Episteme: an online interdisciplinary, multidisciplinary & multi-cultural journal

Bharat College of Commerce, Badlapur, MMR, India

Volume 3, Issue 4 **March 2015**

16% ORIGINAL

GOODS AND SERVICE TAX: IT'S IMPACT ON INDIAN ECONOMY

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Abstract:

Vat was introduced into the Indian taxation system from 1 April 2005. Vat is a significant improvement over the local sales tax system. At the state level the advantage of vat is that it is a multi-point tax with set-off for tax paid on purchases and it prevents repeated taxation of the same product. Despite the success of vat there are still certain limitations in the structure of vat both at the central and at the state level. To solve the issues touched by vat the then Finance minister Pranab Mukherjee while presenting the budget on July 6, 2009, said that GST would come into effect from April 2010 but recently on 28th Feb.2015 it was declared that GST will be implemented from April 2016. The goods and services Tax (GST) will indeed be a further significant improvement towards a comprehensive indirect tax reforms in the country. Integration of goods and services taxation would give India a world class tax system and improve tax collections. It would end distortions of differential treatments of manufacturing and service sector. It will lead to the abolition of taxes such as octroi, central sales tax, state level sales tax, entry tax, stamp duty, telecom license fees, turnover tax, tax on consumption or sale of electricity, etc. GST is expected to create a business friendly environment, as price levels and hence inflation rates would come down overtime as a uniform tax rate is applied. It will also improve government's fiscal health as the tax collection system would become more transparent, making tax evasion difficult. CAG Mr. VinodRai in his inaugural address to the National Conference on GST put forth the concept as "An integrated scheme of taxation that does not discriminate between goods and services and is a part of the proposed tax reforms that centre on evolving an efficient and harmonized consumption tax system in the country."The present research paper is an attempt to study concept of goods and service tax and its impact on Indian Economy.

BCAC-ISSN-2278-8794

Keywords: Value added tax, Goods and service tax, Indian taxation, Economy.

Introduction

Tax policies play an important role on the economy through their impact on both efficiency and equity. A good tax system should keep in view issues of income distribution and, at the time, also endeavor to generate tax revenues to support government expenditure on public services and infrastructure development.

Objectives of the study

- To understand the concept of goods and service tax.
- To learn about shortcomings of current taxation system in India.
- To understand how GST will work in India.
- To understand the benefits of GST over the current taxation system in India.

Research methodology

The study focuses on extensive study of Secondary data collected from various books, National & international Journals, government reports, publications from various websites which focused on various aspects of Goods and Service tax.

Value Added Tax

VAT is a system of indirect taxation, which has been introduced in lieu of sales tax. It is the tax paid by the producers, manufacturers, retailers or any other dealer who add value to the goods and that is ultimately passed on to the consumer. VAT has been introduced in India to ensure a fair and uniform system of taxation.VAT enhances competitiveness by removing the cascading effect of taxes on goods and makes the levy of tax simple and self-regulatory, ensuring flexibility to generate large revenues. The cascading effect is brought about by the existing structure of taxation where inputs are taxed before a commodity is produced and the output is taxed after it is produced. This causes an unfair double-taxation. However, in VAT, a set-off is given for input tax (tax paid on purchases). This results in the overall tax burden being rationalized and a fall in prices of goods.VAT makes the tax structure simple, hassle-free and export-oriented. The integration of VATwith Tally will help you in the smooth functioning of your business and eliminate thecomplications that might otherwise arise in VAT.

The arrival of Goods and Service Tax

The Constitution Bill, 2011 amends the Constitution to give the central and state governments the concurrent power to make laws on the taxation of goods and services. The amendment allows for the introduction of a goods and services tax. If Vat is a significant improvement over the local sales tax system, then the Goods and Services Tax will be a major breakthrough towards a comprehensive indirect tax reform in the country. Despite the success of VAT, there are still certain shortcomings in the structure of VAT both at the Central and at the State level. The GST at the Central and at the State level will thus give more relief to industry, trade, agriculture and consumers through a more comprehensive and wider coverage of input tax set-off and service tax set off, inclusion of several taxes in the GST and phasing out of CST.

What is the GST?

GST is a comprehensive indirect tax on manufacture, sale and consumption of goods and services at national level. The GST is expected to replace all the indirect taxes in India. At the centre's level, GST will replace central excise duty, service tax and customs duties. At the state level, the GST will replace State VAT.

How will it work in India?

The GST system is based on the same concept as VAT. Here, set-off is available in respect of taxes paid in the previous level against the GST charged at the time of sale. The GST model has some aspects which are as follows:

Components: GST will be divided into two components, namely, Central Goods and Service Tax and State Goods and Service

Tax Rate: Rates charged across all states and the central level will be uniform along with the regulations, definitions and classifications.

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Applicability: GST will be applicable to all Goods and Services sold or provided in India, except from the list of exempted goods which fall outside its purview.

Payment: GST will be charged and paid separately in case of Central and State level.

Input Tax credit: The facility of Input Tax Credit at Central level will only be available in respect of Central Goods and Service tax. In other words, the ITC of Central Goods and Service tax shall not be allowed as a set-off against State Goods and Service tax and vice versa.

What are the key problems in the current taxation system for goods and services in India that the proposed GST plans to improve upon?

The key problems in the current taxation system in India can be categorized into: Taxation at Manufacturing Level i.e. CENVAT is levied on goods manufactured or produced in India which gives rise to definitional issues as to what constitutes manufacturing, and valuation issues for determining the value on which the tax is to be levied which through judicial proceedings has been observed to be a severe impediment to an efficient and neutral application of tax Exclusion of Services from state taxation has posed difficulties in taxation of goods supplied as part of a composite works contract involving a supply of both goods and services, and underle asing contracts, which entail a transfer of the right to use goods without any transfer of their ownership. Though these problems have been addressed by amending the Constitution to bring such transactions within the purview of the State taxation, services per se remain outside the scope of state taxation powers.

Tax Cascading - Oil and gas production and mining, agriculture, wholesale and retail trade, real estate construction, and range of services remain outside the ambit of the CENVAT and the service tax levied by the Centre. The exempt sectors are not allowed to claim any credit for the CENVAT or the service tax paid on their inputs. Similarly, under the State VAT, no credits are allowed for the inputs of the exempt sectors, which include the entire service sector, real property sector, agriculture, oil and gas production and mining. Another major contributing factor to tax cascading is the Central Sales Tax (CST) on inter-state sales, collected by the origin state and for which no credit is allowed by any level of government.

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Complexity -In spite of the improvements made in the tax design and administration over the past few years, the systems at both central and state levels remain complex. Their administration leaves a lot to be desired. They are subject to disputes and court challenges, and the process for resolution of disputes is slow and expensive. At the same time, the systems suffer from substantial compliance gaps, except in the highly organized sectors of the economy. According to Mr. Sunil Birla, Partner, Haribhakti& Co., Chartered Accountants, the implementation of GST would be a positive step towards "a strong single taxation system wherein various Central and State statutes will be subsumed into one comprehensive enactment"

Would the implementation of GST be an improvement over the current taxation system inIndia? If yes, what would be its benefits over the current system?

The implication of GST assures a single taxation system in the entire country for all goods and services making tax compliance easier and more effective. The major benefits of this proposal according to Report of Task Force on Implementation of GST on the website www.goodsandservicetax.com

The Economy - It will simplify India's tax structure, broaden the tax base, and create a common market across states. This will lead to increased compliance and increase India's tax-to-gross domestic product ratio. According to a report by the National Council of Applied Economic Research, GST is expected to increase economic growth by between 0.9 per cent and1.7 per cent. Exports are expected to increase by between 3.2 per cent and 6.3 per cent, while imports will likely rise 2.4-4.7 per cent, the study found.

To The Corporate - It will be beneficial for India Inc. as the average tax burden on companies will fall. Reducing production costs will make exporters more competitive

To The Exporters - The subsuming of major Central and State taxes in GST, complete and comprehensive setoff of input goods and services and phasing out of Central Sales Tax (CST)would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports.

To Industry - Manufacturing sector in India is one of the highly taxed sectors in the world. A complex and high taxation structure has the tendency to render products uncompetitive in the international market or consume large portions of the cost arbitrage available in manufacturing set-ups in low cost economies such as India. GST when enforced would eliminate complexities in the present taxation structure and consequently prevent the loss of nearly 50% of the advantage of lower manufacturing costs that India has over the western nations. "A well-designed GST is the most graceful method to get rid of distortions of the existing process of multiple taxation" Sanjay Pant, Commissioner Service Tax, Bangalore.

To The Centre And State - Approximately $ 15 billion a year of profits are predicted by the government with the implementation of GST as it is speculated to bring about raise in employment, promotion of exports and consequently a significant boost in overall economic growth. "The implementation of a comprehensive GST in India is expected to lead to efficient allocation of factors of production thus leading to gains in GDP and exports. This would translate into enhanced economic welfare and returns to the factors of production, viz. land, labour and capital" Mr. PremnathHegde H.N., Chartered Accountants, PremnathHegde and Co. Another positive aspect of this proposal is that it is aimed at equitable division of tax burden between the manufacturing and services. "GST will be the biggest reform after 1991 and itsimplementation alone would add 1.5-2 percentage point to India's GDP growth. It will provide a tremendous stimulus and can solve several issues like inflation and fiscal deficit" - Mr. Adi Godrej Chairman of the Godrej Group

To The Individuals And Companies - With the collection of both the central and state taxes proposed to be made at the point of sale , both components will be charged on the manufacturing costs and the individual will benefit from lowered prices in the process which will subsequently lead to increase in consumption thereby profiting companies

Where is India on GST implementation at present?

GST was proposed to be introduced in India with effect from April 1, 2010. However, on account of a difference of opinion amongst states, political compulsions, and insistence of many states on commitment of the government to compensate for revenue loss and coverage of specified products like petroleum, liquor, etc, GST could not be implemented even after extendin g thedeadline. As per latest reports it will be implemented only by 2015.

CONCLUSION

Tax policies play an important role on the economy through their impact on both efficiency and equity. A good tax system should keep in view issues of income distribution and, at the same time, also Endeavour to generate tax revenues to support government expenditure on public services and infrastructure development. Cascading tax revenues have differential impacts confirms in the economy with relatively high burden on those not getting full offsets. This results in loss of income and welfare of the affected economy. The ongoing tax reforms on moving to a goods and services tax would impact the national economy, International trade, firms and the consumers There has been a good deal of criticism as well as appraisal of the proposed Goods and Services Tax regime. Itis considered to be a major improvement over the pre-existing central excise duty at the national level and the sales tax system at the state level, the new tax will be a further significant breakthrough and the next logical step towards a comprehensive indirect tax reform in the country. GST is not simply VAT plus service tax, but a major improvement over the previous system of VAT and disjointed services tax- a justified step forward. India is a federal republic, and the GST will thus be implementedconcurr ently by the central and state governments as the Central GST and the State GST respectively and it appears that there will be different rates of taxes. However a single rate would help maintain simplicity and transparency by treating all goods and services as equal without giving special treatment to some ‘special’ goods and/or services. This will reduce litigation on classification issues. With regard to exports the tax to be levied under the destination principle, i.e. exports should be tax-free and imports should be taxed at the same rate as domestic products. It is expected that SEZ's would be exempted from levy of GST. It is also expected that implementation of GST in the Indian framework will lead to commercial benefits which were untouched by the VAT system and would essentially lead to eco nomic development. Hence GST may usher in the possibility of a collective gain for industry, trade, agriculture and common consumers as well as for the Central Government and the State Government.

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