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"Impact of Goods and Service Tax on Indian Economy"

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ABSTRACT
The introduction of Goods and Services Tax (GST) would be a significant step in the reform of indirect taxation in India. Amalgamating several Central and State taxes into a single tax would mitigate cascading or double taxation, facilitating a common national market. The simplicity of the tax should lead to easier administration and enforcement. In 2000, the Vajpayee Government started discussion on GST by setting up an empowered committee. The Goods and Service Tax Bill of GST Bill, officially known as The Constitution (122nd Amendment Bill, 2014, would be a Value added Tax (VAT) to be implemented in India, from April 2016 GST stands for "Goods and Services Tax and is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level, it will replace all indirect taxes levied on goods and services by the Indian Central and State governments. It is aimed at being comprehensive for most goods and services. GST system is targeted to be a simple transparent and efficient system of indirect taxation as has been adopted by over 130 countries around the world. Introduction of an Goods and Services Tax (GST) to replace the existing multiple tax structures of Centre and State taxes is not only desirable but imperative in the emerging economic environment. GST being a destination-based consumption tax based on VAT principle, would also greatly help in removing economic distortions caused by present complex tax structure and will help in development of a common national market. This paper puts an attempt to explore the impacts and implications of introduction of GST on Indian economy

I. INTRODUCTION:

The Goods and Services Tax (GST) would be a very significant step in the field of indirect tax reforms in India. By amalgamating a large number of Central and State taxes into a single tax, it would mitigate cascading or double taxation in a major way and pave the way for a common national market. From the consumer point of view, the biggest advantage would be in terms of a reduction in the overall tax burden on goods, which is currently estimated at 25%-30%. Introduction of GST would also make Indian products competitive in the domestic and international markets. Studies show that this would instantly spur economic growth. Last but not the least, this tax, because of its transparent character, would be easier to administer.

The GST was the biggest reform in the Tax Regime of our country after Independence. It is something that each of us must understand as it is going to affect our lives in a very significant manner. Now in India, there is a huge number of list in indirect taxes such as Excise duty, Custom duty, Service Tax, VAT, Purchase Tax, Entertainment Tax, Entry Tax, Octroi, Tax on lotteries, betting and gambling, Luxury Tax ,Etc. So that, Government tries to implement a unified tax system which is known as GST instead of all indirect taxes for Developing an economy environment at common national level. GST is removing various difficulties like Cascading Effect (Tax on Tax), Complexities, administration and compliance cost. For removing doubt about cascading effect, there is a one example i.e In Vat system, State is Charging VAT on the excise duty paid to the central government.

II. OBJECTIVES OF THE STUDY:

The study is focused on the following objectives.

- To understand the concept of goods and service tax
- To understand the present scenario of indirect taxation in India
- To understand how GST will work in India
- To study the impact of GST on Indian Economy

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III. 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.

IV. GOODS AND SERVICE TAX – AN OVERVIEW:

First we need to understand the present indirect tax system. There are endless taxes in the present system. Few of them have been levied by the Centre and rest levied by the States. Govt. draws the power to levy Tax from the constitution. There are many shortcomings in the Present Indirect Tax structure. We will be discussing them now:

Excise is levied on the manufacturing of products &its credit is not available against liability of VAT. VAT is charged on the value of Excise. Thus causing cascading effect i.e. Tax on Taxes. Because of the multiple barriers our Logistics efficiency is very low as the trucks have to wait in long queues to get the permit to enter in different states. Our trucks travel on an average of just 260 kms in a day as compared to the average of 440 kms in a day in European nations and 660 kms in America.

There are multiple taxable events existing in our present system. As for excise it is manufacturing of Goods whereas for Sales Tax it is Sale of goods & Service Tax gets levied on the provision of Services. Because of multiplicity of Taxes there is a high cost of compliance for both assesses as well as for the Govt. .Because of different legislations involved, there are different meanings assigned for the same term. All these shortcomings lead us to adapt a new system of Taxation for ease of doing the business and for the seamless flow of credit across the whole supply chain.

GST would be a comprehensive indirect tax on manufacture, sale and consumption of goods and services throughout India, to replace taxes levied by the Central and State governments.GST is a tax that we need to pay on supply of goods & services. Any person, who is providing or supplying goods and services, is liable to charge GST. GST is a consumption based tax/levy. It is based on the "Destination principle." GST is applied on goods and services at the place where final/actual consumption happens.

GST is a comprehensive tax which is levied on production, trading goods or provision of Services in all over India. GST is in line with the principle of destination – based Consumption tax. GST is a tax on Value addition made at each stage and benefit of Setoff will be continued from manufacture/ Service provider up to retailers, so that ultimate Consumer should bear the tax. However GST is based upon VAT Principle. Rate of GST will be uniform across the country. There will be no Distinction between goods and Services.

4.1 Functioning of GST: GST is to be operating in all over the country. CGST and SGST is levied on manufacturing and providing Services, So at that time CGST and SGST is charged separately. Taxes paid against CGST allowed as input tax credit while making a payment of CGST only and same thing happens in the SGST i.e taxes paid against SGST allowed as ITC against SGST. Cross utilization of Input tax credit will be not be allowed in the payment of CGST and SGST i.e taxes paid against CGST will not be allowed as ITC while making a payment towards SGST and Vice versa. IGST is levied on the Interstate Sale or Services. In IGST, includes both taxes such as SGST and CGST. Benefit of Credit of IGST will be adjusted against both SGST and CGST Liability and vice-versa. In the Case of Stock / Consignment Transfer, there is a provision made by Parliament for their taxability and same would be treated as under IGST.

Table Shows the Computation of tax liability in GST

Sr. No	**Particular**	**Basic Value**	**SGST**	**CGST**	**Total Value**	**ITC for SGST**	**ITC for CGST**	**Liability**	
								CGST	SGST
1	Input For Manufacture								
	Cost to Manufacture	100	10	10	120	–	–	10	10
2	A] Manufacture's Liability								
	Manufacture Sold goods to Whole seller	150	15	15	180	10	10	5	5
3	B] Whole seller's Liability								
	Whole Seller sold goods to Consumer	200	20	20	240	15	15	5	5

4	Total Tax Collection							20	20

4.2 GST Rates and it’s structures: The Combined GST Rate is being discussed by government .The rate of GST is to be proposed between 16% to 20% after GST rate is arrived at the States and the Centre will decide on the CGST and SGST Rates. Currently, Services are taxed at 14% and the combined charge of indirect taxes on the most of goods is around 20%.There are four rate for GST which is based on revenue neutralization rate, they are: Floor rate for essential goods and services, Standard rate for goods and services which are used in the general cases, Special rate for precious metal i.e Gold, silver, diamond etc. and Nil rate. While countries such as Singapore and New Zealand tax virtually everything at a single rate, Indonesia has five positive rates a zero rate and over 30 categories of exemptions. In China, GST applies only to goods and the provision of repairs, replacement and processing services. It is only recoverable on goods used in the production process, and GST on fixed assets is not recoverable.

There is a separate business tax in the form of VAT. For example, when the GST was introduced in New Zealand in 1986 it yielded revenues that were 45 per cent higher than anticipated, in large part due to improved compliance. It is more neutral and efficient structure could yield significant dividends to the economy in increased output and productivity. The GST in Canada replaced the federal manufacturers’ sales tax which was then levied at the rate of 60 per cent and was similar in design and structure as the CENVAT in India]. It is estimated that this replacement resulted in an increase in potential GDP by 24 per cent, consisting of 12.4 per cent increase in national income from higher factor productivity and 50 per cent increase from a larger capital stock (due to elimination of tax cascading). The Canadian experience is suggestive of the potential benefits to the Indian economy. This means gains of about US$15 billion annually. This is indeed a staggering sum and suggests the need for energetic action to usher the GST regime at an early date. GST rates of some countries are given below.

Table Shows GST Rates of Some countries

Country	**Rate of GST**
Australia	10%
France	19.6%
Canada	5%
Germany	19%
Japan	5%
Singapore	7%
Sweden	25%
India	27% ^
New Zealand	15%
Pakistan	18%
Malaysia	6%
Denmark	25%

V. INDIAN MODEL OF GST:

Generally, GST consist three prime models including Central GST (CGST), States GST (SGST) and Dual GST. These models are explained in the following pages.

5.1 Central Goods and Service Tax: Under this option, the two levels of government would combine their levies in the form of a single National GST, with appropriate revenue sharing arrangements among them. In the case of a Central GST (where all goods and services are taxed by the Central government only), the Centre will collect most of the country's total tax revenue, leaving very little for the sub-national Governments.

5.2 State Goods and Service Tax: The second model is to have a State GST in which the States alone levy GST and the Centre withdraws from the field of GST or VAT completely. In this case, the State GST will work as the redistributing mechanism. The loss to the Centre from vacating this tax field could be offset by a suitable compensating reduction in fiscal transfers to the States. This would significantly enhance the revenue capacity of the States and reduce their dependence on the Centre.

5.3 Dual Goods and Service Tax: This category further consists of two sub-models including non-concurrent dual GST and concurrent dual GST

- **Non-Concurrent Dual GST:** Under this model, GST on goods can be levied by the States only and on services by the Centre only. The States already have the power to levy the tax on the sale and purchase of goods (and also on immovable property), and the Centre for taxation of services. No special effort would be needed for levying a unified Centre tax on interstate services. This model of dual GST would not be acceptable to the Centre as well as the States. Hence, the Government has already announced its intention to follow the Concurrent Dual GST.
- **Concurrent Dual GST:** Indian GST model would be Concurrent Dual GST consisting both the Central GST and State GST levied on same base. Under this model, GST will be levied by both tiers of Governments concurrently. There will be Central GST to be administered by the Central Government and there will be State GST to be administered by State Governments. In this model, both goods and services would be subject to concurrent taxation by the Centre and the States. All types of goods and services will be brought under this proposed GST structure except few exceptions.

VI. IMPACT OF GST:

The impact of GST can be seen on different sectors including retail sector, service providers, manufacturing sectors and job work transactions.

6.1 Impact on Retail Sector: The retail sector, like any other Indian sector, faces a slew of indirect tax issues and is exposed to litigation on various fronts. It has been our consistent view that the Government must not only induce investment (through the FDI policy) but also create an environment that makes it operationally efficient to execute a business in India. GST is a very potent tool to drive this environment. In light of the upcoming elections, GST is expected to stand deferred, but we rank it as top priority for the new Government that is formed in 2014.

GST is a comprehensive tax on the manufacture, sale and consumption of goods and services at a national level. GST system in India essentially envisages 2 taxes – State Level GST and Central Level GST. In principle, credit of GST paid on the procurement of goods and services will be available against the respective GST payable on the output supply of goods or services. Therefore, the system envisages a continuous flow of credit across all points in the supply chain without any breakage at any point. Most importantly, the focal point of taxation under GST is consumption – it's the ultimate point of consumption where the tax cost sticks.

- Tax on packing and labeling activities: GST would be structured on the destination principle. As a result, the tax base will shift to consumption. Under the GST regime, tax would be levied on goods or services at the 'point of supply' rather than for undertaking a 'process' (like packing / re-packing etc) in relation to supply of goods. Therefore, GST would be applicable only on transactions of supply of goods (and services) in the retail value chain rather than on the processes of packing or labeling that may occur at multiple levels. Overall, no additional taxable event is foreseen under GST for similar packing / labeling activities undertaken by retail chains.
- Double taxation on property management services: Such levy of dual taxes on almost the same taxable base is expected to be mitigated under the GST regime where tax is proposed to be levied on 'supply'. It is likely that the difference between goods and services for tax purposes would get dissolved under the GST regime and double taxation issues relating to property management contracts may be avoided.
- Retail price linked valuation issues : The applicability or otherwise of MRP based valuation in different scenarios is an extensively litigated aspect under customs/ excise laws in India and may continue to challenge under the GST regime as well, unless the Government discontinues MRP based valuation post GST. Similarly, valuation related disputes may continue to arise via various forms of gift vouchers, discount coupons and other promotional schemes under the GST regime as well.

6.2 Impact on service providers: Indirect Tax regime of the country with the implementation of GST is expected to see the drastic change. There are numerous grounds supporting such change and few of them are unified market Place , Reduced litigation , Better compliance management, Reduced operational cost, Seamless flow of credit etc. Impact of GST on manufacturers, Traders, Service providers would be altogether different. There are 12, 76,861 service tax assesse as on 31st March 2014. Out of these 12, 76,861 assesses, Top 50 assesses pays more than 15% of total service tax collection of the country. A major portion of current service tax revenue is paid by these big corporate houses providing services such as telecommunication services, IT services, Business support services, General Insurance premium, Banking and Financial services etc.

- Litigation management: Presently Most of the big players has one centralized registration of service tax and several VAT registration in states. The charging of SGST would introduce the contentious issues with the state government and in turn litigation in the different states. Presently single Show cause notice is issued for a contentious issue by the service tax authorities and with the separate registration of CGST, there would be separate SCN in all the states for the same issue. The situation may become unmanageable.GST will surely add to their Litigation in place of reduction.
- Seamless flow of credit and cost of services: VAT in the current mechanism becomes a cost to the service providers as no VAT credit is available to them. Under the proposed scheme, SGST credit would be available to the service providers. However the amount of VAT paid by these service providers is compared with SGST amount they are liable to pay under the proposed scheme. The service providers would be paying CGST and SGST on the entire revenue and availing the Credit of CGST and SGST paid on the Input or Input services. The additional SGST liability after offsetting the available credit would make the services costlier. Increased cost (including taxes) may also reduce the demand of their product.
- Cost of compliance and litigation: These service providers are generally making single payment of service tax from their centralized address and with respect to VAT they pay the taxes wherever required. Many of the service providers need not pay VAT due to their nature of business. In the proposed scheme, Payment need to be made in all the states on all the services and the periodical returns also need to be filled in all the states. with this increased no. of return filling , payment and increased litigation, cost of compliance and litigation will become higher.
- Human Resource Management: Presently these service providers have dedicated human resource at their centralized billing address dealing with service tax compliance and litigation with scattered compliance and litigation, it won't be possible to manage the compliance and litigation centrally and accordingly a team of tax professional would have to be created in the state level in addition to the corporate team. Each of the stakeholders would have different impact of implementation of GST in the country. A beneficial piece of legislation for one can be detrimental to other. Adoption of balanced approach is the only solution and such approach could be adopted only when all the stakeholders has been given the opportunity to keep their views.

6.3 Impact on Manufacturing Sector: Indian manufacturing sector covers a small portion of the world manufacturing Industry. It is evident that the Indian manufacturing sector is sluggish at present. Various factors increase threat to a new entrant in manufacturing Industry with the fear of shallow margins. Indian legacy provide little space for the easy expansion of the firm. There is an inefficient methodology behind production, planning, supply chain management, quality control and maintenance that cult the mass production. Indian local infrastructure lags behind global peers in terms of transformation, power and road facilities. There is a rising employment shift towards the manufacturing sector as the youth is joining labour empowerment in a huge number annually but unfortunately there is a considerable constant failure to create job for such mass.

Growth of the manufacturing sector is also critical for ensuring a balanced Trade. It is widely visible that India has been importing large volumes of manufactured goods as its own very economy fails to meet the market demand. Among the manufacturing products, the top five products are food, basic metal, rubber and petrochemicals, chemicals and electrical machinery. Indian manufacturing sector has been plagued by the taxation cascade and that brought an unwholesome stagnation to it. Government of India levy indirect tax on manufactured goods in India, which is Excise Duty. Such goods have been specified in the Central Excise Tariff Act as subjected to tax. It can be categorized as:

- Basic excise duty: Under section 3 of Central Excise and Salt Act,1944 on all excisable goods other than salt which are produced or manufactured.
- Additional excise duty: Under section 3 of Additional duties of Excise Act, 1957. It is levied in lieu of sales tax.
- Special excise duty: As per section 37 of Finance Act, 1978 levied on all excisable goods on which there has been basic excise duty levied.
- In current scenario, there is a different slab of excise duty for different commodities.
- Service Tax: As per Finance Act 1994 and subsequent rules, Service Tax is a tax levied by Central Government of India on services provided to manufacturing unit excluding services covered under negative list.
- VAT and CST: VAT is a multi-point tax on value addition which is collected at different stages of sale. VAT is applicable to intra-state sales. CST is same as VAT and is applicable for Inter-state sales only.

GST will reduce the cost of procurement/production of goods. It will break the cascade of tax at all the stages and there will be no retention/disallowance on stock transfer of goods. GST will bring Central/Union tax credit availability which may lead to removal of extra level of warehousing or supply chain. Till now there is no clarity between supply of goods, supply of goods and services and supply to oneself. It has been expected that GST Act will bring clarity in the term of 'supply'. GST will make India an even and seamless market, the current area based exemptions and hikes will become irrelevant. GST will make a hassle free transportation system. Supply of goods from one part to another will then occur in less transit time. Availability of right material at right place in right time would be achieved.

6.4 Impact on Job work transactions: The GST in India is likely to result in widening the tax base substantially by covering large number of potential taxpayers who are hitherto not covered in the tax net either due to their activity not being in the nature of taxable or due to some exemption being claimed. It is talked that the present assessed base on Central side itself is expected to rise to approximately 60 lakhs assesses from existing base of approximately 15 lakhs. One of major contributor in this rise would be job workers who may not be required to get registered under present taxation system. The paper writer has analyzed impact on job workers in the proposed GST regime. The manufacturing industries now-a-days stick to their core competencies and get most jobs done on outsourced basis. The sending of raw materials/semi-finished materials for some process as per the directions of principal manufacturer is known as job work. This is widely used method in many industries.
Job work is understood as the processing or working on goods supplied by the principal so as to complete a part or whole of the process. The work may be the initial process, intermediate process, assembly, packing or any other completion process. The goods sent for job work maybe raw material, component parts, semi-finished goods and even finished goods. The resultant goods could also be a variation of the same or the complete product. Examples of common job works are slitting, machining, welding, painting, electroplating, assembly, powder coating etc.

VII. 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 endeavor to generate tax revenues to support government expenditure on public services and infrastructure development. Cascading tax revenues have differential impacts on firms 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. It is 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. 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 economic 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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