# An Economic Pros and Cons of Goods and Service Tax (GST) In India

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***Abstract***

*World over in almost 150 countries there is GST or VAT, which means tax on goods and services. Under the GST scheme, no distinction is made between goods and services for levying of tax. This means that goods and services attract the same rate of tax. GST is a multi-tier tax where ultimate burden of tax fall on the consumer of goods/services. It is called as value added tax because at every stage, tax is being paid on the value addition. Under the GST scheme, a person who was liable to pay tax on output, whether for provision of service or sale of goods, is entitled to get input tax credit (ITC) on the tax paid on its inputs. The major reasons for implementation of VAT are to have control over the taxation under single ambit and have single tax base throughout the country and major revision required in the present VAT are uniform tax base in all States Single registration and identification for assessing both under Central and State GST to have a upgraded and expanded IT structure to reconcile and cross check GST with declared income returns, fostering greater levels of tax compliance*

## I. INTRODUCTION

One of the biggest taxation reforms in India -- the Goods and Service Tax (GST) is all set to integrate State economies and boost overall growth. GST will create a single, unified Indian market to make the economy stronger. The implementation of GST will lead to the abolition of other taxes such as octroi, Central Sales Tax (CST), State-level sales tax / Value Added Tax, entry tax, stamp duty, telecom license fees, turnover tax, tax on consumption or sale of electricity, taxes on transportation of goods and services, et cetera. Thus avoiding multiple layers of taxation that currently exist in India, GST is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level. Through a tax credit mechanism, this tax is collected on value-addition on goods and services at each stage of sale or purchase in the supply chain. The system allows the set-off of GST paid on the procurement of goods and services against the GST which is payable on the supply of goods or services. However, the end consumer bears this tax as he/she is the last person in the supply chain. Experts say that GST is likely to improve tax collections and boost India's economic development by breaking tax barriers between States and integrating India through a uniform tax rate. Under GST, the burden of tax collection will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions.

It is expected to help build a transparent and corruption-free tax administration. Final impact of total GST will be only at the destination point, presently it is at various points (from manufacturing to retail outlets) i.e. a manufacturer needs to pay tax when a finished product moves out from a factory, and it is again taxed at the retail outlet when sold. At present excise duty paid on the raw material consumed is being allowed as input credit only on manufactured goods. For other taxes and duties paid for post-manufacturing expenses, there is no mechanism for input credit under the Central Excise Duty Act. GST will divide the tax burden equitably between manufacturing and services. It will be replacement of Excise Duty and other taxes.

## II. OBJECTIVE OF GST IN INDIA

GST aims to remove barriers among states and unify the country into a common national market. Presently credit for service tax paid is being allowed as input service tax to manufacturer/ service provider to a limited extent. In order to give the credit of service tax paid in respect of services consumed, it is necessary that there should be a comprehensive system under which both the goods and services are covered. A major defect under the State VAT is that the State is charging VAT on the excise duty paid to the Central Government, which goes against the principle of not levying tax on taxes. In the present State level VAT scheme, input vat is allowed on the goods remains included in the value of goods to be taxed which is a cascading effect on account of vat element. Presently CST is being levied on inter-state transfer of goods, as there is no provision for taking input tax credit (ITC) on such CST, this leads to additional burden on the dealers. The existing CST will be discontinued. Instead, a new statute known as IGST will come into place. It will empower the Central Government to levy and collect the tax on the inter-state transfer of the Goods and Services. Many of the States are still continuing with various types of indirect taxes, such as luxury tax, entertainment tax, etc.

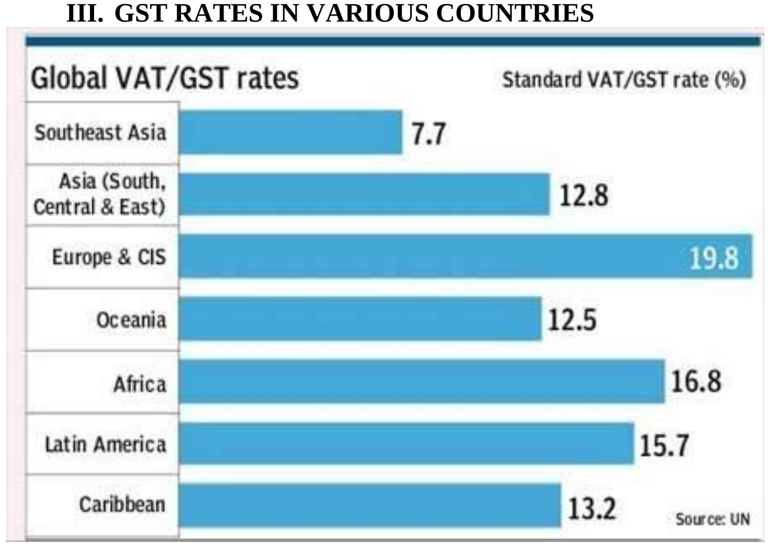
In India a dual GST system is being implemented. Under dual GST, a Central Goods and Services Tax (CGST) and a State Goods and Services Tax (SGST) is being levied on the taxable value of a transaction. All goods and services, barring a few exceptions, are to be brought into the GST base. As a measure of support for the states, petroleum products, alcohol for human consumption and tobacco have been kept out of the purview of the GST. There is no distinction between goods and services. In the GST system, both Central and State taxes are to be collected at the point of sale. Both components (the Central and State GST) are to be charged on the manufacturing cost or value of services rendered. This will benefit individuals as prices are likely to come down. Lower prices will lead to more consumption, thereby helping companies. The prices are expected to fall in the long run as dealers might pass on the benefits of the reduced tax to consumers.

The inter-State seller will pay IGST on value addition after adjusting available credit of IGST, CGST and SGST on their purchases. The Exporting State will transfer to the Centre the credit of SGST used in payment of IGST. However, only the Centre may levy and collect GST on supplies in the course of inter-state trade or commerce. The tax collected would be divided between the Centre and the states in a manner to be provided by parliament, on the recommendations of the GST Council. Cross utilization of ITC between the CGST and the SGST would not be allowed except in the case of inter-State supply of goods & Services.
The scope of IGST Model is that Centre would levy IGST which would be CGST plus SGST on all inter-State transactions of taxable goods and services with appropriate provision for consignment or stock transfer of goods and services.

The inter-State seller will pay IGST on value addition after adjusting available credit of IGST, CGST, and SGST on his purchases. The Exporting State will transfer to the Centre the credit of SGST used in payment of IGST. The Importing dealer will claim credit of IGST while discharging his output tax liability in his own State. The Centre will transfer to the importing State the credit of IGST used in payment of SGST. The relevant information will also be submitted to the Central Agency which will act as a clearing house mechanism, verify the claims and inform the respective governments to transfer the funds thereby it will maintain uninterrupted ITC chain on inter-State transactions.

As all inter-State dealers will be e-registered and correspondence with them will be by software-generated automated e-mail, the compliance level will improve substantially. Model can take 'Business to Business' as well as 'Business to Consumer' transactions into account. GST will not be an additional tax. CGST will include central excise duty (CENVAT), service tax, and additional duties of customs at the central level; and value-added tax, central sales tax, entertainment tax, luxury tax, octroi, lottery taxes, electricity duty, state surcharges related to supply of goods and services and purchase tax at the State level.
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 While greatly accelerating the pace of all their tax legislation, the world's governments have relied most heavily on indirect taxes for extra revenue. As a result, there is increased risk that taxpayers will be caught unprepared, making a current, detailed guide like the *Worldwide VAT, GST and Sales Tax Guide* all the more valuable.

## III. GST RATES IN VARIOUS COUNTRIES

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Since VAT was beneficial for the taxation system but with certain shortcomings which are expected to be overcome by the Goods and Service Tax. Thus, it would definitely a positive reform for the Indirect tax system in India.

## IV. IMPACT OF GOODS AND SERVICE TAX

Section 2, GST has a positive impact on the economy and on various sectors which are as follows:

### *A. Fast Moving Consumer Goods Sector*

With the implementation of Goods and Service Tax, FMCG sector would really change. FMCG sector consist 50% Food and Beverage sector and 30% is Household and Personal care. FMCG sector is the major taxation contributor both direct and indirect in the economy. The multiplicity of the taxation influences the company's decision on manufacturing location and distribution of Goods. FMCG companies set their manufacturing units and warehouses where they can avail tax benefits. To transfer the stock from the warehouses among the states they have to pay taxes. So, GST would surely impact on FMCG sector as taxes affect the cost to the company.

### *B. Food Industry*

Since food constitutes a large portion of the consumer expense of lower income households, any tax on food would be regressive in nature. Therefore, extending GST to food processing sector will also cause difficulty in view of the fact that production and distribution of food is largely unorganized in India. On global front, most of the countries tax food at a lower rate keeping in view the considerations of fairness and equity. Even in countries such as Canada, UK and Australia where food constitute a relatively small portion of the consumer basket, food is taxed at zero rates. While in some countries, food is taxed at a standard rate which is as low as 3% in Singapore and Japan at the inception of the GST. Even in international jurisdictions, no distinction is drawn on the degree of processing of food. Hence, the benefit of lower or zero tax rates should also be extended to all food items in India regardless to degree of processing.

### *C. Information Technology Enabled Services*

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

### *D. Infrastructure Sector*

The Indian infrastructure sector largely comprises power, road, port, railways and mining. And the indirect tax levy is different and unique for each of them, and this is complex in nature. Although this sector enjoys different exemptions and concessions as it is important on national front. With the implication of GST the multiplicity of taxes will be removed and it would increase the tax base with continuation of exemptions and concessions for national interest and growth.

### *E. Impact on Small Enterprises*

In the small scale enterprises there are three categories:-

- ➢ Those below threshold need not to register for the GST.
- ➢ Those between the threshold and composition turnovers will have the option to pay a turnover based tax or opt to join the GST regime.
- ➢ Those above threshold limit will need to be within framework of GST.

In respect of the central GST the situation is slightly complex.GST is expected to encourage compliance and which is also expected to widen tax base adding up to 2% to GDP. Manufacturers, traders will have to pay less tax with the implication of GST.

## V. OBJECTIVES OF GOODS AND SERVICE TAX

GST is proposed to fulfill the following objectives:

- GST would help to eliminate the cascading effects of production and distribution cost of goods and services. This would help to increase GDP and then to economic condition of the country.
- GST would eliminate the multiplicity of indirect taxation and streamline all the indirect taxes which would be beneficial for manufacture and ultimate consumer.
- GST would be able to cover all the shortcomings of existing VAT system and hopefully serve the economy health.
- Incidence of tax falls on domestic consumption
- The efficiency and equity of system is optimized
- There should be no export of taxes across taxing jurisdiction
- The Indian market should be integrated into single common market

- It enhances the cause of co-operative federalism.

Present Indirect Tax structure in India is very complicated and complex in nature. It consists of cascading effects of tax. These add to cost of goods and services through “tax on tax” which the final consumer have to bear.

## VI. SUGGESTIONS

- It is necessary to insist on invoice while making any transactions. The precautionary measure taken by authorities is to control tax-evasion which really works well.
- The major reasons for implementation of VAT are to have control over the taxation under single ambit and have single tax base throughout the country and major revision required in the present VAT are uniform tax base in all States Single registration and identification for assessing both under Central and State GST to have a upgraded and expanded IT structure to reconcile and cross check GST with declared income returns, fostering greater levels of tax compliance.
- The mostly taken disciplinary action against traders by tax authorities is levying ‘interest’ followed by ‘fine’. An efficient tax administration yields maximum revenue with a minimum cost. This depends on the quality of machines for tax administration, which includes the manpower devoted to tax collection and assessment, the mindset of the people to understand the tax system and its benefits to the economic development. There is a need to embark on business enumeration in each State with a view to have data base on business. Fast disposition of tax cases will have better administration. It may be advisable to have a magistrate courts in each zone to specifically handle State revenue matters.
- More than 150 countries in the world experience the GST system and practice three major system of Taxation. The experts view that the best method of proposed GST is dual method out of the three methods.

## VII.CONCLUSION

VAT has really showed a progress in many States and the Centre has rightly compensated to many States. The success story would continue by the implementation of GST in India. There were hurdles and agitation for implementation of VAT in India. Tamilnadu was the last but before/State to implement VAT. GST is an extension of VAT which includes services also. Initial losses of revenue to States would be compensated by the Centre. When GST is implemented in good spirit the revenue of both Central Government and State Government shall be increasing in the long run. The main lag behind the implementation of GST is due to differences amongst the Centre and States on the RNR (Revenue Neutral Rate), compensation package and its Constitutional amendment which is required to be passed with two-third majority in both the Houses of Parliament and ratification by a simple majority by at least half of State assemblies.

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