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## Goods & Service's Tax “Reshaping the Indian Economy”

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### Abstract

Amidst economic crisis across the globe India has posed a beacon of hope with ambitious growth targets supported by a bunch of strategic undertakings such as “Make in India” and Digital India campaigns. G.S.T. is yet another strategic undertaking which paved a push in the Indian economy. As soon as 1st July 2017 arrived the record book of Indian Tax administration has witnessed a paradigm shift with the launch of Goods and Services Tax. The impact of G.S.T on the economy is monumental. By removing the multiple taxation structure Goods and Services Tax led to the birth of many new age entrepreneurs who had kept their ambitious business plans on hold due to the prior existence of Multiple Taxation Structure. The paper emphasizes upon the background of the Indian Indirect Taxation System, the GST concept along with significant working, GST Taxation System rates, and also called attention upon the advantages of Goods and Services Tax to various sectors of the Indian economy and outlined some challenges of Goods and Services Tax implementation.

**Key words:** Tax, Indirect Tax, Goods and Services Tax (GST), Taxation reforms, Indian Taxation system, GST Council.

### Introduction

Tax: Tax is a mandatory fee or financial charge levied by any government on an individual or an organization to collect revenue for public works providing the best facilities and infrastructure. Indian Tax Structure. Tax structure in India is a three tier federal structure. The central government, state governments, and local municipal bodies are included in the three tier structure. Article 256 of the constitution states that “No tax shall be levied or collected except by the authority of Law”. Hence, each and every Tax that is collected needs to back by an accompanying law. The Tax system in India traces its origin to the prehistoric texts such as Arthashastra and Manusmriti. As proposed by these manuscripts, the taxes paid by farmers and artisans in that era would be in the form of agricultural produce, silver or gold. Based on these texts, the foundation of the modern Tax System in India was conceptualized by the Sir James Wilson during the British rule in India in the year, 1860. However, post-independence the newly-established Indian Government then soldered the system to propel the economic development of the country. After this period, the Indian tax structure has been subject to a host of changes. Tax System in India: The Tax System in India allows for two types of taxes—Direct and Indirect Tax. Direct Tax – If the Incidence and Impact is on the same person it is called as Direct Tax. Example: Income Tax Indirect Tax – If the Incidence and Impact is upon two different persons it is called as Indirect Tax. Example: Goods and Services Tax. The Indian Indirect Tax Regime “Pre Goods and Services Tax” The Indirect Taxes framework comes under Constitutional provisions of India. Article 246, Seventh Schedule gives the right to Central and State Governments to levy taxes and collect Indirect taxes on the basis of goods and services transactions. The Point of Taxation differs depending upon the point of manufacture or point of sale or point of supply of service etc. Indian Indirect Taxation collection systems are based on origin, and are designed to impose tax and collect the same at the event of happening of any taxable activity.

| Name of Tax                    | Point of Taxation   | Levied by    | Collected by  |
|--------------------------------|---|--------------|---------------|
| Central Excise Duty            | Goods manufactured in India (Excluding Goods manufactured in SEZ in India). | Central Govt | Central Govt  |
| Service Tax                    | Any sort of service in territory (Wherever applicable).                     | Central Govt | Central Govt  |
| Sales Tax /VAT                 | Sales of Goods within state   | State Govt   | State Govt    |
| Customs Duty                   | Import of goods to India from any place Outside Indian Territorial Border   | Central Govt | Central Govt. |
| Central Sales Tax (CST)        | Inter-State goods sale  | Central Govt | State Govt    |
| Local Body Tax. (Entry/Octroi) | Goods entry to a state outside of state                                     | State Govt   | State Govt.   |

Consequences which lead to the introduction of Goods and Services Tax (New Indian Indirect Tax Regime) The Indian Indirect Taxation System was very complex and had Cascading Effect. The Tax imposed on one destination was also taxed on another destination. The Indian Constitution has distributed the taxation system between Central and State Governments unevenly which created distortions in the revenue generation at central and state level. Centre used to have exclusive right to levy and collect taxes upon the services sector. No set off was allowed in interstate transactions. There was no authenticated robust information technology system to monitor the multiple taxes which were being levied both by the central Government and State Governments. The Indian taxation system was complex and tedious and different taxes on same products in Different states led to high inflation, which had to be resolved.

### **Objectives of the Study**

To understand the Evolution of Indian Indirect Taxation System.To analyze the present Indirect Tax System - Goods and Services Tax (GST) in India. To compare the Previous Indirect Tax Regime with the Current Tax Regime.To evaluate the Advantages and Challenges of GST as Impetus to Indian Economy.

### **Methodology of the study**

This paper is based on exploratory research technique and data cited in this paper were collected via secondary sources available like statistical data available on various websites of Indian Government like Finance Ministry (finmin.gov.in), GST Council (gstcouncil.gov.in), GST Council Archives (gstindia.com), and many more ; literature review from journal papers ; annual reports ; newspaper reports . Research design is drafted which is highly descriptive in nature.

### **Limitations of the Study and Scope for Future Research**

The following are the limitations of the study:(a)The collection of primary data has not been undertaken in this study due to time constraint.(b) GST is at a very young stage , so tax reforms can occur from time to time via GST council meetings regarding finalization of tax rates and even imposition of new rates and even deduction of existing rates, (c) The data gathered for this paper was speculatively exploratory in nature as GST meetings are going and still, a lot more needs to be done.(d) Final conclusions may vary considering different perceptions.

### **Goods and Services Tax**

Goods & Service Tax is a Destination Based Consumption Tax levied at multiple stages of production and distribution of goods and services.It combines various other taxes such as state and local taxes, entertainment tax, excise duty, surcharges, octroi and others.This Tax is applicable on transaction value which includes packaging, commission and other expenses incurred during the Supply.Interstate transactions and IGST mechanism is present where centre would levy and collect on interstate supplies and CGST & SGST would be levied on intrastate supply of goods and services.CENVAT credit is allowed on the basis of invoice issued by the suppliers.CGST & SGST has to be paid separately to centre and state. A not for profit ,non government company called Goods & Service Tax Network jointly set up the centre and state will provide and share IT infrastructure and services to the central and state government Tax payers and other stake holders.Input Tax Credit for CGST & SGST will be taken for taxes allowed under centre and state respectively. Tax payer or exporter would have to maintain separate details in books of accounts for av ailment, utilization and refund of Input Tax Credit. It is the responsibility of GST Council which will be the apex policy making body of GST.Threshold limit and compounding limit is optional on the basis of turnover.

### **Goods and Services Tax structure in India**

The GST implementation is “Dual” in nature - one component is implemented by Centre (CGST) and another component by State (SGST). The base of tax would be the same by Centre and State governments. GST came into effect in India on July 1, 2017. With some major modifications, the GST would now have three prime models :(i) Central GST: GST to be levied by the Centre. (ii) State GST: GST to be levied by the States. (iii) Dual GST: GST to be levied by the Centre and the States concurrently. GST is regarded as a comprehensive and one Tax system on manufacture, , sale, and consumption of goods and services at the Central level.One Nation One Market One Tax:G.S.T has reduced Trade Barriers to a large extent and brought uniformity in the National Market.The Major Point of Highlights of G.S.T are:Multiplicity of taxes got reduced, Tax neutrality, especially for exports goods,Development of one nation or one common economic market, Simple and Transparent tax with specific rates and exemptions.(e) Robust information Technology Network called Goods and Services Tax Network is the major point of attraction for Transparency.Since our Indian economy is a constituent of several segments having different market dynamics it would rather be fine to study the impact of GST on each of the segment.

### **Impact of GST on manufacturing sector**

In the pre GST years, the manufactures were getting victimized by a vicious cycle of taxes and by virtue of that many have to shut down their business. But in the GST regime the transportation costs fell down and half of the logistic time and effort can be saved due to the removal of multiple tax levies helping the manufacturers to produce better quality product at competitive rates.Since GST has also opened a new chapter of growth of SMEs –a hub of employment generation.Impact on agricultural sector –The new tax reform brought transparency, efficiency and improved supply chain to benefit the sector participants.GST also brought reduction in the cost of heavy machinery needed to produce crops. The reduction in cost can prompt farmers to yield crops of better quality. Impact of GST on FMCG Sector-FMCG is the fourth largest segment in the Indian economy, input tax credit a prominent feature of GST can be availed by the FMCG Sectors for efficient running of their business.Import & Exports flourished under GST regime-The pre GST era imposed many kinds of

indirect taxes on various imports and exports of goods and services. But now SAD & CVD which were used to be levied on imports are replaced with IGST. The customers will have to pay customs duty along with IGST. Even exports of goods and services would remain zero rated. Boon and Bane to Tourism & Hospitality sector- The higher rates of GST is digging a hole in the revenue of hotel chains across India. Although the admission hassles can be best addressed with GST the higher rates of taxes is leading to a slow growth in the luxury hotel segment, but now a days a service quality is set to improve hence the hotels started leaping forward. By introducing E way bill and other robust system of return filing mechanism updates and exclusions in GST has become a regular occurrence and hence GST is not just a Tax Reform but a Business Reform. So, GST is an undertaking that is expected to provide much needed stimulant for economic growth in India.

### **Challenges of GST Implementation**

The following are some of the major challenges for GST implementation in India (i) In India, there are various taxes like Central Excise, VAT, CESS, and other state level taxes which were subsumed and come under one tax, that is, GST, but still lots of states and union territories have other taxes out from GST which has to be worked upon. (ii) As GST would be of two types : Central GST and State GST and further division is required on the basis of utmost necessity and property based like need, location, geography, and resources which has to be worked upon. (iii) Still the tax rate is not fully finalized and lots more have to be worked upon considering the standard of living of people. (iv) It is utmost necessary that proper management of tax and infrastructure is required to implement proper policies and plans.

### **Conclusion**

The G.S.T regime although implemented a few years back but it brought a pragmatic shift for Indian Trade and Industry. G.S.T was implemented by the current BJP government under the able leadership of Prime Minister Shri Narendra Modi on July 1, 2017. There has been a positive side from the Government and also the public regarding G.S.T as envisaged in this paper. Initially all the sectors in India in fact accepted G.S.T reluctantly but in the due course of time G.S.T drawn a positive place in the mindsets of Indian market. So, GST is an undertaking that is expected to provide much needed stimulant for economic growth in India. Since a coin has both the sides G.S.T should get through the various challenges as discussed in this paper.

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