

GST-A BOON OR A BANE FOR INDIA

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Abstract: GST, a biggest reform in the Indian tax structure will be implemented in April 2017. GST will simplify the indirect tax regime in India. It is expected that GST will broaden the tax base and increase the revenue of the Central Government. Indian current tax system has various imperfections like complexity, Cascading effect, Lack of tax compliance etc. GST is expected to remove all these deficiencies in the taxation system. This paper is an effort to shed the light on the positive as well as negative effects of Goods and Services tax bill.

Key Words: Indirect tax, Cascading effect, GST, Imperfections, Income.

1. Introduction:

Tax is a compulsory payment which has to be made by the people. Income earned by the way of taxes is used by the Government to finance the various activities carried out by it. Tax is a major source of revenue for the Government. So, tax policies play an important role in the growth of economic activities and capital formation of a country. GST stands for Goods and Services Tax.

Present Indian taxation system:

Excise duty	Service tax	VAT
Custom duty	Local body tax(Octroi)	Central sales tax

Excise duty:-On the Manufacture of Goods in India

Service tax:-On the services provided in the taxable territory

VAT-Sale of goods within the state

Custom duty:-On imports and exports

Local body tax:-Entry of goods to a State from a place outside the State

Central sales tax:-On inter-state sale

Presently Indian tax structure has various loopholes like Complex procedures, cascading effects of tax, tax evasion. GST is a biggest reform ever in context to India to remove all these problems. It will impact the tax incidence, tax payment, compliance. The GST structure would follow the destination principle. Accordingly, imports would be subject to GST, while exports would be zero-rated. In the case of inter-state transactions within India, State tax would apply in the state of destination as opposed to that of origin. (1)

GST is simply very similar to VAT. It can be termed as National level VAT on goods and services. It is a domestic trade tax that will be levied in the form of a value added tax on all goods and services -in practice with some exemptions. (2)

In India, GST will be levied at both the levels-centre and state. It is a tax on supply of goods and services. With the implementation of GST, Indian trade scenario will be total changed.

Let us understand GST with an example:-

Present tax system

Product sold from Mumbai to Nagpur, Price=Rs. 1000

VAT @ 10%=Rs. 100

Product sold from Nagpur to Chennai

Cost=Rs. 1100

Profit=Rs. 1000

Selling price=Rs. 2100

CST @ 10%=Rs. 210

Total cost of product=Rs. 2310

GST system

Product sold from Mumbai to Nagpur, Price=Rs. 1000

CGST @ 5%=Rs. 50

SGST @ 5%=Rs. 50

Product sold from Nagpur to Chennai

Cost=Rs. 1100

Profit=Rs. 1000

Selling price=Rs. 2100

IGST @ 10% = 110

=210-CGST-SGST

Total cost of product=Rs. 2210

Exclusions in GST

Following products are excluded from GST –

- Petroleum Products
- Alcoholic Beverages
- Diesel
- Tobacco

2. GST-RATES WORLDWIDE:

1.	China	17%
2.	Brazil	10%
3.	France	19.6%
4.	Germany	19%
5.	Indonesia	10%
6.	Ireland	23%
7.	Italy	21%
8.	Russia	18%
9.	UK	17.5%
10.	Australia	10%
11.	New Zealand	15%

Source: - <http://gst.customs.gov.in>

4. Why a GST?

According to Indian PM Modi, "GST is great step of transformation".

It will eliminate the cascading effect of taxes, where the tax paid at one stage gets added on to the price of a good on which tax is levied at the next stage. So it will reduce the tax burden on goods and services for the final consumer. It will improve indirect tax collections by broadening the tax base, making evasion less attractive. Above all, it will create a common market in India, since the rate will be uniform across the country and taxes paid in one state can be offset for transactions done in another.(3)

5. Benefits of GST:

Reduction in cost of production

The GST paid on goods and services, whether procured from within or outside the state, would be eligible as ITC against the output GST, hence would not be a cost.(4)

Ease of doing business

With the implementation of GST, Multiple taxes like octroi, central sales tax, state sales tax, entry tax, license fees, turnover tax etc. will no longer be present.

Common national market

GST follows the destination principle. It will be levied only at the final stage of consumption and not at various stages. This will help to develop a common national market.

Reduce the cascading effect of taxes

GST will be levied on the final price of the product. Eliminate tax-on-tax effect. No more Tarikh pe Tarikh pe Tarikh...oops Tax pe Tax pe Tax pe Tax.(5)

Economic integration of India

According to Arun Jaitley Indian Finance Minister "GST will subsume all central and state level indirect taxes like Excise duty, Service tax, additional custom duty, surcharges and cesses, VAT, Sales tax, CST, Octroi, Purchase tax, Entry tax etc." (6)

More transparency

A single system of taxation rather than multiple taxes will help to increase the transparency. Under GST regime the burden of taxation will be allocated fairly between manufacturing and services via lower tax rates resulting in increased tax base and minimized exemptions. It is anticipated to help in establishing an effective and transparent tax administration.(7)

Increase in the consumption

It is expected that GST will help to decrease the cost of products to the final consumers.

Economic growth

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. (8)

One country-one tax

GST offers a new unique and single structure of the indirect tax. All the complexities of the present indirect tax structure will be removed by this.

Growth in GDP

It is assumed that by the application of GST, There will be growth in the production in the economy. The exclusion of cascading effects i.e. tax on tax will significantly improve the competitiveness of original goods and services which leads to beneficial impact to the GDP growth. (9)

Better for manufacturers and exporters

The subsuming of major Central and State taxes in GST, complete set off of input goods and services 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. (10)

Better for the consumers

It is anticipated that, other things remaining the same, this would encourage manufacturers and distributors to reduce the prices of their produce and ultimately benefit the consumers. (11)

6.Limitations of GST:

Dual GST model-still complexity

India is going to implement a dual structure of GST, wherein the GST will be levied at both the levels-Centre as well as state, unlike some other countries wherein only center levies GST and then proceeds to divide it among states.

Old wine in a new bottle

Some Economist says that CGST and SGST are nothing but new names of Central Excise, Service tax, VAT and CST.

Higher compliance and administrative cost

It is understood that new implementation of any structure includes high compliance and administrative cost.

HR problem

For the effective implementation of India's greatest reform in tax 'GST', Indian Government has to recruit trained staff in various aspects i.e. IT, Finance, Taxation.

Major revenue items out of scope of the GST

In India, Tax rates on the tobacco and alcohol products is very high. But these are not included in the GST bill.

7.Loopholes of GST bill:

Tobacco and alcohol products are kept away from the GST

Tax on the tobacco and alcohol products is a major source of revenue for the Government. But in the recently passed GST bill, these products are not included. It means now various states will charge tax on these goods according to their will. However if tobacco products are included in GST bill, it would be chargeable at 40% app.

Entertainment tax-not included in GST

It means if you are planning to see a movie in multiplex or PVR, The ticket price would not be reduced.

Not good for real estate business

According to various experts, Due to GST the cost of new homes will increase by 8%. In India, Real estate business is already in depression. With this change, the situation will become more worse.

Need of a strong IT system

With the GST bill, India would have a unique indirect tax structure and it would be easy to administer it. But it is a big challenge for the Government of India to construct a strong IT system for GST bill. New Goods and Services tax identification number will be provided to all dealers. GST number is a 15 digit number, which would be based on the state code and pan card.

8.Conclusion:

There is still uncertainty about the final GST rate or rates. The GST is likely to be at 18 per cent. The GST is worldwide accepted system. GST is framed in India to remove the cascading effects of tax and increase the tax base. It will be beneficial for the country or not that can't be finalized now. According to Some Economists, There is nothing new in the GST and GST will not be able to achieve its objective like decrease in the cost of production, increase in productivity, Economic growth etc.

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