center to periphery. But till now all of these in India are not efficient.

iii) It is needed to give time for registration process; otherwise an unhealthy situation will arise in manufacturing sector and in business sector.

iv) For more information about GST there are needed to establish Help centers in regionally also need help line service through telephonic system.

### **Conclusion**

Success of GST leads to its acceptance by more than 150 countries in world and a new preferred form of indirect tax system in India also. But the structure and pre- requisite of GST has not been adequate in India as compare to other nations. Basic difference of GST in India and other nations is India has taken multi tax rate system though it is say that one nation one tax but at the same time most of the nations has followed single tax rate policy. It is said that that the Goods and Services Tax (GST) will indeed be a further significant.

