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GOODS AND SERVICES TAX (GST) AND ITS IMPACT ON INDIAN ECONOMY

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ABSTRACT

Goods and Services Tax popularly known as GST a single tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. This research paper highlights the positive and negative impact of the GST in the Indian Tax System.

KEYWORDS

GST in India, Impact of GST, Tax system in India, Mechanism of GST, features, impact on prices, Indian Economy.

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I. INTRODUCTION

The Goods and services Tax (GST) is a vast concept, which reflects the giant tax structure by supporting and enhancing the economic growth of the country. GST is a comprehensively structured tax system, which will be levied on manufacturing, sale and consumption of the goods and services at a national level. The constitution amendment (122) in the year 2014 seeks to amend the constitution of India to facilitate the introduction of Goods and services Tax (GST) in the country. The proposed amendments will confer power in both the parliament and the state legislatures to make laws for levying GST on the supply of goods and Services on the same transaction. GST is an indirect tax in where all the stages of the production will bring to uniformity in the system. In order to bring GST into practice, there will be an amalgamation of central taxes and state taxes into a single tax payment. It would also help to enhance the ease of doing business in India both for domestic and international investors. Under GST regime, the consumer pays the final tax, but an effective input tax credit system, which ensures the consumers that there will be no cascading of taxes i.e. tax on tax paid on inputs that go into manufacturing of goods. Moreover, in order to avoid the current payment of multiple taxes such as excise duty and service tax at central level and sale tax/Vat at the state level, GST would unify these taxes and create a uniform single tax market throughout the country. The present tax system generally taxes on production whereas the GST will aim to tax on final consumption.

II. OBJECTIVES OF THE STUDY

The study has following objectives:

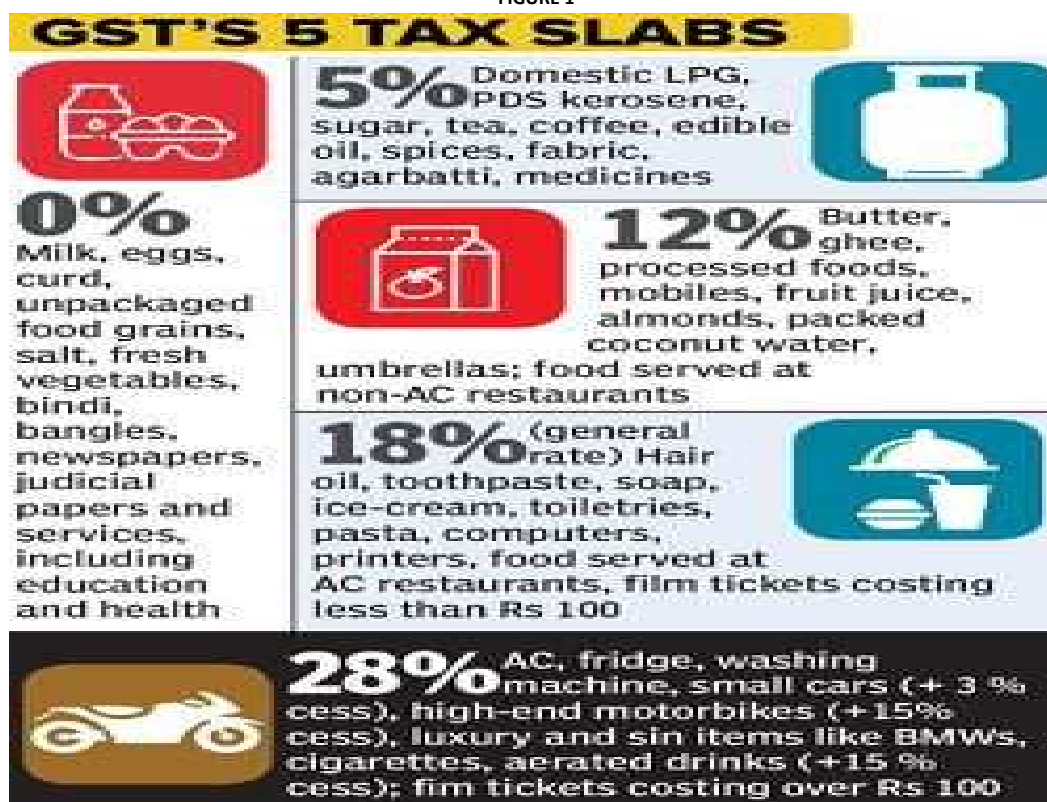
1. To cognize the concept of GST
2. To study the features of GST
3. To evaluate the advantages and challenges of GST
4. To furnish information for further research work on GST

It is a single indirect tax for the whole nation, one which will make India a unified common market. It is a single tax on the supply of goods and services, right from the manufacturer to the consumer. The GST Bill was introduced in Lok Saba in 2009 by UPA government but they failed to get it passed. The NDA government introduced a 'slightly modified' version of the GST Bill in the Parliament and both the Houses passed it. Through GST, the government aims to create a single comprehensive tax structure that will subsume all the other smaller indirect taxes on consumption like service tax, etc. Touted to be a major game changer, in the words of Union Finance Minister Arun Jaitley 'it will lead to the financial integration of India'. Currently, tax rates differ from state to state. GST will ensure a comprehensive tax base with minimum exemptions, will help industry, which will be able to reap benefits of common procedures and claim credit for taxes paid.

III. BENEFITS OF GST

- Overall reduction in Prices for Consumers
- Reduction in Multiplicity of Taxes, Cascading and Double Taxation
- Uniform Rate of Tax and Common National Market
- Broader Tax Base and decrease in "Black" transactions
- Free Flow of Goods and Services – No Checkpoints
- Non-Intrusive Electronic Tax Compliance System

FIGURE 1



Source: Times of India

FIGURE 2



Source: Finance Ministry

IV. GOODS AND SERVICES TAX NETWORK

Goods and Services Tax Network (GSTN) has been set up by the Government as a private company under erstwhile Section 25 of the Companies Act, 1956. GSTN would provide three front end services, namely registration, payment and return to taxpayers. Besides providing these services to the taxpayers, GSTN would be developing back-end IT modules for 25 States who have opted for the same. The migration of existing taxpayers has already started from November, 2016. The Revenue departments of both Centre and States are pursuing the presently registered taxpayers to complete the necessary formalities on the IT system operated by Goods and Services Tax Network (GSTN) for successful migration. About 60 percent of existing registrants have already migrated to the GST systems. GSTN has already appointed M/s Infosys as Managed Service Provider (MSP) at a total project cost of around Rs 1380 crores for a period of five years.

EXAMPLE OF GST CALCULATION

Let us assume that the GST is set at 5% Suppose that the manufacturing cost of a Product A is 100 and assuming a GST of 5% the total amount is Rs. 105 The next step of taxation would be when the Product is sold to consumers, let's say at a price of 150. So the GST will charge another 5% on just the difference of Rs. 150 and Rs. 105 i.e. only 5% on Rs. 45 which is equal to Rs. 2.25. So the final price is Rs. 150 + Rs. 2.25. Unlike the case of petrol pricing there is no tax on a tax now. This eliminates the cascading effect of taxes which is very prevalent in our economy and has been simplified to an elemental level in the example. Since the GST will be applied at every step of value creation it will be very difficult for black money owners to participate anywhere in the value chain with the GST without accounting for all other transactions.

V. CHALLENGES OF GST IN INDIAN CONTEXT

GST will be the biggest reform in Indian taxation since 1947, but there are many challenges for its successful implementation. These are as under:

- **CONSENT OF STATES:** For implementing, it is critical that GST bill is passed by the respective state Governments in state assemblies so as to bring majority. This is a herculean task.
- **REVENUE NEUTRAL RATE (RNR):** It is one of Prominent Factor for its success. We know that in GST regime, the government revenue would not be the same as compared to the current system. Hence, through RNR Government is to ensure that its revenue remains the same despite of giving tax credits.

- **THRESHOLD LIMIT IN GST:** While achieving broad based tax structure under GST, Both empowered committee and Central Government must ensure that lowering of threshold limit should not be a "taxing" burden on small businessmen in the country.
- **ROBUST IT NETWORK:** Government has already incorporated Goods and service tax network (GSTN). GSTN has to develop GST portal, which ensure technology support for GST Registration, GST return filing, tax payments, IGST settlements etc. Thus, there should be a robust IT backbone.
- **EXTENSIVE TRAINING TO TAX ADMINISTRATION STAFF:** GST is absolutely different from existing system. It, therefore, requires that tax administration staff at both Centre and state to be trained properly in terms of concept, legislation and Procedure.

VI. CONCLUSION

There are approx. 140 countries where GST has already been implemented. Some of the popular countries being Australia, Canada, Germany, Japan, and Pakistan, to name a few. Implementation of GST affects a nation both ways, positively and negatively. Ignoring negative aspects, positive aspects can be taken into consideration, in order to improve the economy of the country. In order to measure the impact the GST we need to wait for the time and the Government needs to communicate more and more about the systems. It could be a good way to reduce the black money and good effort by the Government of India after the Demonetization of the money in 2016.

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