

# INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, IT & MANAGEMENT

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**PROPOSED GST IN INDIA: PERSPECTIVES & RESULTS**

**PRIYA SHARMA**  
**STUDENT**  
**GOVERNMENT P.G. COLLEGE**  
**GURGAON**

**SAVITA**  
**STUDENT**  
**GOVERNMENT P.G. COLLEGE**  
**GURGAON**

**ABSTRACT**

*GST in INDIA has not been implemented yet. But after going through several beneficial characteristics and debatable concerns, we find that GST's advantages overshadow its loopholes. If it is implemented, it will bring great change in Indian economy. As it has been already discussed in this article that if GST is implemented, it will add 1.5% to India's GDP and for a developing country that means a lot. So, we all need to understand the importance of the implementation of the GST in India, as it will bring some powerful results to our economy and all the sectors will be the beneficiaries of the GST act. Thus, GST should be positively welcomed in India.*

**KEYWORDS**

GST, Indian economy.

**INTRODUCTION**

To minimize the difference between state & centre tax rates and to eliminate the hectic & complicated tax system, it is mandatory to bring the goods & services tax (GST) to reality.

In a nutshell, GST is a comprehensive taxation system which will cover all existing multiple indirect taxes on goods & services and a greater number of transactions as well, at center & state level. It will be following basic VAT principles. Through a tax credit mechanism, this tax is collected on value added goods & services at each stage of sale & purchase in the supply chain. GST is a destination based regime, against the current regime which is origin based. Thus, tax will be levied on the final & ultimate consumer. But it should be understood clearly that GST is not an additional tax. GST will abolish the other taxes such as octroi, central state tax, state level sales tax, stamp duty, telecom license fees etc.

Covering major shortcomings of VAT, GST will provide a simple structure to levy, collect and administer the taxes in the country. Experts say that GST is likely to improve tax collections and boost India's economic development by breaking tax barriers between states and integrating India through a uniform tax rate. It is estimated that the GST would add about 1.5% to the GDP.

This article will cover major proposed sections of GST, its need for the hour, its beneficial characteristics and hurdles. This article also provides for some recommendations for the successful implementation of GST.

**HISTORY OF GST & GST ELSEWHERE**

France was the first country to introduce GST system in 1954. And now, around 150 countries have introduced GST. GST has been a part of the tax landscape in Europe for the past 50 years. It is interesting to know that there are over 40 models of GST currently in force all over the world, each with its own peculiarities. Same as Brazil and Canada, India will also follow the dual GST taxation system. Followings are some tax rates under GST in some countries:

**TABLE 1**

COUNTRY	TAX RATE OF GST
Australia	10%
France	19.6%
Canada	5%
Germany	19%
Japan	5%
Singapore	7%
Sweden	25%
New Zealand	15%
Pakistan	17%

**EMPOWERED COMMITTEE FOR GST IN INDIA**

In 2000, Vajpayee govt. started discussion on GST by setting up an Empowered committee which was headed by Asim Doss Gupta (Finance Minister, Govt. of West Bengal). Empowered Committee prepared a roadmap and gave a detailed view on the structure of GST which is presented in terms of the First Discussion Paper on 10 November, 2009. *This paper is divided into 4 sections. Since, GST will be further improvement over the VAT; section 1 begins with a brief reference to the process of introduction of VAT at the center & the state and also indicates the precise points where there is a need for further improvement. This section also shows how the GST can bring about this improvement. Section 2 then describes the process of preparation for GST. Finally, section 3 details the comprehensive structure of the GST model.*

**JUSTIFICATION OF GST**

Introduction of GST to replace the existing multiple tax structure of the center & the state taxes is not only desirable but also imperative in the emerging economic environment. Increasingly, services are used /consumes in production and distribution of goods and vice versa. Separate taxation of goods & services often requires splitting of transaction value into value of goods & services for taxation, which leads to greater complexities, administration and compliance cost.

GST being a destination based consumption tax would greatly help in removing economic distortions caused by present complex tax structure and will help in development of a common national market.

Despite the success of VAT, there are still certain shortcomings in the structure of VAT, both at the center & the state level.



**1. JUSTIFICATION AT THE CENTRAL LEVEL:**

- ❖ At present, excise duty paid on raw material consumed is being allowed as input credit only. For other taxes and duties paid for post manufacturing expenses, there is no mechanism for input credit under the central excise duty act.
- ❖ Credit for service tax paid is being allowed manufacturer/service-provider to a limited extent. In order to give the credit of service tax paid in respect of services consumed, it is necessary that there should be a comprehensive system under which both the goods & services are covered.
- ❖ At present, the service tax is levied on restricted items only. Many other large no. of services could not be taxed. It is to reduce the effect of cascading of taxes, which means levying tax on taxes.

**2. JUSTIFICATION AT THE STATE LEVEL**

- ❖ a major defect under the state VAT is that the state is charging VAT on the excise duty paid to the central govt., which goes against the principle of not levying tax on taxes.
- ❖ In the present state level VAT scheme, Cenvat allowed on the goods remains included in the value of goods to be taxed which is a cascading effect on account of cenvat element.
- ❖ Many of the states are still continuing with various types of indirect taxes, such as luxury tax, entertainment tax, etc.
- ❖ As tax is levied on inter-state transfer of goods, there is no provision for taking input credit on CST leading to additional burden on the dealers.

**GST STRUCTURE IN INDIA**

India is a federal republic and the GST will thus be implemented currently by the central & the state govt. as the Central GST (CGST) and the State GST (SGST) respectively.

**TABLE 2: SUBSUMING OF EXISTING TAXES**

<b>SUBSUMING UNDER CGST</b>	<b>SUBSUMING UNDER SGST</b>
Central Excise Duty	Entertainment tax (Unless it is levied by the local bodies)
Additional Excise Duty	Luxury Tax
Excise Duty – Medicinal and Toiletries Preparation Act	Taxes on Lottery
Service Act	Taxes on Betting
Additional CVD	Taxes on Gambling
Special Additional Duty of Customs – 4% (SAD)	State Cesses and Surcharge (Supply of goods and Services)
Surcharge and Cesses	Entry Tax not in lieu of Octroi

The govt. is working on a special IT platform for smooth implementation for the proposed GST as per CBEC chairman S. D. Majumdar. The IT Special Purpose Vehicle (SPV) christened as GSTN (Network) will be owned by following 3 stakeholders:-

- i) The Centre
- ii) The State, and
- iii) The Technology Partner, NSDL

The Indian govt. is so keen to bring this tax reform to the reality due to its beneficial & lucrative features. Some of them are as follows:-

- It would be applicable to all transactions of goods & services.
- It would be paid to the accounts of the center & the states separately.
- The rules for taking & utilization of credit for the CGST and the SGST would be aligned.
- The center & the states would have concurrent jurisdiction for the entire value chain and for all taxpayers on the basis of threshold for goods & services prescribed for the states & the center.
- GST would follow basic VAT principles and would work on the basis of destination principle.
- The taxpayer would need to submit common format for periodical returns, to both the central and to the concerned state GST authorities.
- Each taxpayer would be allotted a PAN-linked taxpayer identification number with the total of 13/15 digits.
- All the items of goods & services are proposed to be covered and exemptions will be granted to few selected items.
- It will cover all types of person carrying on business activities, i.e., manufacturer, job-goer, trader, importer, exporter, and all types of service providers.
- Exports will be zero rated and imports will be levied the same taxes as domestic goods & services.

**TAX RATE & THRESHOLD UNDER GST IN INDIA**

There will be a two-rate structure. A lower rate for necessary items & items of basic importance and a standard rate for goods in general. There will also be a special rate for precious metals and a list of exempted items. Keeping the revenue neutral rate, the combined GST rate is being discussed by the government. After the total GST rate is arrived at, the states & the center will decide on the CGST & SGST rates.

"World over, GST rates are typically between 16% to 20%. In India, it is likely to be the same." – CBES chairman S. D. Majumdar said. Currently, services are taxed at 10% and the combined charge of indirect taxes on most goods is around 20%.

The Empowered Committee on State Finance Ministers, in its meeting on August 20, 2014 agreed on setting a Rs. 10 lakhs threshold limit for general category states and Rs. 5 lakhs for special category & north eastern states. Earlier, the proposed limit was Rs. 25 lakhs. Now, as per finance ministry, Rs. 10 lakhs threshold limit is considered "too low" for creating a business friendly tax administration.

**EXEMPTIONS UNDER GST**

Following items will be liable to get exemption under GST:

- Levies on petroleum products
- Levies on alcoholic products
- Taxes on lottery & betting
- Basic customs duty and safeguard duties on import of goods into India
- Entry taxes levied by municipalities or panchayats
- Entertainment and luxury taxes
- Electricity duties/taxes
- Stamp duties on immovable properties
- Taxes on vehicles

**ADVANTAGES OF GST**

- **HUGE REVENUE:-** It is estimated that India will gain \$15 billion a year by implementing the GST as it would promote exports, raise employment and boost growth. The tax rate under the proposed GST would come down and the number of assesses (i.e., tax payers) would increase by 5-6 times because GST will broaden the tax base and will minimize the exemptions. Thus, tax collection would go up due to increased buoyancy.
- **SIMPLE & TRANSPARENT STRUCTURE:-** GST is expected to help build a transparent & corruption-free tax administration. It will be levied only at the destination point, and not at various points (from manufacturer to retail outlets). Also, there will be no difference between goods and services. Apart from this, all India tax will be based on value added. No value added implies no tax to be paid to the govt.

- **LESSER TAX BURDEN:-** GST will bring about a change on the tax firmament by redistributing the burden of taxation equitably between manufacturing & services. The rates under GST will be kept very low as compared to the existing tax rates. Also, taxes which can't be set off will be reduced to a considerable rate.
- **REDUCED DISTORTIONS:-** GST will reduce distortions by completely switching to the destination principle. You follow any route; the tax given to the govt. will remain the same.
- **CREATION OF A TAX NEUTRAL SUPPLY CHAIN:-** Entry tax, octroi etc. will be there, but as is evident, these are also being removed under GST. Thus, it will make the supply chain perfectly neutral to taxes.
- **REDUCED PRICES:-** As the tax rate will reduce, it will have direct impact on the cost of goods & services. The prices will fall in the long run as dealers might pass on the benefits of the reduced tax to the consumers.
- **EASY COMPLIANCE:-** As all inter-state dealers will be e-registered and correspondence with them will be by e-mail, the compliance level will improve substantially.

### DEBATABLE CONCERNS

Irrespective of the beneficial characteristics, still there are some loopholes that GST will have to face. Some of them are mentioned below:-

- **DUAL- GST MODEL:-** The best GST systems across the world use a single GST system, while India has opted for a dual GST model. Critics claim that CGST & SGST are nothing but new names for central excise/service tax, VAT & CST. Hence, GST brings nothing new to the table.
- **VAGUE:-** The all new cenvat credit rules, 2014 do little to clarify eligibility for input credits by using general term such as- "any good which has no relationship whatsoever with the manufacturer of a final product" and "services used primarily for personal use or consumption of any employee". So, a hard look must be taken towards this as well.
- **ARTIFICIAL STATEMENT:-** Threshold limit of traders with turnover below Rs.10 lakhs need not register is a concept brought from VAT system. This can cause ambiguity. Also, the argument that small traders can't be handled by the system is not true.
- **FEAR AMONG STATES:-** Some states, such as Madhya Pradesh, Chhattisgarh, and Tamil Nadu fear that if the uniform tax rate is lower than their existing rates, it will hit their tax revenue. So, the central govt. has offered to compensate the states in case of a loss in revenue. This further has hindered the progress in GST talks with states.

### RECOMMENDATIONS FOR SUCCESSFUL IMPLEMENTATION OF GST IN INDIA

- **FROM CORPORATE'S POINT OF VIEW:-** Various Industry bodies, industry automobile sector body MAIT, have unanimously, in their budget recommendations to the govt., sought speedy implementation of GST to make tax system in the country simpler. Stating that "GST is expected to address several issues under the current scheme of taxation of goods and services by the centre and states," the industry body recommended that the draft GST legislation be published at the earliest.

Similarly, CEAMA—Industry chamber for the consumer electronics- sought immediate interventions from the government on various issues, including implementation of GST. In its recommendations, the industry said, "rapid implementation of uniform GST is needed in order to decrease compliance burden for businesses as well as reduce paper work while making tax system simpler and transparent."

- **FROM GOVERNMENT'S POINT OF VIEW:-** President Pranab Mukharjee said states are needed to come on board and develop an appropriate mechanism to roll out goods & services Act(GST) "If you want GST, unless we can get the states on board through some mechanism, we will have difficulties," Mukharjee said.

Government has to bring the GST to the reality. Even after getting implemented, if it remains vague for the people and doesn't provide desired results, then it can create a big problem for everyone.

- **FROM INDIVIDUAL'S POINT OF VIEW:-** Individuals are expecting a lot from the GST, as it will reduce their tax burden and will help uplift the Indian economy. As exports will be zero rated after the implementation of GST, so it will encourage people to export and it will bring more foreign currency to India.

### CONCLUSION

GST in INDIA has not been implemented yet. But after going through several beneficial characteristics and debatable concerns, we find that GST's advantages overshadow its loopholes. If it is implemented, it will bring great change in Indian economy. As it has been already discussed in this article that if GST is implemented, it will add 1.5% to India's GDP and for a developing country that means a lot.

So, we all need to understand the importance of the implementation of the GST in India, as it will bring some powerful results to our economy and all the sectors will be the beneficiaries of the GST act. Thus, GST should be positively welcomed in India.

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