Research Paper in Commerce

GST: A Milestone of Indian Economy

Bhasker Sampatrao Ther

Assistant Lecturer
MSP Arts, Science &
KPT Commerce College,
Manora

Abstract

Vibrant economy is the soul of any nation; it is the utmost agenda of entire world to develop their economy as soon as possible. Every country always focus on the how to enhance their economy. For this purpose many efforts were made and some new laws were introduced. In the same manner India, one the fast developing economy also going to introduce GST Bill 2016. One the most ambitious commitment of ruling party. In fact we needed one central tax system for the whole country, before this every state levy taxes according to their state rules. But after this bill India will have a centralized tax system all over the country. In this research paper I am going to showcase how GST Bill will be game changer for the government and countrymen also.

Introduction:-

In fact the Goods and Services Tax (GST) bill was first introduced in 2001. It aims to adopt a value added tax (VAT) model, and replace the current national-level central excise duty and state-level sales tax model. Heated debates in parliament have hindered the passage of the bill, which has been modified several times. Present government also faced severe criticism from the all corners of the political class, after making a complete overhaul it was introduced by the finance minister Arun Jaitly and finally approved by the lower house. Now it will be the milestone for the tax system of the India. India's current tax system is complex and multi-layered. Cross-border compliance, compounding of taxes on domestically produced goods and services, in addition to several central and state taxes, exacerbate the complexity of the system. This is why the government has realized the need for an efficient, transparent, and simple method of indirect taxation in the form of the GST bill. The bill indicates that the GST will be a tax on the final consumption or the actual supply of goods and services. The basic provision of the tax is that economic activity at each stage of production is taxed at the same rate, preventing further fragmentation. The GST will comprise of three main taxes: CGST (Central), SGST (State), and IGST (Inter-State). This article critically evaluates the bill. The first section looks at the benefits of the GST, the second section addresses the drawbacks of the GST, and the final section looks at how the GST will affect the landscape of the Indian economy.

GST Bill is not multi layered as were the before bills, it is unified one and applicable over the entire country, because of this we will see a high influx of the foreign investment, before this nobody was ready to invest in India because of complex web of state wise tax. The proposed Goods and Services Tax (GST) is said to replace all indirect taxes levied on goods and services by the Government, both Central and States, once it is implemented. The GST will consolidate all State economies. It will be one of the biggest taxation reforms to take place in India once the Bill gets the official green signal. The basic idea is to create a single, cooperative and undivided Indian market to make the economy stronger and powerful. The GST will make a significant breakthrough paving way for an all-inclusive indirect tax reform in the country. The GST is basically an indirect tax that brings most of the taxes imposed on most goods and services, on manufacture, sale and consumption of goods and services, under a single domain at the national level. In the present system, taxes are levied separately on goods and services. The GST is a consolidated tax based on a uniform rate of tax fixed for both goods and services and it is payable at the final point of consumption. At each stage of sale or purchase in the supply chain, this tax is collected on value-added goods and services, through a tax credit mechanism.

Traders here have welcomed the Centre's zero-tax decision over foodgrain under the proposed Goods and Services Tax (GST) but are wary about the complications in the process. Union finance minister Arun Jaitley on Thursday rolled out the tax rate slabs for GST, the new indirect tax regime expected to come into effect from next financial year. Jaitley, who is also the head of the GST Council, said most of the items from the consumer price index basket will come under the zero rate tax slabs, which means these items will have 0% tax. The traders claimed that the decision will help tame the inflationary pressures caused by the demand-supply mismatch. They said the four-tier tax slabs will complicate the process of tax calculation and documentation.

A dual GST system is planned to be implemented in India as proposed by the Empowered Committee under which the GST will be divided into two parts:

- State Goods and Services Tax (SGST)
- Central Goods and Services Tax (CGST)

Both SGST and CGST will be levied on the taxable value of a transaction. All goods and services, leaving aside a few, will be brought into the GST and there will be no difference between goods and services. The GST system will combine Central excise duty, additional excise duty, services tax, State VAT entertainment tax etc. under one banner. The GST rate is expected to be around 14-16 per cent. After the combined GST rate is fixed, the States and the Centre will decide on the SGST and CGST rates. At present, 10 per cent is levied on services and the indirect taxes on most goods are around 20 per cent.

Advantages of GST Bill

Introduction of a GST is very much essential in the emerging environment of the Indian economy.

- There is no doubt that in production and distribution of goods, services are increasingly used or consumed and vice versa. Separate taxes for goods and services, which is the present taxation system, requires division of transaction values into value of goods and services for taxation, leading to greater complications, administration, including compliances costs. In the GST system, when all the taxes are integrated, it would make possible the taxation burden to be split equitably between manufacturing and services.
- GST will be levied only at the final destination of consumption based on VAT principle and not at various points (from manufacturing to retail outlets). This will help in removing economic distortions and bring about development of a common national market.
- It will also help to build a transparent and corruption-free tax administration. Presently, a tax is levied on when a finished product moves out from a factory, which is paid by the manufacturer, and it is again levied at the retail outlet when sold.

For the Centre and the States

According to experts, by implementing the GST, India will gain $15 billion a year. This is because, it will promote more exports, create more employment opportunities and boost growth. It will divide the burden of tax between manufacturing and services.

For individuals and companies

In the GST system, taxes for both Centre and State will be collected at the point of sale. Both will be charged on the manufacturing cost. Individuals will be benefited by this as prices are likely to come down and lower prices mean more consumption, and more consumption means more production, thereby helping in the growth of the companies.

Items not under GST

Alcohol, tobacco, petroleum products

Bottlenecks in the implementation of GST

Though the Government wants the GST Bill to be implemented by April 2016, there are certain bottlenecks which need to be taken care of before that:

- What preparations are needed at the level of Central and State Governments for implementing the GST?
- Whether the Government machinery is efficient enough for such an enormous change?
- Whether the tax-payers are ready for such a change?
- What will be the impact on the Government's revenue?
- How will the manufacturers, traders and ultimate consumers be affected?
- Will GST help the small entrepreneurs and small traders?

The Goods and Services Tax (GST), the biggest reform in India's indirect tax structure since the economy began to be opened up 25 years ago, at last looks set to become reality. The Constitution (122nd) Amendment Bill comes up in Rajya Sabha today, on the back of a broad political consensus and boosted by the 'good wishes' of the Congress, which holds the crucial cards on its passage. Here's how GST differs from the current regimes, how it will work, and what will happen if Parliament clears the Bill.**Biggest benefit**is that it will disincentives tax evasion. If you don't pay tax on what you sell, you don't get credit for taxes on your inputs. Also, you will buy only from those who have already paid taxes on what they are supplying. Result: a lot of currently underground transactions will come over ground.**Lower tax rates**will follow from GST covering all goods and services, with tax only on value addition and set-offs against taxes on inputs/previous purchases. Right now, we have more tax on fewer items; with GST, there will be less tax on more items. Ideally, no good or service should be tax-exempt, as this will break the input tax chain.

Drawbacks

- Some electricity and petroleum products are exempt from the GST for at least a few years, from when the tax is introduced. The products include petroleum crude, high-speed diesel, motor spirit (petrol), natural gas, and aviation turbine fuel. Separately, natural gas, real estate, and alcohol are also exempt. The exemptions defeat the purpose of the bill's primary objectives, which allow for discrimination of some supplied goods and services. Since a good like petroleum feeds into other industries, exemptions for such goods will also lead to a revenue loss for the government.
- A few states such as Punjab, have expressed their preference for taxing specific goods separately. The central government has granted some tax exceptions in certain cases. Such exceptions dilute the applicability of the law. Instead of granting such exemptions, a possible alternative would be for the central government to compensate state governments for the revenue shortfall that the GST may entail.
- The Bill states that the central government may levy an additional tax of up to 1 percent on the supply of goods in the course of inter-state trade for two years or longer. This tax will be collected by the central government and will accrue directly to the states from where the supply of the good originates. The levy of the additional tax distorts the creation of a national market, as a product made in one state and sold in another would be more expensive than one made and sold within the same state. Cascading of taxes will be magnified if the production and distribution chain passes through several states. In addition, the eventual burden will be borne by the final consumer of the product, thus creating a disproportionate tax spread.

Conclusion:

The government's attempt to implement the GST bill is noble as it aims to reduce the complexity in India's existent tax regime. The passage of the bill can abolish unnecessary complications by creating a well-defined and uniform tax regime. However, the government faces many obstacles. It first needs to clear political roadblocks, as the bill seeks passage from both the houses of parliament in India to become a law. Secondly, it needs to alter the bill's structure in a manner that is acceptable to all states. Finally, the bill needs smooth implementation, which can only be assured if companies and citizens are educated about the nuances of the bill. If the government is able to overcome these roadblocks, it will help to create a conducive tax environment in India that boosts business and helps the overall economy.

References

A Hand book for GST in India by Shri. Gautam Bhattacharya (Principal Commissioner) - Analysis of various aspects of GST - Draft / Model

Goods and Services Tax (GST) by CA Pritam Mahure. 3rd Edition. 14 June 2016. The *book* is a compilation of GST related key draft legal.

GST in India Vol-1 by Institute of Cost Accountants of India

Times of India

Indian Express

Map my India

Cyber material.