Introducing GST and Its Impact on Indian Economy

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Edited by Dr.P.Paramashivaiah, Dr.G.Sudarsanareddy, Dr. B.Shekhar, Dr.B.K.Suresh, R.Shashidhar

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Acknowledgement

With some exceptions, the papers contained in this proceedings are from the conference on “Introducing GST and Its Impact on Indian Economy.” We are grateful for continuous backing of the manuscripts contributors from different stakeholders and the editors wish to acknowledge the enormous contribution made by a number of people to bring this proceedings. In particular, we acknowledge the vision and enthusiasm of the conference theme and Department of Business Administration and Commerce and Tumkur University Vision. We would like to express thanks to the individual authors for their contributions. Such a broad range of expertise has brought fresh thinking and ideas to addressing issues of GST. Finally, we recognize the contributions made by Editorial board members, organizing committee members and students of Commerce and Business Administration departments for bringing out this volume and who assisted in the organization of the conference and the early selection of papers. We would like to thank each contributor to the volume. For most of them, this was a volunteer effort based on each author’s commitment to Conference theme. Editing and proof reading are gratefully acknowledged. Our heartfelt thanks go to our Vice Chancellor Dr. A.H. Rajasab, and Prof. M. Venkateshwarlu, Registrar and Prof. D.V Paramashivamurthy, Registrar (Evaluation) of Tumkur University, for supporting a renewed emphasis in bringing this edited conference proceedings. We are indebted and sincere thanks to, CA. M. Devaraja Reddy President, ICAI, CA. Nilesh Shivji Vikamsey, Vice President, ICAI. CA. Babu Abraham Kallivayalil, Chairman, BOS, ICAI and CA. Vandana D. Nagpal, Director, BOS, ICAI for their support and association with conference.

Dr. P. Paramashivaiah
Dr. G. Sudarsanareddy
Dr. B. Shekhar
Dr. B.K. Suresh
R. Shashidhar
Preface

This Conference proceedings is brought out in response to manuscripts received from teachers, scholars, students and industry representatives in One Day National Conference on “Introducing GST and Its Impact on Indian Economy” organized by Departments of Studies and Research in Commerce and Business Administration, Tumkur University in association with Institute of Chartered Accountants of India (ICAI), New Delhi. We congratulate all the authors for their meaningful contributions and active participation in the Conference.

Business is undergoing rapid transformation due to the globalization. Tax regime and policies of any country gaining high importance due to growing foreign trade between various countries. In the competitive world of business, GST is a significant topic which requires lot of deliberations from academia and industry.

We academicians have the ability to influence the various new policy implementation issues of GST and its impact on economy. This book has primary objective of providing information and knowledge to Policy makers, Research Scholars, Academicians and students. Hopefully, these conference papers will motivate and stimulate all the stakeholders to discuss and conduct research in the field of GST.

The selections in this book serve an excellent supplementary reading for lectures and students of Commerce and Management studies as well as training resource which contribute towards further insightful research. In summary, this book provides a comprehensive, practically grounded and up-to-date overview of the issues and challenges of thrust areas of the conference. Readers will gain a greater appreciation and a better in depth understanding of the range of topics covered in Conference themes as well as a means to organize their thoughts on those topics by the stakeholders. We sincerely appreciate all the sponsors, patrons and organizing committee members in bringing out this edited conference proceedings.

Prof. P. Paramashivaiah
Organizing Secretary
MESSAGE FROM HIS HOLINESS
DR. SRI SRI SRI SHIVAKUMARA SWAMIJI

It gives me immense pleasure to write a Message for the proceedings of the National Conference, “Introducing GST and Its Impact on Indian Economy”, organized by Tumkur University, Tumakuru.

I take this opportunity to congratulate the Tumkur University for organizing academic events which throw light on contemporary socio-economic problems. The present theme of the conference is one such attempt which makes all of us to think critically about our economy and tax paying system. Besides, I am pleased to see the educational service this University has been providing to Tumkur region. I wish the University all the best in its future endeavours.

Further, the organizers of the conference and the editorial team have brought out the proceedings of the conference in an academically befitting way. The papers handpicked for publication here, I am sure, illuminate our understanding of the Goods and Services Tax Bill. The deliberations of the Conference will definitely serve as guiding principles for the policy makes, and the delegates and research scholars will gain critical knowledge in the domain of tax and commerce studies, I believe.

I wish the Conference all the best.

(Sree Sivakumaraswamigalu)
Sree Siddagangamath

To
The Vice Chancellor,
Tumkur University, Tumkur
MESSAGE

This edition of the book is brought out in response to manuscripts received from teachers, scholars, students and industry representatives in One Day National Conference on “Introduction of GST (Goods and Service Tax) and its impact on Indian economy” on 7th May, 2016 organized by POST GRADUATE DEPARTMENT OF STUDIES AND RESEARCH IN COMMERCE AND BUSINESS ADMINISTRATION in association with ICAI, New Delhi. I congratulate all the authors for their meaningful contributions and active participation in the Conference.

Goods and Service Tax (GST) is an emerging area as whole world is looking at our country for it implementation, We academicians have the ability to influence the various GST issues and provide solutions to the challenges faced by across our country. This book has primary objective of providing information and knowledge about GST to Research Scholars, Academicians and students. Hopefully, this book will motivate and stimulate all the stakeholders to discuss and conduct research in the field of GST so that country will experience smooth passage of GST implementation.

(Prof. A.H. Rajasab)

Date : 29.05.2016
Place : Tumkur
President’s Message

Over the period, the profession of Chartered Accountancy has grown manifold in magnitude. The functional role that is being performed by Chartered Accountants in multifaceted professional areas today has actually surpassed their deemed conventional roles of accounting and auditing. The profession is now striving to excel in the entire governance mechanism by concentrating on its core competencies in financial reengineering. The Institute of Chartered Accountants of India (ICAI) has pioneered itself to be a frontrunner partner in the developmental activities of the country and also extended beyond the national frontiers.

The increasing globalisation, continuing developments in the field of finance and frequent changes in the world economic order have posed numerous challenges before the accountancy profession worldwide. These challenges have significant implications on the growth and development of our profession and simultaneously expectations from the profession have grown as a whole. We are constantly overcoming all challenges and discharging exemplary services to all stakeholders meeting all expectations. Our future is emerging at a rapid pace and we anticipate continuing the phenomenal growth on multiple fronts.

I am pleased that the Board of Studies of the Institute of Chartered Accountants of India (ICAI) and Tumkur University, Tumkur are organising a Joint Seminar on “Introducing GST and Its Impact on Indian Economy” on 7th May, 2016. I appreciate the organizers for choosing theme of the Seminar on GST considering the fact that the GST may be rolled out in India very soon and awareness about the concept needs to be spread beforehand.
I hope that the eminent experts will share their experiences which would definitely benefit the members and commerce fraternity attending this programme. In this context, also remember the words of Swami Vivekananda, “All human knowledge proceeds out of experience; we cannot know anything except by experience.” For professional like us it signifies that whatever we learn in such programmes should be practically experienced to derive best results of this learning. Always remember that we progress with experience, and augment the requisite expertise.

I extend my warm greetings to all those associated with the program and wish the same a resounding success.

CA. M. Devaraja Reddy
President
The Institute of Chartered Accountants of India
MESSAGE

At the outset, I congratulate both Commerce and Business Administration departments for their initiation to organize a National level Conference collaborating with ICAI, New Delhi and taking up GST, one of the most important topics in the field of taxation. It is a good welcome to the Industry for its implementation as it is already a proven regime in many countries. This conference is going to be a platform to discuss various challenges that might come across during its implementation. My special compliments to Organizers for taking up such a need based topic in today’s context.

The selections in this book serve an excellent supplementary reading and research material for Teachers and students of Commerce and Management field. In summary the book provides a comprehensive, practically grounded and up-to-date overview of the issues and dimensions of GST. Readers will gain a greater contentment in understanding the range of topics covered in Conference themes.

I wish the conference would be a grand success and hope the participant’s get knowledge on the latest developments in the field of taxation. I once again congratulate the organizers for their initiation.

(Prof. M. Venkateshwarlu)
Businesses function within a highly dynamic environment. There are number of national and global factors that are influencing various organisations. The diminishing geographical boundaries, cross border flow of capital, fast paced evolving technology have broadened the business dimensions. The rapid developments in various parts of the world both at micro and macro level have revolutionized the business practices. The changes are strategic and relate to all spheres including accounting, auditing, laws, governance and overall management. The accounting education in the country has to remain in tandem with the changes that are happening around us.

The sweeping changes in the various fields of commerce emerging as a result of such dynamism of the business environment has essentially made the training and grooming of the professionals by way of conducting various seminars, conferences, workshops, etc. highly important. It is said that where there is no vision & knowledge, the people perish. We need to learn contemporary developments in various areas so that we are able to explore and conquer the emerging challenges.

I am glad that the Board of Studies of the Institute of Chartered Accountants of India (ICAI) jointly with Tumkur University is organizing a Joint Seminar on the theme “Introducing GST and Its Impact on Indian Economy” on 7th May, 2016. The programme has been designed keeping in mind the present and the emerging needs of the professionals in the areas of commerce and trade.

The joint seminar shall be highly beneficial to the academicians, researchers,
Introducing GST and Its Impact on Indian Economy

chartered accountants, students and other delegates as various intriguing and contemporary topics are being covered. I hope that the participants attending the seminar shall most optimally utilize the opportunity of interacting with the pool of learned and academically proficient experts in their respective fields.

I wish the Joint Seminar a grand success.

CA. Nilesh Shivji Vikamsey
Vice-President,
The Institute of Chartered Accountants of India
The advancements in the field of accounting profession, like all walks of life, is becoming complex and growing at an incredible pace. In this robust world, physical boundaries have little meaning. Trade and Commerce is copiously flowing across the borders. In view of the integrated scenario of globalization, business environment has undergone a total transformation.

In the present-day world, accounting professionals have to manage efficiently the ever-changing global dynamics. One has to be dexterous to provide world class services in cross-cultural work environments. Chartered Accountants with their specialized education and intensive training are best suitable to pass on the benefits of these developments to the businesses engaging them, society and themselves.

The Board of Studies, an educational wing of ICAI, is organizing several programs for imparting the technical proficiency to CA Students to enable them to grapple dynamically evolving challenges.

It is indeed a matter of great pleasure that Board of Studies of the Institute of Chartered Accountants of India, is organizing a Seminar jointly with Tumkur University, Tumkur on 7th May, 2016 on the topic “Introducing GST and Its Impact on Indian Economy” for the benefit of the students of both ICAI and University.

This Seminar aims to make the participant aware of the importance of
Introducing GST and Its Impact on Indian Economy

Accounting Information in our daily life and also to recognize the role of Corporate Social Responsibility for integrating business and social development. The theme of the seminar “Introducing GST and Its Impact on Indian Economy” is quite relevant in the contemporary business environment. This seminar will enhance and make them conversant with the finer aspects of accountancy and commerce.

I extend my warm greetings and wish the joint seminar a grand success.

CA. Babu Abraham Kallivayalil
Chairman, Board of Studies
Message from Director
Board of Studies

The 21st Century buzzing with information revolution combined with globalization has opened the world of infinite opportunities for any economy in the world. In this era of knowledge management, it is imminent on the part of the institutions of higher learning to provide opportunities for capacity building by harnessing the potential of academicians, professionals and researchers alike. The Indian accountancy profession has always been in the forefront to bring the emerging global developments to the attention of all stakeholders by organizing regular programmes so as to establish a synergy in the Indian environment and the best global practices. It is in this perspective, the unison of the leading professional accountancy body of the world, namely the Institute of Chartered Accountants of India and Tumkur University, Tumkur, provides an exclusive platform to share the latest developments sweeping the entire business world.

Revolution in the field of financial reporting through the introduction of Ind AS based on IFRS has heightened interest in disclosure and transparency even opened new vistas for all professionals and academicians. This Joint Seminar provides a unique blend of rigorous theoretical academic foundation and real practical professional aspects with the broad aim to demystify complexities for the tomorrow’s better world. The Joint Seminar being organised by Board of Studies on 7th May, 2016 with Tumkur University, Tumkur shall be immensely beneficial to all the delegates whereby contemporary topics “Introducing GST
and Its Impact on Indian Economy” are being covered in a comprehensive manner.

I am confident that all participants particularly, budding potential youngsters shall have an exclusive opportunity to unlearn, learn and relearn.

I also congratulate Tumkur University, Tumkur for their efforts and wish the Joint Seminar a grand success.

CA. Vandana D. Nagpal
Director, Board of Studies
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Introduction:

In the ever changing economic scenario globalization, liberalization and privatization policies of the Government, in recent years, have made an indelible impact by bringing into force new economic system in India. During the later part of the 20th century the globalization wind which swept across the countries embraced all the countries including those which were hither to considered as conservative and communist, either by policy or rule. This opening up of domestic economies to international stakeholders has led to a number of opportunities to every participating country along with the threat of being exploited by the counter parts. So, it is a race. Race of the economies to grab economic benefits to the maximum possible extent by fulfilling the needed requirements. To what extent we are able to exploit the economic benefits depends upon the extent we are able to create an environment congenial for such an activity. Due to this fact it is imperative for every country to analyse the contemporary situation and find out and forecast the expectations of the world economic environment, so as to ascertain the demands to be fulfilled and accordingly set the stage by adopting necessary policies, to fulfill the demands of the globalised world and make fit oneself to exploit the opportunities to attain economic growth and thereby achieve all-round development of the country.

Over the centuries system of taxation has been shaped and reshaped to make it acceptable, effective and efficient. The journey of restructuring the tax system has been going on to make it more and more meaningful. While the innovations and developments in information and communication technology have made the tax system more objective, transparent and effective, the innovations and developments in finance and business models, globalization and liberalization policies, emergence of MNEs as lead players, increase in the international trade have contributed in making the tax system a complex one.

In recent years, India has been viewed as an attractive and dynamic investment
Introducing GST and Its Impact on Indian Economy

destination, and has witnessed an increased presence of multinational enterprises (MNEs) and a consequential increase in cross-border trade. This has created many opportunities to the Government for improving tax system of the country. In India, since the inception of New Economic Policy (NEP) in 1991, a host of significant developments have taken place in the tax system. The significance of ‘taxation’ from the point of view of shaping the growth of the economy in the desired direction along with accruing adequate revenue to the Government needs no exaggeration. As the economy grows the tentacles of taxes become longer and stronger and help the Government in ensuring desired socio-economic results. Though the taxes are as old as mankind itself, the system governing the taxes is on continuous reform and modification. In the contemporary status, where the economy is huge in size, assessees are umpteen in number, revenue collected is mammoth in quantity and technology used in administration is complex and advanced the Government has herculean task of managing the tax department efficiently and effectively.

Need for GST:

India’s recent progress towards economic growth stems from reforms undertaken after the 1991 fiscal crisis, which lifted India from decades of slow growth under socialist rule and offered an opportunity to improve living conditions in the immense, poor country. At the same time much had changed in India after the balance of payments crisis of 1991. Indian policies became more positive about promoting export and allowing foreign capital to participate in the process of India’s growth1.

Globalization and liberalization have become order of the day. The interdependence of economies in their move for development compelled the Governments of all the countries to follow the globalization policies adopted by the major economies of the world. To survive and grow in this economic order rational and competitive tax policies are being adopted by every country. India has also fallen in line with the requirement and has been initiating modifications in direct and indirect taxes. The recent proposals of Direct Taxes Code (DTC) and Goods and Services Tax (GST) are considered as path breaking in the economic restructuring in general and in the taxation area in particular.

Process and Framework of GST:

To implement comprehensive indirect tax reform in the country the then Union Finance Minister Mr. P. Chidambaram while presenting Union Budget for the
year 2007-08 announced to the effect that GST would be introduced from 01/04/2010 and an Empowered Committee of State Finance Ministers was constituted. The Finance Minister said that the Committee would work with the Central Government to prepare a road map for introduction of GST in India. After this announcement the Empowered Committee of State Finance Ministers decided to setup a joint working group on May 10, 2007. The Joint working group after intensive internal discussion and interaction with experts and representatives of Chambers of Commerce and Industry submitted its report to the Empowered Committee in Nov. 2007. After-words a spate of deliberations and discussions were held from among different interest groups including trade and industry bodies in the last seven-eight years.

In the budget speech during July 2014, the Finance Minister Mr. Arun Jaitly announced that the GST would be rolled-out by the beginning of financial year 2015-16. However, it did not materialize and the Finance Minister then hoped to implement it from 01/04/2016 and the Government tried its best to get the GST Bill passed in parliament. But it was struck in Upper-House after getting passed in Lower-House. Now, the Bill awaits its passing in Upper House.

In principle, GST is the same as the VAT already adopted by the states but with a wider base. While the VAT – which replaced the sales tax - was imposed only on goods, the GST will be a VAT on goods and services. In the current tax regime, states tax sale of goods but not services. The Centre taxes manufacturing and services but not wholesale/retail trade. The GST is expected to usher in a uniform tax regime across India through an expansion of the base of each into the other’s territory. This is why a constitutional amendment was necessary.

As per the GST bill the Centre will administer Central GST (CGST) and the States administer State GST (SGST). Compliance will be monitored independently at the two levels. The rates of both CGST and SGST will be fixed by the GST Council, whose members will be State Finance/Revenue Ministers and the Chairman will be the Union Finance Minister. Once the rates are set by the GST Council, individual states will lose their right to tax commodities at the rates they want.

**Impact of GST:**

The major impact of introducing GST in India is the transformation in the fiscal structure of the Indian federal setup. The fiscal right of the states and centre to deal with goods and services independently will be taken away and
both the Governments have to depend on each other’s for managing the so called goods and services tax in future. This is a very hard blow to the freedom of participating governments in the federal system.

The states that have a total liberty now to decide about VAT rate on goods, VAT exemptions etc, will lose that right and have to participate in decision making and bargain. States’ independent and individual right will be lost and they have to act as a whole; which means compromise amongst themselves and depend on the mercy of others

The industry and business fraternity, tax experts and economists and consumer bodies and government are of the opinion that the replacement of Excise, VAT and Service Tax by GST would lead to a number of benefits to all the stakeholders.

The perceived benefits are –

a. GST would eliminate to a large extent, the multiplicity of administrative mechanisms and tax rates across different states.
b. It will reduce complexity in tax and increase compliance.
c. It removes many of the cascading effects of indirect taxation.
d. It will remove the documentary hassles, thereby saves huge administrative expenses and reduces litigations.
e. Its positive impact on retail as a whole will make supply chain more cost effective.
f. It is expected to address most of the complex issues in taxation like software, intangibles, composite contracts etc. and brings more clarity in the levy.
g. It is expected to increase profitability of corporates and also increase accountability and transparency.
h. Simplicity and uniformity in indirect taxation helps the industries in proper planning and implementation of their projects and making Indian products competitive and strengthening the economy.
i. Its nature of incremental and transparent levy leads to reduction in generation of black money and lowers corruption.

Empirical Evidence:

A research study conducted recently reveals about the possible impact of GST. The impact is as perceived by 150 corporate undertakings belonging to both manufacture and service sectors and 150 tax experts across the country. Their perception about the possible out-come of the implementation of GST are gathered as below:
Table – 1:  
**Corporates’ agreement on implementation of the GST**

<table>
<thead>
<tr>
<th>Opinion</th>
<th>Frequency Percent</th>
<th>Frequency Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>31.3%</td>
<td>47</td>
</tr>
<tr>
<td>Agree</td>
<td>46.7%</td>
<td>70</td>
</tr>
<tr>
<td>Neither Agree nor Disagree</td>
<td>16.0%</td>
<td>24</td>
</tr>
<tr>
<td>Disagree</td>
<td>4.7%</td>
<td>7</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>1.3%</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>150</td>
</tr>
</tbody>
</table>

Source: Field Survey.

The GST is expected to unify the fragmented market in India and reduce cascading impact. In this connection, the opinion was gathered from the respondents on competitiveness of GST. Table - 1 reveals that, 31.3% of the respondents strongly agreed and 46.7% of the respondents agreed that, “implementation of the proposed Goods and Services Tax (GST) would make their organization and industry more competitive”. While, 16% of the respondents were undecided, 4.7% and 1.3% of the respondents were disagreed and strongly disagreed, respectively, with the statement made.

In general, the overall picture generates the hope that, the GST will get good support from the majority of business & industrial community in India in the global environment.

Table – 2:  
**Corporates’ agreement on the intention of bringing GST**

<table>
<thead>
<tr>
<th>Opinion</th>
<th>Frequency Percent</th>
<th>Frequency Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>28.0%</td>
<td>42</td>
</tr>
<tr>
<td>Agree</td>
<td>62.7%</td>
<td>94</td>
</tr>
<tr>
<td>Neither Agree nor Disagree</td>
<td>5.3%</td>
<td>8</td>
</tr>
<tr>
<td>Disagree</td>
<td>2.0%</td>
<td>3</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>2.0%</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>150</td>
</tr>
</tbody>
</table>

Source: Field Survey.
The opinion of the corporates on the Government’s intention of bringing the GST was also gathered. Table - 2 shows that, 28% of the respondents strongly agreed and 62.7% of the respondents agreed that, “the intention of bringing GST is to broad-base the levy, have fewer tax rates, simplify procedures and computerize the tax administration”. While, 5.3% of the respondents were neutral on this view, a small number i.e. 2% of the respondents in each group belonged to disagreed and strongly disagreed groups with the above statement.

This shows, the acceptance of proposed GST by the business and industry community.

Table – 3:

Corporates’ agreement on GST’s competency

<table>
<thead>
<tr>
<th>Opinion</th>
<th>Frequency Percent</th>
<th>Frequency Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>22.0%</td>
<td>33</td>
</tr>
<tr>
<td>Agree</td>
<td>63.3%</td>
<td>95</td>
</tr>
<tr>
<td>Neither Agree nor Disagree</td>
<td>11.3%</td>
<td>17</td>
</tr>
<tr>
<td>Disagree</td>
<td>2.7%</td>
<td>4</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>0.7%</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>150</td>
</tr>
</tbody>
</table>

Source: Field Survey.

Indirect taxes on goods and services at the state level constitute 85 per cent of own tax revenue of the state governments of which sales tax alone accounts for 61 per cent. A change in regime in recent times from cascading type sales tax to tax based on input-tax credit within taxation of goods, as well as the adoption of a uniform rates of tax, has resulted in buoyant revenues.6 Hence, it is also believed that, the GST, along with simplifying many issues in consumption taxation, extends the revenue base of the Indian economy. The respondents have expressed their view on the role of GST in revenue collection. Table - 3 reveals that, 22% of the respondents strongly agreed and 63.3% of the respondents agreed that, “the implementation of GST will improve the tax revenue in addition to improving the economy”. While, 11.3% of the respondents were undecided, a small number (3.4%) of the respondents, combinedly, disagreed and strongly disagreed with the statement made.
Table – 4:
Corporates’ agreement on the role of GST in tax administration and litigation management

<table>
<thead>
<tr>
<th>Opinion</th>
<th>Frequency Percent</th>
<th>Frequency Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>16.7%</td>
<td>25</td>
</tr>
<tr>
<td>Agree</td>
<td>58.7%</td>
<td>88</td>
</tr>
<tr>
<td>Neither Agree nor Disagree</td>
<td>20.0%</td>
<td>30</td>
</tr>
<tr>
<td>Disagree</td>
<td>3.3%</td>
<td>5</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>1.3%</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>150</td>
</tr>
</tbody>
</table>

Source: Field Survey.

A tax regime may be called as advanced or developed if the scope for litigation is very less. In this regard, Table - 4 describes that, 16.7% of the survey participants strongly agreed and 58.7% of the participants agreed that, “the implementation of GST improves tax administration and reduces the litigations”. While, 20% of the participants were having neutral view, small groups with 3.3% and 1.3% of the participants disagreed and strongly disagreed, respectively, with the above belief.

The overall picture indicates that, more than 3/4th of the participants believe that, the GST will improve the tax administration along with reducing litigations.

Table – 5:
Experts’ agreement on implementation of the GST

<table>
<thead>
<tr>
<th>Opinion</th>
<th>Frequency Percent</th>
<th>Frequency Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>38.7%</td>
<td>58</td>
</tr>
<tr>
<td>Agree</td>
<td>48.0%</td>
<td>72</td>
</tr>
<tr>
<td>Neither Agree nor Disagree</td>
<td>10.7%</td>
<td>16</td>
</tr>
<tr>
<td>Disagree</td>
<td>1.3%</td>
<td>2</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>1.3%</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>150</td>
</tr>
</tbody>
</table>

Source: Field Survey.
The opinion was gathered from the tax experts on competitiveness and feasibility of proposed GST. Table - 5 elucidates that, 38.7% of the tax experts strongly agreed and 48% of the tax experts agreed that, the “implementation of the proposed Goods and Services Tax (GST) would make the Indian business and industry more competitive”. While, 10.7% of the tax experts were undecided, a further 1.3% of the tax experts in each group disagreed and strongly disagreed, respectively, with the statement.

<table>
<thead>
<tr>
<th>Opinion</th>
<th>Frequency Percent</th>
<th>Frequency Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>12.0%</td>
<td>18</td>
</tr>
<tr>
<td>Agree</td>
<td>76.0%</td>
<td>114</td>
</tr>
<tr>
<td>Neither Agree nor Disagree</td>
<td>4.0%</td>
<td>6</td>
</tr>
<tr>
<td>Disagree</td>
<td>4.0%</td>
<td>6</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>4.0%</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>150</td>
</tr>
</tbody>
</table>

Source: Field Survey.

The opinion of the tax professionals on the Government’s intention of bringing the GST was collected. Table - 6 reveals that, 12% of the tax professionals strongly agreed and 76% of the tax professionals agreed that, “the intention of bringing GST is to broad-base the levy, have fewer tax rates, simplify procedures and computerize the tax administration”. While, 4% of the tax professionals were having neutral view, 4% of the tax professionals in each group disagreed and strongly disagreed with the statement made.

<table>
<thead>
<tr>
<th>Opinion</th>
<th>Frequency Percent</th>
<th>Frequency Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>8.0%</td>
<td>12</td>
</tr>
<tr>
<td>Agree</td>
<td>72.0%</td>
<td>108</td>
</tr>
<tr>
<td>Neither Agree nor Disagree</td>
<td>12.0%</td>
<td>18</td>
</tr>
</tbody>
</table>
Introducing GST and Its Impact on Indian Economy

The respondents have expressed their view on the role of GST in revenue collection and economic growth. Table - 7 reveals that, 8% of the respondents strongly agreed and 72% of the respondents agreed that, “the implementation of GST will improve the tax revenue in addition to improving the economy”. While, 12% of the respondents were undecided, a further 4% of the respondents in each groups, disagreed and strongly disagreed with the statement made. This indicates, there would be improved revenue generation along with improvement in the economy.

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>4.0%</td>
<td>6</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>4.0%</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>150</td>
</tr>
</tbody>
</table>

Source: Field Survey.

Table – 8:
Experts’ agreement on the role of GST in tax administration and litigation management

<table>
<thead>
<tr>
<th>The implementation of GST improves tax administration and reduces the litigations –</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Opinion</td>
<td>Frequency Percent</td>
<td>Frequency Count</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>14.7%</td>
<td>22</td>
</tr>
<tr>
<td>Agree</td>
<td>76.0%</td>
<td>114</td>
</tr>
<tr>
<td>Neither Agree nor Disagree</td>
<td>5.3%</td>
<td>8</td>
</tr>
<tr>
<td>Disagree</td>
<td>1.3%</td>
<td>2</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>2.7%</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>150</td>
</tr>
</tbody>
</table>

Source: Field Survey.

Table - 8 describes the opinion of the respondents on anticipation of GST on tax administration. It reveals that, 14.7% of the surveyed tax experts strongly agreed and 76% of the tax experts agreed and hope that, “the implementation of GST improves tax administration and reduces the litigations”. While, 5.3% of the participants were having neutral view, a small number of 1.3% and 2.7%, of the participants disagreed and strongly disagreed, respectively, with the above opinion.
Conclusion:

The study shows that the stakeholders of GST have a very high expectations about the positive outcome of GST. One thing is sure that the GST will bring uniformity and long-term perspective to the indirect tax structure in India. The industry and business along with the consumers will be benefitted. However, while implementing the GST the Government has to the following conditions to derive the above stated benefits:

a) Centre should take all the states into confidence.

b) State level taxes like Entertainment tax, Octroi are to be properly addressed.

c) Clarity of contentions issues and aspects is to be ensured.

d) Clear roadmap of GST along with proper administrative mechanism should be in place.

Implementation of GST leads to a new turn in fiscal federation of the country.

References:


3. Ibid.,

4. Ibid.,


Features of Goods and Services Tax in India

Kirty Sethia*

Abstract
The Goods and Services Tax (GST) is a value added tax to be implemented in India, the decision on which is pending. GST is the only indirect tax that directly affects all sectors and sections of our economy.¹ The goods and services tax (GST) is aimed at creating a single, unified market that will benefit both corporate and the economy.²

Under the GST scheme, no distinction is made between goods and services for levying of tax. In other words, goods and services attract the same rate of tax. GST is a multi-tier tax where ultimate burden of tax fall on the consumer of goods/services. It is called as value added tax because at every stage, tax is being paid on the value addition. Under the GST scheme, a person who was liable to pay tax on his output, whether for provision of service or sale of goods, is entitled to get input tax credit (ITC) on the tax paid on its inputs. Introduction of the Value Added Tax (VAT) at the Central and the State level has been considered to be a major step – an important step forward – in the globe of indirect tax reforms in India. If the VAT is a major improvement over the pre-existing Central excise duty at the national level and the sales tax system at the State level, then the Goods and Services Tax (GST) will indeed be an additional important perfection – the next logical step – towards a widespread indirect tax reforms in the country.

Keywords: GST, Features, Constitution, Impact

Introduction
The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014, seeks to amend the Constitution of India to facilitate the introduction of Goods and Services Tax (GST) in the country. The proposed amendments in the Constitution will confer powers both to the Parliament and the State legislatures to make laws for levying GST on the supply of goods and services on the same transaction.

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2. ibid.
GST is also known as “Value-Added Tax” (VAT) in some parts of the world (VAT is the name used throughout the EU and in South Africa. GST is the name used in, e.g. New Zealand, Canada, Singapore and Australia.). The reason for this is that, although it is charged on local consumption and is borne by end consumers, it is collected at each stage of the production and distribution chain by registered vendors, who have to account for the tax on the value that they have added to goods and services. France is the first country to introduce GST. Almost 150 countries have introduced GST in some form. 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. The authority to levy tax is derived from the Constitution of India which allocates the power to levy various taxes between Centre and State.

**Indirect Tax Reforms:**
- 1974 Report of LK Jha Committee suggested VAT
- 1986 Introduction of a restricted VAT called MODVAT
- 1991 Report of the Chelliah Committee recommends VAT/GST and recommendations accepted by Government
- 1994 Introduction of Service Tax
- 1999 Formation of Empowered Committee on State VAT
- 2000 Implementation of uniform floor Sales tax rates Abolition of tax related incentives granted by States
- 2003 VAT implemented in Haryana in April 2003
- 2004 Significant progress towards CENVAT
- 2005-06 VAT implemented in 26 more states
- 2007 First GST stuffy released By Mr. P. Shome in January
- 2007 F.M. Announces for GST in budget Speech
- 2007 CST phase out starts in April 2007
- 2007 Joint Working Group formed and report submitted
- 2008 EC finalizes the view on GST structure in April 2008

**Definition of supply under GST**
Under a GST, there are three types of supply:
(a) Taxable supply – a supply that is subject to output tax (GST on sales) and entitles the vendor to reclaim input tax (GST on purchases). This is often referred to as a standard-rated supply;
(b) Zero-rated supply – a supply that is not subject to output tax, but still entitles the vendor to reclaim input tax; and
(c) Exempt supply – a supply that is not subject to output tax, and does not entitle the vendor to reclaim any related input tax. In this case, the vendor is effectively treated like an end consumer.

“Supply” is a very broad term covering the sale of goods, services, intangibles and real property.

**Importance of GST³:**

Presently, the Constitution empowers the Central Government to levy excise duty on manufacturing and service tax on the supply of services. Further, it empowers the State Governments to levy sales tax or value added tax (VAT) on the sale of goods. This exclusive division of fiscal powers has led to a multiplicity of indirect taxes in the country. In addition, central sales tax (CST) is levied on inter-State sale of goods by the Central Government, but collected and retained by the exporting States. Further, many States levy an entry tax on the entry of goods in local areas.

a) This multiplicity of taxes at the State and Central levels has resulted in a complex indirect tax structure in the country that is ridden with hidden costs for the trade and industry. Firstly, there is no uniformity of tax rates and structure across States. Secondly, there is cascading of taxes due to ‘tax on tax’. No credit of excise duty and service tax paid at the stage of manufacture is available to the traders while paying the State level sales tax or VAT, and vice-versa. Further, no credit of State taxes paid in one State can be availed in other States. Hence, the prices of goods and services get artificially inflated to the extent of this ‘tax on tax’.

b) The introduction of GST would mark a clear departure from the scheme of distribution of fiscal powers envisaged in the Constitution. The proposed dual GST envisages taxation of the same taxable event, i.e., supply of goods and services, simultaneously by both the Centre and the States. Therefore, both Centre and States will be empowered to levy GST across the value chain from the stage of manufacture to consumption. The credit of GST paid on inputs at every stage of value addition would be available for the discharge of GST liability on the output, thereby ensuring GST is charged

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3. Aarti Saxena, *Overview of Proposed Goods and Services Tax (GST) Regime in India*, Deputy Secretary (State Taxes), Department of Revenue, Ministry of Finance, Government of India
only on the component of value addition at each stage. This would ensure that there is no ‘tax on tax’ in the country.

c) GST will simplify and harmonize the indirect tax regime in the country. It is expected to reduce cost of production and inflation in the economy, thereby making the Indian trade and industry more competitive, domestically as well as internationally. It is also expected that introduction of GST will foster a common or seamless Indian market and contribute significantly to the growth of the economy.

Further, GST will broaden the tax base, and result in better tax compliance due to a robust IT infrastructure. Due to the seamless transfer of input tax credit from one stage to another in the chain of value addition, there is an in-built mechanism in the design of GST that would incentivize tax compliance by traders.

**Salient features of proposed GST:** Dual GST: Both Centre and States will simultaneously levy GST across the value chain. Tax will be levied on every supply of goods and services. Centre would levy and collect Central Goods and Services Tax (CGST), and States would levy and collect the State Goods and Services Tax (SGST) on all transactions within a State. The input tax credit of CGST would be available for discharging the CGST liability on the output at each stage. Similarly, the credit of SGST paid on inputs would be allowed for paying the SGST on output. No cross utilization of credit would be permitted.

**Inter-State Transactions and the IGST Mechanism:** The Centre would levy and collect the Integrated Goods and Services Tax (IGST) on all inter-State supply of goods and services. The IGST mechanism has been designed to ensure seamless flow of input tax credit from one State to another. The inter-State seller would pay IGST on the sale of his goods to the Central Government after adjusting credit of IGST, CGST and SGST on his purchases (in that order). The exporting State will transfer to the Centre the credit of SGST used in payment of IGST. The importing dealer will claim credit of IGST while discharging his output tax liability (both CGST and SGST) in his own State. The Centre will transfer to the importing State the credit of IGST used in payment of SGST.

**Central Taxes to be subsumed:**

i. Central Excise Duty

ii. Additional Excise Duty

iii. The Excise Duty levied under the Medicinal and Toiletries Preparation Act
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iv. Service Tax
v. Additional Customs Duty, commonly known as Countervailing Duty (CVD)
vi. Special Additional Duty of Customs-4% (SAD)
vii. Cesses and surcharges in so far as they relate to supply of goods and services.

3.5 State Taxes to be subsumed:
   i. VAT/Sales Tax
   ii. Central Sales Tax (levied by the Centre and collected by the States)
   iii. Entertainment Tax
   iv. Octroi and Entry Tax (all forms)
   v. Purchase Tax
   vi. Luxury Tax
   vii. Taxes on lottery, betting and gambling
   viii. State cesses and surcharges in so far as they relate to supply of goods and services.

Impact of GST on certain goods
i) Petroleum and petroleum products have been constitutionally included as ‘goods’ under GST. However, it has also been provided that petroleum and petroleum products shall not be subject to the levy of GST till notified at a future date on the recommendation of the GST Council. The present taxes levied by the States and the Centre on petroleum and petroleum products, viz. Sales Tax/VAT and CST by the States, and excise duty the Centre, will continue to be levied in the interim period.

   ii) Taxes on tobacco and tobacco products imposed by the Centre shall continue to be levied over and above GST.

   iii) In case of alcoholic liquor for human consumption, States would continue to levy the taxes presently being levied, i.e., State Excise Duty and Sales Tax/VAT.

Salient features of the Constitution (122nd) Amendment Bill, 2014: The salient features of the GST Bill as introduced in the Lok Sabha are as follows:-
   i. Subsuming of various Central indirect taxes and levies such as Central Excise Duty, Additional Excise Duties, Excise Duty levied under the Medicinal and Toilet Preparations (Excise Duties) Act, 1955, Service Tax, Additional Customs Duty commonly known as Countervailing Duty, Special
Additional Duty of Customs, and Central Surcharges and Cesses so far as they relate to the supply of goods and services;

ii. subsuming of State Value Added Tax/Sales Tax, Entertainment Tax (other than the tax levied by the local bodies), Central Sales Tax (levied by the Centre and collected by the States), Octroi and Entry tax, Purchase Tax, Luxury tax, Taxes on lottery, betting and gambling; and State cesses and surcharges in so far as they relate to supply of goods and services;

iii. dispensing with the concept of ‘declared goods of special importance’ under the Constitution;

iv. levy of Integrated Goods and Services Tax on inter-State transactions of goods and services;

v. levy of an additional tax on supply of goods, not exceeding one per cent. in the course of inter-State trade or commerce to be collected by the Government of India for a period of two years, and assigned to the States from where the supply originates;

vi. conferring simultaneous power upon Parliament and the State Legislatures to make laws governing goods and services tax;

vii. coverage of all goods and services, except alcoholic liquor for human consumption, for the levy of goods and services tax. In case of petroleum and petroleum products, it has been provided that these goods shall not be subject to the levy of Goods and Services Tax till a date notified on the recommendation of the Goods and Services Tax Council.

viii. compensation to the States for loss of revenue arising on account of implementation of the Goods and Services Tax for a period which may extend to five years;

ix. creation of Goods and Services Tax Council to examine issues relating to goods and services tax and make recommendations to the Union and the States on parameters like rates, exemption list and threshold limits. The Council shall function under the Chairmanship of the Union Finance Minister and will have the Union Minister of State in charge of Revenue or Finance as member, along with the Minister in-charge of Finance or Taxation or any other Minister nominated by each State Government. It is further provided that every decision of the Council shall be taken by a majority of not less than three-fourths of the weighted votes of the members present and voting in accordance with the following principles:—
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- the vote of the Central Government shall have a weightage of one-third of the total votes cast, and
- the votes of all the State Governments taken together shall have a weightage of two-thirds of the total votes cast in that meeting.

x. levy of an additional non-vatable tax on supply of goods of not more than 1% in the course of inter-State trade or commerce, for a period not exceeding 2 years, or such other period as the GST Council may recommend, to protect the interests of the producing/manufacturing States. This additional tax on supply of goods will be levied and collected by the Government of India, over and above the IGST levied under the proposed Article 269A (1). This tax shall be assigned to the States from where such supplies originate.

Conclusion

India has witnessed substantial reforms in indirect taxes over the past two decades with the replacement of State sales taxes by Value Added Tax (VAT) in 2005 marking a watershed in this regard. Prior to VAT implementation, the tax structure was considered problematic primarily due to the “cascading effect of taxes” whereby an item is taxed more than once from the production to the final retail sales stage. Exporters were also becoming less competitive in the international market due to the huge input costs involved (tax burden of a commodity increases manifold as it is taxed repeatedly) through the earlier sales tax mode – reflected in higher prices of products as compared to global competitors.

To avoid this kind of a tax structure, VAT was introduced so that taxes are paid on the “value added portion” by each producer and the hurdles of the cascading effect are done away with. But shortcomings were also noticed in the VAT structure and efforts were made to further rationalise the system. Moreover, since VAT is applied on goods only (tax on services in India is a complicated issue due to various exemptions and definitional problems), there is also the task of calculating tax on services and adding it to the VAT on goods. The government has therefore recognised the need for harmonisation of goods and services tax so that both can be levied in a comprehensive and rational manner in a new taxation regime – Goods and Services Tax (GST).
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References
2. ibid.
3. Aarti Saxena, Overview of Proposed Goods and Services Tax (GST) Regime in India, Deputy Secretary (State Taxes), Department of Revenue, Ministry of Finance, Government of India
5. A Primer on Goods and Services Tax in India, Centre for Budget and Governance Accountability, New Delhi, 2011
“Implications of Implementing GST in India”

Smt Vindhya B Prasad*

Abstract:

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 Central Government and State Governments. GST is the only indirect tax that directly affects all the sections of our economy. India has been trying to implement the Goods and Services Tax (GST) for last few years but due to political and state governments autonomy issues the Federal government has been unable to make it law.

Given the passage of the Constitution (122nd) Amendment Bill, 2014 for Goods and Services Tax (GST) in the Lok Sabha on 6th May, 2015, the Government of India seems committed to replace all the indirect taxes levied on goods and services by the Centre and States and implement GST by 2016. With GST, it is anticipated that the tax base will be comprehensive, as virtually all goods and services will be taxable, with minimum exemptions.

This paper highlights the concept of GST. It explains the features of the suggested GST. It also throws light on benefits and limitations of implementing GST in India.

Key words: GST, Indian Economy, VAT, Service Tax

Introduction

India as world’s one the biggest democratic country follows the federal tax system for levy and collection of various taxes. Different types of indirect taxes are levied and collected at different point in the supply chain. The Centre and the states are empowered to levy respective taxes as per the constitution of India. The Value Added Tax (VAT) when introduced was considered.

In 2000, the Vajpayee Government started discussion on GST by setting up an empowered committee. The committee was headed by Asim Dasgupta, Finance Minister in Government of West Bengal. But an announcement to GST for the first time was made by Palaniappan Chidambaram, the Union Finance Minister, during budget of 2007-08 that it would introduced from 1 April 2010

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and that the empowered committee of State Finance Ministers, on his request would work with the Central Government to prepare a road map for introduction of GST in India. After this announcement, the Empowered Committee of State Finance Ministers decided to set up a Joint Working Group on 10 May 2007, with the Adviser to the Union Finance Minister and the Member-Secretary of Empowered Committee as co-conveners and the concerned Joint Secretaries of the Department of Revenue of Union Finance Ministry and All Finance Secretaries of the states as its members. The Joint Working Group, after intensive internal discussions as well as interaction with the experts and representatives of Chambers of Commerce and Industry, submitted its report to the Empowered Committee on 19 November 2007. In April, 2008 the Empowered Committee (EC) submitted a report titled “A Model and Roadmap for Goods and Services tax (GST) in India” containing broad recommendations about the structure and design of GST. In response to the report, the Department of Revenue made some suggestions to be incorporated in the design and structure of proposed GST. Based on inputs from Government of India and states, the EC released its First Discussion Paper on Goods and Services Tax in India on 10 November 2009 with the objective of generating a debate and obtaining inputs from all stakeholders.

Mr. Pranab Babu, (Hon’ble Union Home Minister of Finance Pranab Mukherjee) has made a remark in his Budget Speech of 2010 that an efforts will be made to introduce GST in India from April 2011. This deadline was subsequently extended to April 2012. Ex- Finance Minister Mr. P. Chidambaram in his Budget Speech of 2013-14 while apologizing for the failure to meet the April 2012 deadline announced further postponement of the same to April 2014. Then after missing so many deadlines finally new government came into power in May 2014. The Constitution (One Hundred and Twenty Second Amendment) Bill, 2014 was introduced in the Lok Sabha by Finance Minister Mr. Arun Jaitley on 19 December 2014. The Bill was passed by the House on 6 May 2015, receiving 352 votes for and 37 against. All no votes came from members of the AIADMK. The Indian National Congress, which opposed the Bill, walked out of the House before voting began. Although the BJD and the CPI (M) had previously opposed the Bill, at the time of voting they cast their votes in favour. The Government attempted to move the Bill for consideration in the Rajya Sabha on 11 May 2015. However, members of opposition repeatedly stalled the proceedings of
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the House. In order to appease the opposition for further scrutiny of the Bill, Jaitley moved a motion to refer the Bill to Select Committee.

We are going to have a dual GST model. The Center and the States both, will levy GST on supply of goods and services. On Supply of goods and services in the course of Inter-state only Center will levy and collect taxes (IGST) which will be apportioned between Centre and States based on the recommendation of GST Council. The Center will have power to make place of supply rules in this regard. On supply of goods and services in the course of or International trade or commerce, states will not have any power to levy and collect taxes.

For the first two years under GST (or as GST Council would recommend), 1% additional tax apart from GST will be levied on inter-state sale of goods which will be assigned to the state of origin of supply of goods. The rules regarding the place of origin will be formed by the Parliament. The Central Government would also have power to grant exemption to any goods from this tax. The point to be noted here is that this tax is to be levied on goods only, thus the differentiation between goods and services would again resume significance.

The proposed amendment in Article 271 restricts the power of the Central Government to levy any surcharge on the GST. We may therefore, be in a better situation wherein GST will not be subjected to any surcharge. (Cess -we may still have)

Further, tax on petroleum products will be covered in GST except for crude petroleum, high speed diesel, motor spirit, natural gas and aviation turbine fuel. For these five items, GST Council will specify the date from which GST will be levied. Tobacco & tobacco products; supply of newspapers & advertisements; luxuries, betting & gambling and entertainment & amusement are covered under the GST. However, alcoholic liquor for human consumption has been kept out of GST ambit.

The 122nd amendment will come into force from such date which Central Government may appoint by way of notification, after enactment. For enactment, it has to be passed by two-third majority by both houses of the Parliament of those present and simple majority of total membership of both houses. It has to be then approved by one-half of the state Governments, i.e. atleast 15 states. The said Bill has been passed by Lok Sabha on 6-5-2015 but could not be passed by Rajya Sabha. The same has now been referred to the select committee of the Rajya Sabha.

Fate of Bill in Parliament It may be noted that 122nd Amendment Bill has
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since been passed by the Lok Sabha in May 2015 and was referred to the Select Committee by Rajya Sabha on 12.05.2015.

Select Committee Report tabled in Rajya Sabha. The Select Committee of Rajya Sabha has since tabled its report on GST Bill [i.e., Constitution 122ndAmendment Bill, 2014] on 22.07.2015. While it endorsed majority of provisions, Congress, AIADMK and Left parties have opposed the GST Bill in its existing form.

The Select Committee has suggested that Government may compensate to States for revenue loss for five years. The earlier version of the GST Bill provided that Center may compensate States for revenue loss for a period of upto five years.

Indian system of taxation of goods and services is characterized by cascading, distortionary tax on production of goods and services which leads to miss-allocation of resources, hampering productivity and slower economic growth. To remove this hurdle, a pure and simple tax system like GST (Goods and Service Tax) is need of the hour in the country.

An ideal tax system collects taxes at various stages of manufacturing, supply, wholesale, retailing and lastly at the final consumption. It is based on the add-on value by the manufacturer, supplier and retailer at each stage of the value chain. Tax paid at each stage is based on the amount of value added and not on the entire amount.

Objectives of the Study:

- To understand the Concept of Goods and Service Tax
- To understand the Merits and Demerits of implementing GST in India
- To understand the features of GST
- To understand the implications of implementing GST in India

Research Methodology:

The information in the study is collected from secondary sources that is from various online sources, websites, articles related to Goods and Service Tax.

Concept of GST:

Goods and Service Tax is a comprehensive tax levy on manufacture, sale and consumption of goods and services at National Level. GST is a part of proposed
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tax reforms in India having an extensive base that instigate the applicability of an efficient and harmonized consumption tax system. GST has been commonly accepted by world and more than 140 Countries have acknowledged the same. Generally the GST ranges between 15% - 20% in most of the countries

GST is similar to the VAT system which is a value added tax on goods with an Input Tax Credit (ITC) mechanism but GST also includes services. Thus GST would be applicable on supply of goods and services as against the present concept of tax. GST is a value added tax on goods and services that is paid by the final consumer while the retailer will be taking credit of the tax he has paid while buying goods for retailing. So in this all the services of retailer or the chain behind him is taxed apart from the actual value of production of that good.

**Salient Features of the Proposed GST Model**

Following are the salient features of GST Model:

1. The GST shall have two components: one levied by the Centre (hereinafter referred to as Central GST), and the other levied by the States (hereinafter referred to as State GST). Rates for Central GST and State GST would be prescribed appropriately, reflecting revenue considerations and acceptability.

2. The Central GST and the State GST are to be paid to the accounts of the Centre and the States separately.

3. The Central GST and the State GST would be applicable to all transactions of goods and services made for a consideration except exempted goods and services, goods which are outside the purview of GST.

4. Since the Central GST and the State GST are to be treated separately; taxes paid against the Central GST shall be allowed to be taken as input tax credit (ITC) for the Central GST and could be utilized only against the payment of Central GST. The same principle will be applicable for the State GST.

5. The administration of Central GST to the Centre and for State GST to the States would be given.

6. To the extent feasible, uniform procedure for collection of both central GST and the State GST would be prescribed in the respective legislation for the Central GST and the State GST.

7. The tax payer would need to submit periodical returns, in common format.
as far as possible to both the Central GST authority and to the concerned State GST authorities.

8. Each tax payer would be allotted a PAN-Linked taxpayer Identification number with a total of 13/15 digits. This would bring the GST PAN-Linked system in line with the prevailing PAN-Based system for Income Tax, facilitating exchange and taxpayer compliance

**Impact of GST on Indian Economy:**
Like every coin has two sides; even GST will probably have its own Positives and negative impacts:

**Positive Aspects of GST:**

1. The main reason to implement GST is to abolish the cascading effect on tax. A product on which excise duty is paid can also be liable to VAT. Suppose a product A is manufactured in a factory. As soon as it releases from factory, excise duty has to be paid to central government. When the product A is sold in same state then VAT has to be paid to the State Government. Also no credit on excise duty paid can be taken against output VAT. This is termed as cascading effect since double taxes is levied on same product.

2. GST will lead to more transparent and neutral manner to raise revenue.

3. Implementation of GST will help resolve various issues concerning taxation and logistics with regard to e-commerce business, which has been recording rapid growth in the country, says a study.

4. Simplified and cost saving system as procedural cost reduces due to uniform accounting for all types of taxes. Only three type of account; CGST, SGST & IGST have to be maintained.

5. GST is structured to simplify the current indirect system. It is a long term strategy leading to a higher output, more employment opportunities and economy boom.

6. It is beneficial for both economy and corporations. The reduced tax burden on companies will reduce production cost making exporters more competitive.

7. GST will reduce transaction costs for taxpayers through simplified tax compliance.
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8. It will result in increased tax collections due to wider tax base and better conformity.

9. For the Centre and the States: According to experts, by implementing GST, India will gain $15 Billion a year. This is because it will promote more exports, create more employment opportunities and boost growth.

10. For individuals and companies: In the GST system, taxes for both Centre and State will be collected at one point of sale. Both will be charge on manufacturing cost. Individuals will be benefited by this as prices are likely to come down. Lower price mean more consumption, more consumption means more production.

11. The implementation of GST will make industry more competitive through dismantling of the complex indirect tax structure and boost the tax revenue of states and thereby helping in the growth of the companies.

**Negative Aspects of GST:**

There are following negative aspects of Goods and Services Tax (GST):

1. Majority of dealers are not covered with the central excise but are only paying VAT in the state. Now all the VAT dealers will be required to pay Central Goods and Services Tax (CGST).

2. GST is referred as single taxation system in India but in reality it is a dual tax in which both state and centre collects separate tax on single transaction of sale & service. However GST has some negative aspect but at the end it will boost economy.

3. GST would impact negatively on the real estate market. It would add up to 8 percent to the cost of new homes and reduce demand by about 12 percent.

4. Service tax litigations have risen substantially in recent years and that may be because of the absence of a pan-India Goods and Services Tax (GST) regime that can potentially remove several ambiguities around indirect taxation, experts maintain.

**Conclusion:**

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. 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%.

Under the VAT the rates and regulation vary across different states and there
is a tendency that different States cuts their rates to attract more investments
which results in lowering govt. revenues. Under GST there will be uniform tax
structure where the tax revenue will be divided among states and center according
the to the consumption cycle.

The Goods and Services Tax (GST) is expected to simplify and harmonize
the complex indirect tax regime in the country and reduce the cost of production,
thereby making industry more competitive.

GST is expected to pave way for better E-Commerce and will make industries
more competitive. GST will be a game changing reform for Indian economy by
developing a common Indian market and reducing the cascading effect of tax
on the cost of goods and services. It will impact the Tax Structure, Tax Incidence,
Tax Computation, Tax Payment, Compliance, Credit Utilization and Reporting
leading to a complete overhaul of the current indirect tax system.

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Goods and Services Tax (GST) in India–
An Overview and Impact

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Abstract:
Indirect taxation in India needs a definite revamp as we have multiple taxes like service tax, excise duty, sales tax and so on, for a single good or service. The taxation system has become very complex and leading to various issues like double taxation and cascading effects etc., which ultimately affecting to the general public, with increasing prices and lack of transparency. The present system is not only affecting the general public, but also the investors, industries and business men and tax payers as well, which is hampering the easy of doing business and growth of economy at large. Indirect taxes are related to growth of GDP, so it plays an important role.

Goods and Services Tax (GST) is considered to be a best solution for all these issues and which is expected to bring in tax efficiency, simplicity, transparency and degree of harmonization to the tax base, tax rates and tax infrastructure. More than 160 countries around the world have already implemented GST and implementation of GST in India would bring in similarity. Now, implementation of GST has become certain in India and it is a right time to understand it. So this paper tries to throw a light on various aspects of GST and to know its probable impact on Indian economy and its sectors. The data are collected through various secondary sources like reports of Government, professional bodies, working committees and also from research papers, articles, news, budget sessions etc.

Key Words: Goods and Services Tax (GST), GDP Growth, Indian Economy

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Introduction

The word tax is derived from the Latin word ‘taxare’ meaning to estimate. Tax is not a voluntary payment or donations as such; it is a compulsory monetary contribution exacted pursuant to legislative authority and is any contribution imposed by government in various ways. Power to levy and collect taxes whether direct or indirect emerges from the constitution of India. Article 246 of constitution of India gives the respective authority to union and state governments for levying taxes. Tax acts as a main source of revenue for the governments. As per the receipt budget 2014-15, tax revenues stands at Rs.977, 258.47 crores. Tax policies play an important role on the economy through their impact on both efficiency and equity. A good tax system shall endeavor to generate tax revenues to support government expenditure on public services and infrastructure development. Broadly divided, there are two types of taxes viz. Direct and Indirect taxes. Indirect taxes contribute more than 65% of share, compared to direct tax.

Indirect taxes are the taxes which are levied on a product or a service, the incidence of which is borne by the consumers who ultimately consume the product or the service, while the immediate liability to pay the tax may fall upon another person such as manufacturer or seller of goods. Charges levied by the State on consumption, expenditure, privilege, or right, but not on income or property are called Indirect Taxes. Since mid-1980s, the growth in Indian GDP has gone hand in hand with the rise of direct taxes plus a decline in indirect taxes. At a peak of 1988, the government collected nearly a tenth of GDP as indirect taxes. The ratio declined to 5.6 percent in FY13. Equally, the recent deceleration in economic growth has been accompanied by an increase in indirect taxes and decline in share of direct taxes. The share of indirect tax in the central government’s total tax kitty rose from 39.2 percent in FY 2010, to 46.9 percent in FY 2013. In the meanwhile, the contribution from direct taxes has declined along with the India’s GDP growth from 8.6 in FY 2010 to five percent in the FY 2013. There is an inverse link between indirect taxes and economic growth, “indirect taxes are like an across-the-board consumption tax, which hits the poor more than the rich. As the poor devote a higher share of their incremental income to consumption, a greater share of their incomes is spent on taxes than the rich whose consumption to income ratio is lower. This lowers the overall demand in the economy and economic growth suffers” Devendra Pant, chief economist and head, public finance, at India ratings. So there is a need to reform tax system, especially indirect tax as it has become a burden for common man.
Objectives of the Study
• To conceptualize Goods and Services Tax of India
• To study the impact of GST on Indian economy and its sectors

Goods and Services Tax (GST) in India- A Backdrop
The concept of GST was first introduced in the Parliament on February 28, 2006 by P Chidambaram, the then Union FM in the Union Budget Speech of 2006-07. He stated, “It is my sense that there is a large consensus that the country should move towards a national level GST that should be shared between the Centre and the States. I propose that we set April 1, 2010 as the date for introducing GST. The world over, goods and services attract the same rate of tax. This was the foundation of a GST.

Later on May 10, 2007, the EC decided to set up a joint working group with, Dr Parthasarthi Shome, the then Adviser to the Union FM and Satish Chandra, the Member-Secretary of EC as Co-conveners, and the concerned Joint Secretaries of the Department of Revenue of Union Finance Ministry and all Finance Secretaries of the States as its members. The working group submitted its report on November 19, 2007.

The main objectives of this report were:
• To study the various models of GST existing globally
• To identify the possible alternative models for introduction of GST in India
• To suggest a model for the base and rate structure of GST

The report was discussed in the meeting held on November 2007 and the comments of GOI were received on December 2008.

In January 2009, another committee of Principal Secretaries/Secretaries (Finance/Taxation) and Commissioners of Trade/Taxes of all States was set up to consider the comments of GOI and work out CGST and SGST rates. Later in the same year they submitted their reports and were accepted by the EC.

Later another working group was formed to study concerning with three issues:
• commodities and services on the exempted list
• rules and principles in taxing services
• finalizing the model of interstate stock transfers of goods and services

This committee submitted its report on November 2009 and suggested Dual GST i.e. Centre and at the State level called CGST and SGST respectively. The states disagreed for single tax as it would affect their revenues. States also demanded for two rate systems, concessional rate for essential items and a
standard rate for other goods. The two rate system proposed by the states also had a special GST for precious metals and a list of exempted items. Few states claimed compensation as well for the expected revenue losses.

But due to all these issues, government was not able to introduce GST on 1st of April and postponed it to October, 2010 and further moved to April, 2011 due to sharing disagreements between states and GOI. In 2010, then FM proposed a three tier tax structure in which a combined rate of 20%, 12% and 16% were to be charged respectively for goods, essential items and services. Out of these rates, the States would receive rates of 10%, 6% and 8% respectively. However, no consensuses were reached and states were asked to present their individual views.

On February 28, 2011, in his budget speech, Pranab Mukherjee announced that DTC would be implemented from April 1, 2012. He expressed the desire of GOI to simultaneously implement GST on the same day.

On March 2012, EC and Govt. put out a negative list of 35 services to be kept out of the GST and asked for adequate compensation for the states and decided to postpone GST implementation to April, 2013.

On July 2012, new service tax regime was emerged and was based on a uniform rate on 12% and with a negative list.

In the budget speech of 2013-14, P. Chidambaram announced that CST compensation package for the States of Rs.9000 cr would be immediately released and called for speedy implementation of the GST. He also said that GST could not be implemented unless there was a seamless distribution of input credits, facilitating interstate trade and getting refunds from one State to another.

Till today, with the change in the government also, implementation of GST has not been successful. The main reasons could be no consensus on various aspects among states especially Rajasthan, Gujarat, Madhya Pradesh and Tamil Nadu. Disputes on the reduction of CST, as some states would lose revenues in crores annually. Controversies (inclusion and exclusion in the GST net) in the matter of petroleum, Food, tobacco and alcohol, GST rates, compensation for states and not to forget “Political Jealousy” could be the other main concerns.

**Goods and Services Tax**

Introduction of the Value Added Tax (VAT) at the Central and the State level has been considered as the major step – an important step forward – in the indirect tax reforms in India. If the VAT was a major improvement over the pre-existing Central excise duty at the national level and the sales tax system at the State
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level, then the Goods and Services Tax (GST) will indeed be an additional important perfection – the next logical step – towards a widespread indirect tax reforms in the country.

The present VAT regime at the state level taxes only goods and not services. Exclusion of services, from the VAT base is a major weakness of the present VAT design. Exclusion of services from the base, even if the states are empowered to tax selected services on a standalone basis, would not eliminate the problem of cascading from the tax system. For the Central government, there is a need to replace complex and separate service tax and central excise duty laws with a single tax.

Indian economy is getting more and more globalized. More than 160 countries have already introduced GST in some form, France was the first country to implement GST in 1960. 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. As we are getting globalized there is a need to have integrated tax system. Under the GST scheme, no distinction is made between goods and services for levying of tax. In other words, goods and services attract the same rate of tax.

In India, at present there are various forms of taxes on product and services such as value-added tax, excise duty, service tax, and sales tax levied on the manufacture, sale and consumption of goods and services in the country. In one or the other way, it is creating cascading impact of taxes i.e. tax on tax on production and distribution cost of goods and services. There is a need to exclude cascading effects of taxes, which in turn will significantly improve the competitiveness of original goods and services that impacts the GDP growth. Cascading tax revenues have differential impacts on firms in the economy with relatively high burden on those not getting full offsets. This analysis can be extended to international competitiveness of the adversely affected sectors of production in the economy. It is felt that the GST would serve a superior reason to achieve the objective of streamlining indirect tax regime in India which can remove cascading effects in supply chain till the level of final consumers.

Goods and Services Tax (GST) is a comprehensive tax levy on manufacture, sale and consumption of goods and service at a national level. In simple terms, GST may be defined as a tax on goods and services, which is leviable at each point of sale or provision of service, in which at the time of sale of goods or
providing the services the seller or service provider may claim the input credit of tax which he has paid while purchasing the goods or procuring the service. It is basically a tax on final consumption.

New Article 366(12A) of the Indian Constitution defines Goods and Services Tax (GST) to mean any tax on supply of goods or services or both except taxes on the supply of the alcoholic liquor for human consumption.

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. As we know, GST is a tax which is passed till last stage; we have multiple indirect taxes which will be added to final cost, GST helps to streamline all those taxes and reduce the amount of tax, eliminates double charging in the system.

Taxes subsumed under GST: (as on Feb. 2015)
- CENVAT
- State VAT
- Service
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- CST
- Entertainment
- Lottery, Betting, Gambling
- Entry (State)
- Octroi
- Utilities
- Surcharge

India is opting for Concurrent Dual system GST i.e. Central Goods and Services Tax (CGST), State Goods and Services Tax (SGST) and Integrated Goods and Services Tax (IGST).

Indirect taxes like service tax, excise and custom duties and CST will be subsumed into CGST and State sales tax, VAT, entertainment and professional taxes will be involved as SGST. These taxes are levied as the place of consumption of goods and services as:
- Intra-state production and consumption of goods and services,
- Inter-state production and consumption of goods and services, and
- Import of goods and services.

**Rate structure for Levy and Chargeability**

Till now, there has been no official announcement regarding GST rate for India and it is proposed to have either two/four rate structures:
- Standard Rate
- Lower Rate – necessary items, and
- Special Rate – precious metals
- Exempted Items
**GST Coverage**

The proposed GST in India would include All Goods & Services except:
- Industrial incentives to be converted into investment link cash subsidy
- Special Industrial Area Schemes to be also converted into investment based through their validity period
- Around 99 items presently exempted under VAT may continue in GST regime without any scope to change any list.
- Common list of exemption for CGST & SGST
- Transactions which are below threshold limits

Threshold Limits proposed under GST by EC:
- Gross Annual turnover of Rs.10 lacs both for goods and services for all the States and Union Territories may be adopted with adequate compensation for the States (particularly states in North-Eastern Region and Special Category States)
- Threshold limits for CGST for goods Rs.1.5 crores and Rs.10 lacs for services are suggested.

However, as per recent discussion going on, threshold limit for Goods & services it may extend to 25 Lacs.

**Benefits of GST**

For business and industry
- Easy compliance
- Removal/mitigation of cascading/double taxation
- Improved competitiveness

For Central and State Governments
- Simple and easy to administer
- Better controls on leakage
- Consolidation of tax base
- Higher revenue efficiency and collections

For the consumer
- Single and Transparent tax proportionate to the value of goods and services
- Reduction of prices
- Increase in real income and purchasing power

Apart from these,
- The tax structure will be made lean and simple
- The average tax burden on companies will fall which will reduce the costs
of Indian goods and services in the international market and give boost to Indian exports
• It can facilitate seamless movement of goods across states and reduce the transaction costs of businesses.
• It is good for EOU, as it is not applied for goods and services exported out of India.
• Uniform tax rates across the states
• There is no input tax credit available for CST and the introduction of GST, CST will be removed.

Impact of GST
On Indian Economy:
• GST is likely to improve the tax to GDP ratio of the country
• The GDP growth is likely to go up by 2%, however one percent of additional tax may affect GDP adversely
• Every year there is a growth in tax revenue in 8-10% range
• GST is likely to boost GDP of India by 100 to 150 bps resulting in increased tax revenue
• The GST neutral rate is expected to be around 17-18%, which would be beneficial to manufacturing sector where the tax rate is around 24% at present and may not likely to give any incremental tax revenue to the government.
• The service sector is a worst hit, if GST implemented at 17-18% rate. The service tax has been increased from 12.36% to 14% last year and further 0.5% as swachh Bharat cess and 0.5% as KrishiKalyanCess this year, if this is increased by another 3-4% that would be a definite setback for service sector and for consumers too.
• This increases tax revenue for the governments which rise the capital expenditure; which in turn boost the growth of economy.
• GST will also bring the unorganized sector which enjoys the cost advantage, into the tax bracket.
• Single tax rate will decrease the price of goods (currently, for a customer, the tax burden of goods is anywhere between 25-30 per cent while GST proposes a tax rate of 18 per cent and may be lowered in following years) thereby increases consumption expenditure which in turn rises the profits
for companies. It’s definitely a win–win situation for companies as well as consumers.

- With more than 160 countries implemented GST, it helps to streamline tax system globally.
- GST also removes the custom duties applicable on exports. This has major implications for the Indian economy: making exports tax-free would spur trade for our economy.
- Our competitiveness in foreign markets would increase on account of lower cost of transaction while the imports will be taxed same as domestic goods and services.
- It provides tax credit to the manufacturers and reduces tax burden and thereby foster production and growth.
- Additionally, GST is also expected to exclude state excise on alcohol and tobacco from its purview. This implies that a large revenue source still rests with the state government to generate cash flows from.

On Sectors:

- **IT sector:**
  Today, most IT service providers have a multi-locational presence with the preferred mode of service tax compliance being on a centralized basis from a single location and IT service provider also enjoys the input service credits as well as enjoys the refunds. But under GST, service provider may be required to pay State GST or Central GST or Integrated and GST across multiple states, which is not clear yet.

- **E-Commerce:**
  Supply chain decisions are vital for e-commerce industry. With the implementation of GST it will resolve the supply chain issues, as the shipment and returns across the country will be done more efficiently and with lesser paperwork. As the tax standardized across all the state boarders, companies will be able to execute logistics strategies in a better way. In turn, this all will benefit with quicker deliverables and make entry easy for the new entrants.

- **Tourism, Hospitality and Restaurant:**
  Presently, the rates in these industries are higher due to existing multiple taxes. With the implementation of RNR (Revenue Neutrality Rate) which is more than
the present tax rate, this would definitely discourage tourists and users of services and adversely affects the growth of sector.

- **Transport sector:**
  GST is a positive for transportation sector in two ways, as it reduces the logistics cost and increases the efficiency both within India and exports.

- **Land, Real Estate, Renting:**
  Currently, real estates are taxed in the form of stamp duty and rental transactions are covered under service tax. Construction activities and works contracts are liable to service tax. So this sector is currently under multiple tax burdens. As of now, it is not clear whether real estate/land activities are covered under GST net or not as this is a cash cow for both state and central.

- **Tobacco Products:**
  As per the provisions of constitution (115th amendment), states can impose only VAT and central can impose both VAT and excise duty (States have made a request to impose both Vat and state excise). Tobacco manufacturing companies presently pay VAT of about 25 percent plus excise duty. It is feared that there products may be taxed at about 40 percent in GST regime, which is definitely a huge tax burden.

**Conclusion**
In simple, GST would definitely a positive for manufacturing sector and negative for service sectors, as the present tax rate for manufacturing is way higher then proposed GST tax rate and for services, proposed GST will be a higher rate of tax.

GST is definitely a good move to reform indirect taxation in India and has positive effects on GDP growth, Tax revenue, exports, employment and so many. But even after a decade Government have failed to implement it, due to variety of reasons like, compensation mechanism for the states, GST rates, and issues relating to food products, petroleum, and tobacco and many political issues as well. With lots of flaws in the present tax structure which is affecting the growth of economy, there is a need to implement GST and to streamline our growth with global economy. The implementation of GST would pave way for a simple and understandable tax structure, and also help in avoiding any evasion taking place at any level. Thus, lot being said and done, an appropriate implementation would lead to actually understand whether “GST is a boon or bane”.
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GST & Indian Economy

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Abstract
The replacement of the Central excise duty of the government of India by Central Value Added Tax (CENVAT) and sales tax system of the State governments by the VAT marked a major milestone in the reform process of indirect taxes in India. It addressed the cascading effect under the erstwhile system by giving set-off for tax paid on inputs as well as tax paid on previous purchases and resulted in a major simplification of the rate structure and broadening of the tax base. But both the CENVAT and the State VAT have certain incompleteness. Though a number of initiatives by the various machineries at the Centre, the present taxation regime is marked as cumbersome, complicated and unfriendly. It is in this perspective, the Central government has entrusted Dr. Vijay Kelkar, Chairman of 13th Finance Commission to suggest a rational, scientific and modern but unified system of taxation in tune with developed nations form the base behind the introduction of Goods and Service Tax (GST) in India.

Although there are many hurdles to be crossed before the implementation of GST the Central government reiterated its commitment towards the adoption of a ‘flawless’ GST for the survival of the India’s economy in the face of increasing international competition consequent to globalization and liberalization. Despite the various impediments to the proposed transition, until the time GST is implemented, it would be worthwhile to assess its positive impacts on the various development areas viz. agriculture, manufacturing industry, MSME, housing, poverty reduction, employment, price level, EXIM trade, GDP, government revenue, etc. and this aspect is the subject matter of this paper.

Key words: Value Added Tax, Central Value Added Tax, Flawless Goods and Services Tax, Gross domestic Product, Economic Change.

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Introduction

The replacement of the Central excise duty of the government of India by the Central Value Added Tax (hereafter referred to as ‘CENVAT’) and sales tax system of the State governments by the VAT marked a major milestone in the reform process of indirect taxes in India. It addressed the cascading effect under the erstwhile system by giving set-off for tax paid on inputs as well as tax paid on previous purchases and resulted in a major simplification of the rate structure and broadening of the tax base. But both the CENVAT and the State VAT have certain incompleteness. The CENVAT has yet not been extended to include chain of value addition in the distributive trade below the stage of production. Again, several Central taxes viz. additional excise and customs duties, surcharge etc. also have Manuscript received February 12, 2011. Vasanthagopal an Associate Professor with the P.G and Research Department of Commerce, The Cochin College, Kochi-682002, Kerala, India not been subsumed in the CENVAT, and thus keep the benefits of comprehensive input tax and service tax set-off out of the reach of producers/traders. Likewise, in the State VAT system, the cascading effect of CENVAT load on the goods has remained unrelieved. Hitherto, several taxes in the States viz. entertainment tax, luxury tax etc. have not been subsumed in the VAT. Thus, even after a number of initiatives by the various machineries at the Centre the present taxation regime is marked as cumbersome, complicated and unfriendly. It is in this perspective that the Central government has entrusted Dr.Vijay Kelkar, Chairman of 13th Finance Commission to suggest a rational, scientific, simplified and modern but unified system of taxation in tune with developed nations form the base behind the introduction of Goods and Service Tax (here after referred to as ‘GST’) in India.

GST is a broad based, single, comprehensive tax levied on goods and services at each point of sale of goods or provision of service, in which, the seller or service provider may claim the input credit of tax which he has paid while purchasing the goods or availing the service; the final consumer will thus bear only the GST charged by the last dealer in the supply chain. With the introduction of GST at the State level, the additional burden of CENVAT and services tax would be comprehensively removed and major Central and State taxes will get subsumed into GST which will reduce the multiplicity of taxes. Thus it marks a major improvement over the previous system of VAT. Again, the transparent and complete chain of set-offs, GST will help widening the coverage of tax base and improve tax compliance. This may lead to higher revenue which further results in lowering of tax burden. Although there are many hurdles to be crossed before the implementation of GST like consensus over rates, constitutional
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amendment, compensation mechanism for States losing out on revenue, varying models, dispute resolution etc. the Central government has reiterated its commitment towards the adoption of a ‘flawless’ GST for the survival of the India’s economy in the face of increasing international competition consequent to globalization and liberalization. Despite the various impediments to the proposed transition, until the time GST is implemented, it would be worthwhile to assess its positive impacts on the various development areas in India. This aspect is the subject matter of this paper.

Research Design
The research is based on the secondary data which has been taken from the different government official websites and from the reputed journals. The researcher has conducted the descriptive research and the 15 years of data has been analyzed with different data relates to the GST in the previous years. GST has been analyzed with almost 10 sectors or with the economic related factors which plays the major role in Indian Economy. Quantitative data has been used for the purpose of analysis.

Results and Discussion
A. GST and Agriculture
Through a comprehensive and wider coverage of input and service taxes set-off, subsuming of several Central and State taxes in the GST and phasing out of CST, it is expected that the GST could increase the prices of agricultural produce between 0.61 and 1.18 per cent and this would be a boon to millions of farmers in India (Thirteenth Finance Commission, 2009).

B. GST and Manufacturing Industry
The incidence of the present multistage taxation increases the manufacturing cost of most of the production units in India. But a flawless GST can help this sector to reduce their cost to the extent of almost 50 per cent. This will help them to compete with their counterparts in the west. “Even a two per cent reduction in production cost will increase profits by over 20 per cent, giving headroom for reducing prices and benefitting end-users”(Kelkar,Vijay,2009). It is estimated that the implementation of GST would reduce the overall prices of all manufacturing sectors between 1.22 and 2.53 per cent (Thirteenth Finance Commission, 2009).

C. GST and MSME
The existing threshold of goods under State VAT is Rs. 5 lakh for a majority of bigger States and a lower threshold for North Eastern States and Special
Category States. But as per the proposed GST enterprises above the turnover
threshold Rs. 10 lakh both for goods and services will have to be registered.
Again, keeping in view the interest of micro, small and medium enterprises and
to avoid dual control, the States consider that the threshold for Central GST for
goods may be kept at Rs.1.5 crore and the threshold for services should also be
appropriately high (Empowered Committee of Finance Ministers, 2009). This
increase in threshold will adequately protect the interests of small traders and
industries.

D. GST and Housing
At present, the value of a constructed property form part of stamp duty on
land and other indirect taxes on inputs. On registration of the property, stamp
duty is payable on the entire cost including the embedded taxes. There is no
mechanism for complete off-set of these taxes. This results in an increase in the
overall cost of the property. The GST provides for including within its scope the
transactions in real estate. Therefore, for a registered real estate builder, all taxes
on inputs (including that on land) will be off-set against the tax payable on the
constructed property. This will reduce cost of housing to the extent of embedded
taxes and hence will benefit the poor.

E. GST and Poverty Reduction
At present, primary food articles like rice and wheat are liable to tax by many
States either by way of purchase tax or sales tax at a lower rate. But under the
GST, all food items covered under the public distribution system including rice
and wheat are proposed to be exempted. As a result primary food articles like
rice and wheat would be exempted from GST. Since expenditure on food
constitutes a large proportion of the total consumption expenditure of the poor,
the GST is designed as a poverty reduction initiative. Like food, basic health and
education services are also intended to be fully exempted. In any case, as at
present, these services will continue to be exempted from tax and therefore no
additional burden will arise on account of the switchover to GST (Thirteenth

F. GST and Employment
It is seen that the implementation of GST would result in increased income
and output in various sectors of the economy. On account of this increase in
higher growth, there will be large scale employment opportunities in various
areas like the skilled, semi skilled and unskilled categories.
G. GST and Factors of Production
It is also estimated that the implementation of a flawless GST in India would result in efficient allocation of factors of production thus leading to gain in factors of production, i.e. land, labour and capital. The gains in real returns to land range between 0.42 and 0.82 per cent. Wage rate gains vary between 0.68 and 1.33 per cent. The real returns to capital would gain in the range of 0.37 and 0.74 percent (Thirteenth Finance Commission, 2009).

H. GST and Price Level
Though there is an allegation that GST is a regressive tax as it minimizes the number of tax rates to even a single (dual) rate, the subsuming of major Central and State taxes in GST, continuous chain of set-off of input goods and services and phasing out of CST the commitment of taxes on goods would come down under GST. 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. Hence, a ‘flawless’ GST would be viewed as pro-poor and not regressive.

I. GST and Exim Trade
At present export of taxes to other countries is sought to be eliminated through the mechanisms of duty draw back on the basis of estimated incidence of embedded taxes. By considering its weakness the GST requires that exports from the taxing jurisdiction would be tax free and imports into the jurisdiction would be taxed at the same rate as products produced and consumed within the jurisdiction. Consequently, both export-oriented industries and import-substituting industries would become internationally more competitive. As a result, while exports can be expected to register an increase, imports are likely to decrease. The gains in exports are expected to vary between 3.2 and 6.3 per cent and imports are expected to gain somewhere between 2.4 and 4.7 per cent (Thirteenth Finance Commission, 2009).

J. GST and GDP
The implementation of a ‘flawless’ GST across goods and services is expected to induce India’s Gross Domestic Product (here after referred to as ‘GDP’) somewhere within a range of 0.9 to 1.7 per cent. Again, these additional gains in GDP would be earned during every year over and above the growth in GDP which would have been achieved otherwise.
K. GST and Government Revenue

Since all goods and services would be under the purview of GST, it is expected that the number of exemptions would reduce very much. Again, the tendency of tax evasion by producers and distributors will be low as to the single (or dual) and low rate of tax proposed under GST. Further, increased GDP, indirect positive impact on direct tax collections, gain for the government on account of reduction in the price level of a large number of goods and services consumed by the government as a result GST etc. a flawless GST would trigger an increase in the government revenue.

Conclusion

To conclude, though the positive impacts referred above are dependent on a neutral and rational design of the GST, balancing the conflicting interests of various stakeholders, full political commitment for a fundamental tax reform with a constitutional amendment, the switchover to a ‘flawless’ GST would be a big leap in the indirect taxation system and also give a new impetus to India’s economic change. It is also noted that, buoyed by the success of GST, more than 140 countries have introduced GST in some form to other and is fast becoming the preferred form of indirect tax in the Asia Pacific region.

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Abstract

Goods and Services Tax (GST) is a wide-ranging tax levy on manufacture, sale and consumption of goods and services at a national level. One of the biggest taxation reforms in India, the (GST) is all set to integrate State economies and boost overall growth. Currently, companies and businesses pay a lot of indirect taxes such as VAT, service tax, sales tax, entertainment tax, octroi and luxury tax. Once GST is implemented, all these taxes would cease to exist. There would be only one tax, that too at the national level, monitored by the central government. GST is also different in the way it is levied — at the final point of consumption and not at the manufacturing stage. At present, separate tax rates are applied to goods and services. Under GST, there would be only one tax rate for both goods and services. The goods and services tax will indeed be a further significant improvement towards a comprehensive indirect tax reforms in the country. Integration of goods and services taxation would give India a world class tax system and improve tax collections. It would end distortions of differential treatments of manufacturing and service sector. GST is expected to create a business friendly environment, as price levels and hence inflation rates would come down overtime as a uniform tax rate is applied. It will also improve government’s fiscal health as the tax collection system would become more transparent, making tax evasion difficult. An attempt is made in this paper to study the concept of goods and service tax and its impact on Indian economy. The study also aims to know the advantages and challenges of GST in Indian scenario.

Key Words: Goods and service tax, economic development, Indian economy and value added tax.

Introduction

Taxes are the only means for financing the public goods because they cannot be priced appropriately in the market. They can only be provided by governments, funded by taxes. It is important the tax regime is designed in such a way that it
does not become a source of distortion in the market or result in market failures. The tax laws should be such that they raise a given amount of revenue in an efficient, effective and equitable manner. 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. GST stands for Goods and Services Tax. 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. A value added tax exempts all inputs including capital goods. Hence, it becomes a general tax on domestic consumption. It is a convenient and economically efficient way of taxing consumption. If it is levied at a single rate and there are only very few exemptions, it becomes a proportional tax on consumption. In order to ensure that the tax burden is distributed according to the consumption of different individuals, it must be levied on the basis of the principle of destination, that is to say that the tax on a good should go to the state in which the concerned consumer lives. This automatically takes place if the tax is levied at only the central level, or if the state is a unitary one with only one level of taxation. In a federation, there are special problems to be solved if GST is to be levied at the level of the states as well as the federal government.

**Literature Review**

Nishitha Guptha (2014) in her study stated 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.

Jaiprakash (2014) in his research study mentioned that the GST at the Central and the State level are expected to give more relief to industry, trade, agriculture and consumers through a more comprehensive and wider coverage of input tax set-off and service tax setoff, subsuming of several taxes in the GST and phasing out of CST. Responses of industry and also of trade have been indeed encouraging. Thus GST offers us the best option to broaden our tax base and we should not miss this opportunities to introduce it when the circumstances are quite favorable and economy is enjoying steady growth with only mild inflation.
Introducing GST and Its Impact on Indian Economy

Saravanan Venkadasalam (2014) has analyzed the post effect of the goods and service tax (GST) on the national growth on ASEAN States using Least Squares Dummy Variable Model (LSDVM) in his research paper. He stated that seven of the ten ASEAN nations are already implementing the GST. He also suggested that the household final consumption expenditure and general government consumption expenditure are positively significantly related to the gross domestic product as required and support the economic theories. But the effect of the post GST differs in countries. Philippines and Thailand show significant negative relationship with their nation’s development. Meanwhile, Singapore shows a significant positive relationship. It is undeniable that those countries whom implementing GST always encounters grows. Nevertheless, the extent of the impact varies depending on the governance, compliance cost and economic distortion. A positive impact of GST depends on a neutral and rational design of the GST such a way it is simple, transparent and significantly enhances involuntary compliance. It must be actual, not presumptive, prices and compliance control would be exercised through an auditing system.

Research Problem
The concept of Goods and Services Tax (GST) is the biggest tax reform in decades throughout the world, but India has been taking baby steps to meet its target of rolling out goods & services tax (GST) on April 1, 2016. The research intends to focus on understanding concept of goods and service tax and its impact on Indian economy.

Objectives of the Study
1. To study and understand the concept of Goods and Services Tax (GST) and its impact on Indian Economy.
2. To understand how GST will work in Indian Economy System.
3. To know the advantages and challenges of GST in Indian context.

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.
Concept of Goods and Service Tax

GST is a comprehensive indirect tax on manufacture, sale and consumption of goods and services at national level. One of the biggest taxation reforms in India the (GST) is all set to integrate State economies and boost overall growth. Currently, companies and businesses pay lot of indirect taxes such as VAT, service tax, sales tax, entertainment tax, octroi and luxury tax. Once GST is implemented, all these taxes would cease to exist. There would be only one tax, that too at the national level, monitored by the central government. GST is also different in the way it is levied — at the final point of consumption and not at the manufacturing stage. At present, separate tax rates are applied to goods and services. Under GST, there would be only one tax rate for both goods and services. The goods and services Tax will indeed be a further significant improvement towards a comprehensive indirect tax reforms in the country. Integration of goods and services taxation would give India a world class tax system and improve tax collections. It would end distortions of differential treatments of manufacturing and service sector. GST is expected to create a business friendly environment, as price levels and hence inflation rates would come down overtime as a uniform tax rate is applied. It will also improve government's fiscal health as the tax collection system would become more transparent, making tax evasion difficult. The GST is expected to replace all the indirect taxes in India. At the centre's level, GST will replace central excise duty, service tax and customs duties. At the state level, the GST will replace State VAT.

GST – How It Works In India?

The GST system is based on the same concept as VAT. Here, set-off is available in respect of taxes paid in the previous level against the GST charged at the time of sale. The GST model has some aspects which are as follows:

- **Components**: GST will be divided into two components, namely, Central Goods and Service Tax and State Goods and Service
- **Applicability**: GST will be applicable to all Goods and Services sold or provided in India, except from the list of exempted goods which fall outside its purview.
- **Payment**: GST will be charged and paid separately in case of Central and State level. Input Tax Credit: The facility of Input Tax Credit at Central level will only be available in respect of Central Goods and Service tax. In other words, the ITC of Central Goods and Service tax shall not be allowed as a set-off against State Goods and Service tax and vice versa.
Impact of GST on Indian Economy

The Goods and Service Tax (GST) bill is expected to have wide ranging ramifications for the complicated taxation system in the country. It is likely to improve the country’s tax to GDP ratio and also inhibit inflation. However, the reform is likely to benefit the manufacturing sector but may make things difficult for the services sector. Though there are expectations that the GDP growth is likely to go up by 1 to 2%, the results can only be analyzed after the GST implementation. The response is mixed from countries around the world. While the New Zealand economy had a higher GDP growth, it was lower in case of Canada, Australia and Thailand after the GST was implemented. The one per cent tax that has been proposed as a sop to appease the States for compensating their loss of revenue from the inter-state CST is likely to play a spoil sport. It is probable that it may affect the GDP adversely. The Congress is already opposing the 1 per cent tax. The GS Tax rate is expected to be around 17-18% and can be assumed as a tax neutral rate. This tax rate is not likely to give any incremental tax revenue to the government. The rate will prove beneficial for the manufacturing sector where the tax rate is around 24% at present. The major manufacturing sectors that will benefit the most are FMCG, Auto and Cement. This is because they are currently reeling under 24 to 38 per cent tax. The sector which is going to be adversely affected is the services sector. Already there has been a hike from 12 to 14% from the 1st of June this year. Another 4 per cent increase will break their backs. The uniformity in the taxation rate is fine but it should not result in disparity for the goods and services sectors. Nobody has thought of the implications it will have in the services sector if the government moots a higher GS Tax rate like 20% or 24%. The higher GST rate will definitely boost the tax to GDP ratio, while giving financial muscle to the government for increasing the capital expenditure. This is likely to spur growth in the economy. There is definitely a silver lining to the whole exercise. The unorganized sector which enjoys the cost advantage equal to the taxation rate can be brought under the GST bill. This will bring a lot of unorganized players in the fields like electrical, paints, hardware etc. under the tax net. It is easier said than done. It will take a lot of meticulous planning in the implementation of the GST reform for capturing the unorganized sector under its ambit. For one it will widen the tax reach and secondly it will benefit the organized players who lose out revenue to the unorganized sector at present. There are still a lot of unchartered territories which need to be looked into through parliamentary discussions in the sessions. This
will bring sanctity to the taxation system without hurting any of the sectors adversely. To The Individuals and Companies - With the collection of both the central and state taxes proposed to be made at the point of sale, both components will be charged on the manufacturing costs and the individual will benefit from lowered prices in the process which will subsequently lead to increase in consumption thereby profiting companies

Advantages of GST

Apart from full allowance of credit, there are several other advantages of introducing a GST in India:

- **Reduction in prices**: Due to full and seamless credit, manufacturers or traders do not have to include taxes as a part of their cost of production, which is a very big reason to say that we can see a reduction in prices. However, if the government seeks to introduce GST with a higher rate, this might be lost.

- **Increase in Government Revenues**: This might seem to be a little vague. However, even at the time of introduction of VAT, the public revenues actually went up instead of falling because many people resorted to paying taxes rather than evading the same. However, the government may wish to introduce GST at a Revenue Neutral Rate, in which case the revenues might not see a significant increase in the short run.

- **Less compliance and procedural cost**: Instead of maintaining big records, returns and reporting under various different statutes, all assessees will find comfortable under GST as the compliance cost will be reduced. It should be noted that the assessees are, nevertheless, required to keep record of CGST, SGST and IGST separately.

- **Move towards a Unified GST**: Internationally, the GST is always preferred in a unified form (that is, one single GST for the whole nation, instead of the dual GST format). Although India is adopting Dual GST looking into the federal structure, it is still a good move towards a Unified GST which is regarded as the best method of Indirect Taxes. The following are the some more salient features of the proposed pan-India Goods and Services Tax regime that was approved by the Lok Sabha by way of an amendment to the Constitution:
  - GST, or Goods and Services Tax, will subsume central indirect taxes like excise duty, countervailing duty and service tax, as also state levies like value added tax, octroi and entry tax, luxury tax.
Introducing GST and Its Impact on Indian Economy

- The final consumer will bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages.
- As a measure of support for the states, petroleum products, alcohol for human consumption and tobacco have been kept out of the purview of the GST.
- It will have two components - Central GST levied by the Centre and State GST levied by the states.
- However, only the Centre may levy and collect GST on supplies in the course of inter-state trade or commerce.
- The tax collected would be divided between the Centre and the states in a manner to be provided by parliament, on the recommendations of the GST Council.
- The GST Council is to consist of the union finance minister as chairman, the union minister of state of finance and the finance minister of each state.
- The bill proposes an additional tax not exceeding 1% on inter-state trade in goods, to be levied and collected by the Centre to compensate the states for two years, or as recommended by the GST Council, for losses resulting from implementing the GST.

Challenges of GST in Indian Context

At Present, lots of speculations are going as to when the GST will actually be applicable in India. Looking into the political environment of India, it seems that a little more time will be required to ensure that everybody is satisfied. The states are confused as to whether the GST will hamper their revenues. Although the Central Government has assured the states about compensation in case the revenue falls down, still a little mistrust can be a severe draw back. The GST is a very good type of tax. However, for the successful implementation of the same, there are few challenges which have to face to implement GST In India. Following are some of the factors that must be kept in mind about GST:

1. Firstly, it is really required that all the states implement the GST together and that too at the same rates. Otherwise, it will be really cumbersome for businesses to comply with the provisions of the law. Further, GST will be very advantageous if the rates are same, because in that case taxes will not be a factor in investment location decisions, and people will be able to focus on profitability.
2. For smooth functioning, it is important that the GST clearly sets out the taxable event. Presently, the CENVAT credit rules, the Point of Taxation Rules are amended/ introduced for this purpose only. However, the rules should be more refined and free from ambiguity.

3. The GST is a destination based tax, not the origin one. In such circumstances, it should be clearly identifiable as to where the goods are going. This shall be difficult in case of services, because it is not easy to identify where a service is provided, thus this should be properly dealt with.

4. More awareness about GST and its advantages have to be made, and professionals like us really have to take the onus to assume this responsibility.

**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 endeavour to generate tax revenues to support government expenditure on public services and infrastructure development. 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.

GST is not simply VAT plus service tax, but a major improvement over the previous system of VAT and disjointed services tax – a justified step forward. A single rate would help maintain simplicity and transparency by treating all goods and services as equal without giving special treatment to some ‘special’ goods and/or services. This will reduce litigation on classification issues. 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 guide 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. Sooner or later, the GST will surely knock the doors of India. And when that happens, we as future torch bearers of the profession are
required to be prepared and fully equipped with our knowledge regarding GST. Forewarned is forearmed. Thus, we must be ready to deal with GST and many other changes that are going to take place in India. Slowly, India shall move to join the world wide standards in taxation, corporate laws and managerial practices and be among the leaders in these fields.

References
“Adoption of GST – A Step for Economic Unification of India”

Chaluvaiah*

Abstract

Under the fractured VAT regime, different types of indirect taxes are there. This fractured adoption of VAT system gives rise to number of problems like Differential tax treatment, movement of goods from a VAT state to a non-VAT state, Phasing out of CST completely, Incentive & Exemption Schemes, No Uniformity in tax rates. Prof. Kelkar Committee has proposed a uniform Goods and Service Tax (GST) to do away with the issues and problems of VAT. Based on Kelkar Committee recommendations the GOI has brought a Bill in 2011 through the Constitution (115th Amendment) (GST) Bill, 2011. However the bill was not passed due to dissolution of 15th Lok Sabha. Again, Constitution (122nd Amendment) (GST) Bill, 2014 was presented in the Lok Sabha and this Bill has been passed in the Lok Sabha on May 6, 2015 and referred to a Select Committee of Rajya Sabha for examination. NDA government is trying to get assent of Rajyasabha in the present session of the parliament. The GST will definitely help the Indian economic growth and this unified, integrated tax system will bring economic unification in India.

Key words: VAT, GST, cascading of taxes, economic unification.

Historical back ground for GST

Problems with existing VAT system- to do away with existing various types of indirect taxes specially sales taxes and problems there upon VAT is introduced in India in a fractured manner where some states adopted VAT and some other states have sales taxes. This fractured adoption of VAT system gives rise to number of problems like Differential tax treatment, movement of goods from a VAT state to a non-VAT state, Phasing out of CST completely, Incentive & Exemption Schemes, No Uniformity in tax rates. In terms of different types of taxes levied by different states economically India is disintegrated. There are greater variations in prices of goods and services across states in India due to different types of indirect taxation system followed by different states.

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To overcome these challenges and problems and to have single integrated indirect taxation system Prof. Kelkar Committee has proposed a uniform Goods and Service Tax (GST). Based on Kelkar Committee recommendations the GOI has brought a Bill in 2011 through the Constitution (115th Amendment) (GST) Bill, 2011. However the bill was not passed due to dissolution of 15th Lok Sabha. Again, Constitution (122nd Amendment) (GST) Bill, 2014 was presented in the Lok Sabha and this Bill has been passed in the Lok Sabha on May 6, 2015 and referred to a Select Committee of Rajya Sabha for examination. NDA government is trying to get assent of Rajyasabha in the present session of the parliament.

The issue of cascading taxation was partly addressed through the VAT regime. However, certain problems remained. For example, several central and state taxes were excluded from VAT.

Sectors such as real estate, oil and gas production etc. were exempt from VAT. Further, goods and services were taxed differently, thereby making the taxation of products complex. Some of these challenges are sought to be overcome with the introduction of the Goods and Services Tax (GST).

The GST is a landmark in the Indian indirect taxation history; this tax regime intends to subsume most indirect taxes under a single taxation regime. GST is a value added tax levied across goods and services. This is expected to help broaden the tax base, increase tax compliance, and reduce economic distortions caused by inter-state variations in taxes.

**Conceptual clarity**

**GST** - A comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level and this GST will replace all indirect taxes levied on goods and services by the Indian Central and State governments.

**Scope of GST**

- GST is applicable on the supply of goods or services
- Alcoholic liquor for human consumption is exempt from GST.
- Initially, GST will not apply to: (a) petroleum crude, (b) high speed diesel, (c) motor spirit (petrol), (d) natural gas, and (e) aviation turbine fuel
- The GST Council will decide when GST will be levied on them.
- Tobacco and tobacco products will be subject to GST.
- The centre may also impose excise duty on tobacco
Introducing GST and Its Impact on Indian Economy

Structure of GST
The proposed GST comprises:
• Central GST (CGST) which will be levied by Central Government
• State GST (SGST) which will be levied by state government
• Integrated GST (IGST) which will be levied by Central Government on inter-State supply of goods and services. This will be CGST plus SGST

Benefits
• GST widens the tax base as it intends to brings all goods and services into tax fold by the abolishing Octroi, Central sales tax, State level sales tax, entry tax, stamp duty, telecom licence fees, turnover tax, tax on consumption or sale of electricity, taxes on transportation of goods and services, and eliminate the cascading effects of multiple layers of taxation with minimum exemptions
• Tax credits are available for interstate transactions under GST as well
• Intends to bring down the number tax rates to minimum three namely, Standard Rate (covers most items), Merit Rate (Lower than Standard Rate for essential goods) and Special Rate (higher than Standard Rate for jewellery and precious metals)
• The GST also offers a solution to the multinationals as it breaks down the indirect tax structure into one single tax payable by the companies
• GST is a value added tax levied across goods and services. This is expected to help broaden the tax base, increase tax compliance, and reduce economic distortions caused by inter-state variations in taxes
• By subsuming large number of indirect taxes and having a uniform Indirect tax structure throughout the country GST will boost up economic unification of India; it will assist in better conformity and revenue resilience; it will evade the cascading effect in Indirect tax regime.

Issues and Challenges in the proposed GST Bill
• The major challenge for getting the Bill passed in the parliament is the dispute between Centre and State government as to Tax-sharing.
• In spite of central government promises to solve the issues by giving compensation packages for three years for any kind of revenue loss, States have fear of loss of fiscal powers,
• Very high tax rates of 16% compared to current 12.5% VAT
• Since taxes are distributed across the chain, the consumer prices are likely to rise to maintain the current tax revenue levels.
Introducing GST and Its Impact on Indian Economy

- All goods and services brought under the GST with only few items are exempted and make the common people’s life miserable
- Amendment to constitution is a formidable task- where state governments consent is needed
- To have a revenue neutral rate (RNR)
- In adequate and lack of Robust IT infrastructure
- Training of Government officials /personnel
- Some issues under the current tax regime- like indented tax credit mechanism, non-uniform exemptions and incentives across the indirect tax statutes

Concluding Remarks
There are some contentious issues like (a) the treatment of taxes on services with inter-state coverage. With respect to services such as transportation of passengers or goods in railways or telecom, the place of sale and payment and the place of consumption may not coincide and allocation of revenues will have to be negotiated and settled. (b) Setting up of administrative system for GST and working out the transitional arrangements to reduce the compliance cost and to harmonize the administrative processes with uniform systems, forms and procedures.(c) Training up the tax collectors in the administration and enforcement of the GST.

In India with robust IT backbone connecting all state governments, trade and industry, banks and other stakeholders on a real-time basis definitely make the GST system a successful one. I personally feel if the contentious issues are properly addressed through proper IT infrastructure, effective Tax governance mechanism and more over both central and state governments should implement GST with letter and spirit. No doubt the GST by subsuming large number of indirect taxes and having a uniform Indirect tax structure throughout the country will definitely boost up economic unification of India. Again with better conformance and revenue resilience GST will evade the cascading effect in Indirect tax regime.

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GST in India: A Study on Benefits and Challenges

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Abstract

GST is one of the most crucial tax reforms in India that is likely to change the whole scenario of present inefficient indirect tax system. Its implementation is delayed on account of political bottleneck in the present economic situation. To achieve the global competitiveness, India has to move forward by equipping itself with effective fiscal tools. The present research paper highlights the expectations of the tax payers, and professionals view on the benefits and challenges of implementing GST in India. Primary data collected through questionnaires from 50 business persons and 50 Professionals was analysed and Mann-Whitney’s U test was used to test the hypothesis which the researcher failed to disprove and conclude that there is no significant difference in the perception of the two different population groups. Since GST is an effective taxware in many countries, it can be suggested that the proposed GST need to be implemented early by sharpening out the legislative effectiveness, making it simpler, uniform, revenue neutral with minimum tax rate and enhanced tax base. The challenges in this direction shall be diligently knocked out to please the tax payers.

Key words: Goods and Service Tax, Expectations, Challenges, perception, Revenue neutral.

Introduction

The present Indirect tax system in India empowers both central and state governments to levy taxes. Central government levies tax on manufacture of goods and supply of services like customs duties, central excise, service tax etc. on the other hand the state governments empowered to levy tax on goods at point of sale such as state VAT, entry tax, Octroi etc. There exist a multiplicity of taxes and tax base has been fragmented between centre and states. This resulted

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in a complex system of interconnected legislations leading to substantial distortions, cascading effect of taxes and adverse effect on the growth of GDP. The present indirect tax structure suffers from limitations. Firstly, CENVAT structure does not tax value addition after the production stage. CENVAT portion of input goods remains included in the value of goods to be taxed under state VAT. This may result cascading effect. There is no integration of VAT on input goods with service tax on services at the state level. This also leads to cascading effect of service tax. India

Indian economy is getting more globalised over the past two decades. Introduction of an Integrated Goods and Service Tax (GST) to replace the prevailing multiple tax structures of Centre and State taxes is very imperative in the changing economic environment. The proposed GST is expected to bring the changes in the whole scenario of current indirect tax system. Moving towards GST is the biggest tax reform in the post liberalized economy. The proposed GST is likely to unify the entire multiple and complex taxes under one umbrella and will create a smooth national market. GST is expected to help the economy to grow more efficiently by improving the tax collection by disrupting all the tax barriers between states and integrate country through a single tax rate.

GST was introduced for the first time by France in 1954 and now more than 160 countries have adopted GST. Most of the countries followed unified GST while some countries like Brazil, Canada follow a dual GST system where tax is imposed by central and state both. Being the consumption type of VAT, the Proposed GST would integrate tax on goods and services across all supply chain for availing set-off and capture value addition at each stage. By doing so, GST would eliminate the burden of all cascading effects from original producer up to the retailer level.

**Salient Features of the proposed GST model**

1. GST is applicable to all taxable goods and services except the exempted goods and services and on transactions below the threshold limit.
2. Exempted goods and services include alcohol for human consumption, electricity, custom duty, real estate.
3. Petroleum products, motor spirit, natural gas, aviation turbine fuel, are initially exempted from GST until GST council announces their inclusion.
4. Tobacco products are included in GST along with central excise duty.
5. The power of making law on GST lies with both union and state legislative assemblies.
6. GST has two components—CGST and SGST. CGST will be collected by central government whereas state governments will collect SGST.

7. GST is destination based tax. IGST is levied on all supplies in the course of interstate trade including imports which is collected by the central government exclusively and distributed to imported states.

8. Taxes paid on input goods/services against CGST shall be allowed to be utilized as input tax credit (ITC) against output tax liabilities under CGST and same principle applies to SGST. Cross utilization of input tax credit between the Central GST and the State GST would not be allowed except in case of inter-state supply of goods and services. Therefore, a taxpayer or exporter shall be required to maintain separate details in books of account for utilization or refund of credit.

9. In order to maintain uninterrupted credit chain, CST would be phased out in case of inter-state transactions of taxable goods. On such transactions, Centre would levy Integrated GST (referred to as IGST which would be GST plus SGST) with appropriate provision for consignment or stock transfer of goods and services.

10. Additional 1% tax on interstate taxable supply of goods which is levied by centre and directly portioned to the exporter state. This tax will be charged for two years.

11. An uniform threshold across all States and Union territories is being considered with adequate compensation for the States (particularly, the States in North-Eastern Region and Special Category States) where lower threshold had prevailed in the VAT regime.

12. In view of the fact that the CGST and SGST are intended to be levied on consumption of all goods and services, these two taxes must subsume all taxes presently levied on various goods and services by the Centre and the States, respectively.

GST is not a new experiment in India and it is not a new initiative. It is introduced to rectify certain basic shortcomings of Value Added Tax. GST introduction is an attempt to improve the existing VAT system and the tax system in India. The GST is also an attempt to bring the services under tax net which is not possible under the VAT system. GST is an extension of the current VAT that would make the tax system more comprehensive and effective in its functioning.
Benefits of GST
The present Indirect tax system suffers from many limitation of multiplicity of point of taxation and cascading effect. GST implementation will bring the tax base more wider, improve tax compliance, removes existing unhealthy competition among states and re-distribute the burden of taxation equitably among manufacturing and services. There will be uniform taxes across the states regardless of place of production or distribution of goods and services. GST ensures improved disclosure of economic transactions which may have a positive impact on the direct tax collections. Due to reduced taxes, Indian goods and services in the international market become dearer and encourages Indian exports. GST mitigates cascading and double taxation and enable better compliance through lowering of overall tax burden on goods and services. Tax collection system become more transparent, tax evasion becomes more difficult and thereby tax revenue would be increased.

Literature Review
Agogo Mawuli (May 2014) in his study on “Goods and Service Tax-An Appraisal” found that GST is not good for less developed countries and does not provide broad based growth. If still these countries want to implement GST then the rate of GST should be less than 10% for growth.

Girish Garg, (2014) in their study on “Basic Concepts and Features of Good and Service Tax in India” found that GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. GST will create a single, unified Indian market to make the economy stronger.

Nitin Kumar (2014) in their research article “Goods and Service Tax- A Way Forward” concluded that implementation of GST helps in removing economic distortion by current indirect tax system and GST encourages an unbiased tax structure which is indifferent to geographical locations.

Pinki, Supriya Kamma and Richa Verma (July 2014) in their paper titled “Goods and Service Tax- Panacea For Indirect Tax System in India” concluded that the new government in India is positive towards implementation of GST and it is beneficial for central government, state government and as well as for consumers in long run if its implementation is backed by strong IT infrastructure.

Dr. R. Vasanthagopal (2011) in his research paper “ GST in India: A Big Leap in the Indirect Taxation System” concludes that switching to seamless GST
from current complicated indirect tax system in India will be a positive step in booming Indian economy.

Ehtisham Ahmed and Satya Poddar (2009) in their study on “Goods and Service Tax Reforms and Intergovernmental Consideration in India” found that GST introduction will provide simpler and transparent tax system with increase in output and productivity of economy in India. however the benefits of GST are depend on the rationally designed GST.

Statement of the problem

The above literature studies are on conceptual basis which describe the features, benefits and superiority of GST over the existing indirect system. A study on the basis of expert opinion and stakeholders perception is required to understand the intense challenge and impediments in implementing the new taxation model. The present study is on understanding the fundamental intricacies inbuilt in GST model as perceived by the entrepreneurs and tax professionals. Hence the statement of the problem is “GST in India: A study on the Benefits and Challenges”.

Objectives of the Study

The following are the objectives of the study.
1. To understand the concept and features of the proposed GST
2. To understand the expectation of business persons and professionals on the proposed GST model.
3. To identify the challenges as perceived by the business persons and professionals
4. To offer suggestions based on the findings of the study

Hypothesis

There is no significant difference in the perception of the respondents towards GST

Scope of the study

In the present study features of the proposed GST and benefits are studied. The study also covers fundamental challenges to be faced while implementing the new GST. The study does not include any experimental analysis or the comparative study of the proposed GST and the existing indirect tax system. It
Introducing GST and Its Impact on Indian Economy

is very impractical to study the impact of the GST before its implementation various sectors of the economy.

Research Methodology

The present study is both exploratory and descriptive. The researcher has used an intensive literature available on the present problem to understand the concepts. Primary data collected by distributing the well structured questionnaires to entrepreneurs and professionals. Questions are designed on the basis of the available literature and the preliminary interaction with the professionals. The study has been undertaken in Mysore city during January to March 2016.

Judgment sampling method was adopted to collect the data as the expert opinion of the stakeholders provides useful insight into the problem. 50 questionnaires were distributed to each category and the researcher was able to collect the data in a very short period of time.

Limitations of the study

Small sample and limited category of stakeholders included as respondents are the limitations due to time and resource constraints.

Data Analysis and Interpretation

Secondary data was useful for the deep insight into the present problem. However, the researcher used questionnaires to collect the responses from the professionals and entrepreneurs. Entrepreneurs include both medium and large scale businesses involved in varied businesses such as manufacturing, trading, exporting and service providers. Professionals such as practicing Chartered Accountants and Cost Accountants were consulted; preliminary interaction was very useful in designing the questionnaires. Due to time constraints, a small sample of fifty respondents was collected. Two samples were used for data collection. Only these two categories of respondents were considered because the impact of the proposed GST implementation can be better experienced by these practical groups. To know the reliability and validity of the data was tested through Cronbach’s Alpha to ensure the content validity and its usefulness for further analysis. Table 1 shows that Cronbach’s Alpha value is 0.627 and 0.654 for 23 standard items. This shows that the data is fairly reliable. Table 2 shows the mean value, variance, and standard deviation of the responses expressed by the sample population.
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Table 1: Reliability Statistics

<table>
<thead>
<tr>
<th></th>
<th>Cronbach’s Alpha Based on Standardized Items</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cronbach’s Alpha</td>
<td>.627</td>
<td>.654</td>
</tr>
<tr>
<td></td>
<td></td>
<td>23</td>
</tr>
</tbody>
</table>

Table 2: Scale Statistics

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Variance</th>
<th>Std. Deviation</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>89.98</td>
<td>66.080</td>
<td>8.129</td>
<td>23</td>
</tr>
</tbody>
</table>

The data collection instrument included the personal profile of the respondents about their occupation and the scale of operation in case of entrepreneurs. The instrument contained 23 statements designed on a five point likert scale ranging from Strongly Agree-5 to Strongly Disagree-1. The statements are finally divided into three parts indicating the perception and expectation of the respondents towards the proposed GST model, possible impact of the model, and the probable challenges that the government and administration machinery would face while implementing the proposed GST model.

The responses were drawn from two different groups of the population one who practice and the other who experience the impact. The researcher, initially, formulated a hypothesis that there is no significant difference in the opinion of the two different populations. To know whether the formulated hypothesis is true and the inferences could be generalized, Mann-Whitney’s U test was conducted.

Mann-Whitney’s U test is an alternative to a t test for testing the equality of means of two independent samples. The application of a t test involves the assumption that the samples are drawn from the normal population. If the normality assumption is violated, this test can be used as an alternative to a t test. This is a very powerful non-parametric test as this can be used both for qualitative and quantitative data. Test statistics for a large sample (more than 10) under Mann-whitney’s U test is calculated for two large, two tailed, by using the following formula:

\[
Z = \frac{U_2 - \mu_u}{\sqrt{\frac{1}{2} u_2}}
\]

Table 3 displays the test statistics on the expectations of the business persons and the professionals towards the proposed GST model.
**Table 3: Expectation on GST Model as Perceived by the Respondents**

*Test Statistics*\(^a\)

<table>
<thead>
<tr>
<th>Expectations</th>
<th>Mann-Whitney U</th>
<th>Wilcoxon W</th>
<th>Z</th>
<th>Asymp. Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. GST shall be retained as Destination based tax system</td>
<td>909.000</td>
<td>2184.000</td>
<td>-2.491</td>
<td>.013</td>
</tr>
<tr>
<td>2. Tax rates to be lowered</td>
<td>1001.000</td>
<td>2276.000</td>
<td>-1.918</td>
<td>.055</td>
</tr>
<tr>
<td>3. Exemptions to be minimized</td>
<td>894.000</td>
<td>2169.000</td>
<td>-2.597</td>
<td>.009</td>
</tr>
<tr>
<td>4. Threshold limit shall be lower than 15 Lakh to increase the tax base.</td>
<td>1107.000</td>
<td>2382.000</td>
<td>-1.067</td>
<td>.286</td>
</tr>
<tr>
<td>5. There shall be dual tax rates for the centre and the state GST separately.</td>
<td>1113.500</td>
<td>2388.500</td>
<td>-1.043</td>
<td>.297</td>
</tr>
<tr>
<td>6. There shall be single tax base and tax rate for both state and central GST</td>
<td>1044.000</td>
<td>2319.000</td>
<td>-1.523</td>
<td>.128</td>
</tr>
<tr>
<td>7. Before implementing GST, RNR should be minimized</td>
<td>920.000</td>
<td>2195.000</td>
<td>-2.383</td>
<td>.017</td>
</tr>
<tr>
<td>8. Revenue Neutral Rate shall be not more than 15%</td>
<td>862.000</td>
<td>2137.000</td>
<td>-2.838</td>
<td>.005</td>
</tr>
<tr>
<td>9. The tax can be paid by the importer of goods on a reverse charge mechanism</td>
<td>1229.000</td>
<td>2504.000</td>
<td>-.160</td>
<td>.873</td>
</tr>
<tr>
<td>10. Petrol, Liquor, Land and electricity should be included with in the ambit of GST.</td>
<td>1169.500</td>
<td>2444.500</td>
<td>-.586</td>
<td>.558</td>
</tr>
<tr>
<td>11.1% additional tax on interstate sale and supply of goods should not be levied.</td>
<td>1073.500</td>
<td>2348.500</td>
<td>-1.310</td>
<td>.190</td>
</tr>
</tbody>
</table>

\(^a\) Grouping Variable: Occupation
Both the groups of respondents aware that the proposed GST is a destination based tax system, it is imposed on the supply. Majority of the respondents expressed that the rate of GST should be minimum and between 16% to 18%, exemptions to be minimized and the threshold limit shall be marked at Rs 15 Lakh turnover, and these will increase the tax base. They hope that there will be two different rates of taxes for CGST and SGST. However, professionals feel that there shall be single rate of tax across the country both for the state and for the centre. They also are of the view that Revenue Neutral Rate (RNR) should be minimized and shall be fixed at 15%. Majority of the respondents believe that the imposition of GST on importer and no tax to exporter will boost the export as well as the productivity and competitiveness of the export products in the international market. Tax on only imports will encourage the domestic industry particularly small and medium enterprises. Analysis of the responses also discloses that the proposed GST should include levy of tax on petrol, liquor, Real estate and electricity to increase the ambit of GST regime and increase the revenue potential to both State and Central governments. Moreover, the respondents believe that the basic purpose of introducing GST will be nullified if there is any additional tax on interstate sale or supply of goods. Therefore a clear, transparent and a revenue neutral rates and law shall be framed by making necessary amendments to the constitution of India.

Table 4 shows the test statistics on the perception of respondents towards the impact of GST in India. The data shows that GST encourages smuggling if RNR is high. Therefore RNR shall be minimized before implementing GST. The proposed GST lead to specialization and improves productivity due to absence of any cascading effect. GST curtails Tax dodging by big corporate who indulge in establishing warehouses in other states to avoid tax on interstate sale. By adopting one tax system where least formalities need to be followed unlike under present indirect tax system where multiple taxes and more formalities are required by a dealer. This makes manufacturing sector more competitive with less administrative cost and also encourages proper compliances.
### Table 4: Perception of Respondents Towards Impact of GST in India

<table>
<thead>
<tr>
<th>Test Statistics</th>
<th>Mann-Whitney U</th>
<th>Wilcoxon W</th>
<th>Z</th>
<th>Asymp. Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due to high RNR, Tax evasion and smuggling will increase</td>
<td>1085.500</td>
<td>2360.500</td>
<td>-1.226</td>
<td>.220</td>
</tr>
<tr>
<td>With no CST and no cascading, GST lead to outsourcing, subcontracting and specialization</td>
<td>1212.000</td>
<td>2487.000</td>
<td>-.283</td>
<td>.777</td>
</tr>
<tr>
<td>Tax dodging through warehousing by big corporate will be curtailed through GST.</td>
<td>1229.000</td>
<td>2504.000</td>
<td>-.160</td>
<td>.873</td>
</tr>
<tr>
<td>Effective logistic system will come up</td>
<td>1147.000</td>
<td>2422.000</td>
<td>-.750</td>
<td>.453</td>
</tr>
<tr>
<td>With zero rated exports, domestic goods will be more competitive in international market.</td>
<td>1073.500</td>
<td>2348.500</td>
<td>-1.310</td>
<td>.190</td>
</tr>
<tr>
<td>The tax structure will be much simpler and easier to interpret</td>
<td>1085.500</td>
<td>2360.500</td>
<td>-1.226</td>
<td>.220</td>
</tr>
<tr>
<td>For businesses, the accounting complexities will be reduced and this makes manufacturing sector more competitive.</td>
<td>1212.000</td>
<td>2487.000</td>
<td>-.283</td>
<td>.777</td>
</tr>
</tbody>
</table>

a. Grouping Variable: Occupation

Table 5 highlights the respondents opinion about the challenges to be faced if the GST is implemented. Five statements for which responses obtained indicate that the propose GST model has to be sharpen out to suit the Indian business. Respondents worry much about the high RNR and its impact. Since the
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competitive edge of the Indian among the Asian giants will decrease due to high RNR. The fundamental objective of bringing Indian businesses under GST regime will not be achieved if the GST model is diluted.

The proposed GST requires business houses to replace their accounting package accounting invoicing system. Moreover, IT infrastructure and training to officials is essential before implementing GST. Big dealers can afford to it while small and medium enterprises find it difficult and feel it as an extra burden. Furthermore, reduction in the threshold limit brings more small entrepreneurs into the folder of GST, they too, may feel the pinch of additional administrative cost. Another big challenge of the present day, where more number of consumers inclined to go with E-shopping and E-Commerce is flourishing in India, bringing the E-sales and supply under GST net. Hence, the terms ‘sale’ ‘purchase’ production and ‘supply’ must be redefined under GST Act effectively. These are the challenges the government need to look into beforehand.

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Mann-Whitney U</th>
<th>Wilcoxon W</th>
<th>Z</th>
<th>Asymp. Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>19.Competitive edge of Indian in Asian giants will decrease due to High RNR</td>
<td>1229.000</td>
<td>2504.000</td>
<td>-.160</td>
<td>.873</td>
</tr>
<tr>
<td>20.IT infrastructure and training to officials required before implementing GST.</td>
<td>1147.000</td>
<td>2422.000</td>
<td>-.750</td>
<td>.453</td>
</tr>
<tr>
<td>21.Changes in the accounting system on the charges pertaining to GST on the supply</td>
<td>1073.500</td>
<td>2348.500</td>
<td>-1.310</td>
<td>.190</td>
</tr>
<tr>
<td>22.Changes in the proper invoicing system under GST</td>
<td>1085.500</td>
<td>2360.500</td>
<td>-1.226</td>
<td>.220</td>
</tr>
<tr>
<td>23.E-Commerce transactions are big challenges to bring under GST regime</td>
<td>1212.000</td>
<td>2487.000</td>
<td>-.283</td>
<td>.777</td>
</tr>
</tbody>
</table>

a. Grouping Variable: Occupation
The statements classified under three heads such as Expectation, Benefits, and Challenges were analysed separately by using Mann-Whitney’s U test. In all the three items of analysis p value is higher than 0.01 the assumed level of significance. Hence there is no enough evidence to reject the null hypothesis. Hence, it can be concluded that there is no significant difference between the perception of professionals and entrepreneurs.

**Suggestions and Conclusion**

It is evident from this that the demands and expectations of the business persons are vigilantly looked into before installing the new ‘taxware’-the GST-India as a fiscal tool to the government to march towards the global business effectiveness. The government has to revise the recommendations of the high empowered committee as well as the recommendations of the committee of State Chief ministers. A comprehensive GST with lower rate of taxes for increased tax base shall be achieved with least compliance formalities. Goods and Service Tax Network (GSTN) system shall be effectively used. The word ‘supply’ and ‘sale’ of goods and service shall be clearly defined. GST as the destination based tax system should include E-commerce business for which the term ‘business establishment’ shall be redefined. An expert committee comprising the members from professionals body, representatives of Business entrepreneurs, Tax administrators, Tax research groups, Legal experts must be framed to polish out the proposed GST model to become more effective fiscal tool. It shall be ensured that all the indirect taxes without sparing any one are subsumed under the GST regime.

GST offers valuable benefits to achieve productivity and competitiveness to Indian business in the international market. GST is very much successful in more than 160 countries. It is imperative to understand the significance of GST. Entrepreneurs, the tax payers expect the GST to be Neutral. Tax event shall be simple, efficient and uniform. There shall be clarity of GST legislation. Better conciliation and Redressal Mechanism to settle the dispute quickly and effectively. GST being simple, efficient and effective form of indirect tax system all over the world, its introduction early is a wise decision that would contribute significantly towards economic growth. The government has to come up with the bold decision of enacting this legislation and all those who have lived with the not-so-efficient, irrational and complex indirect tax system in India are keenly waiting for its early implementation.
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“A Study on GST Road Map and Its Impact on Business Operations”

Amulya R.H.*

Abstract:
Currently, the indirect tax system in India is complicated with overlapping taxes levied by the Centre and the State separately.

India’s Parliament is considering a bill that would establish a goods and services tax (GST). If enacted, this new indirect tax regime will raise significant issues for both the Indian tax administration and tax payers. With GST, it is anticipated that the tax base will be comprehensive, as virtually all goods and services will be taxable, with minimum exemptions. In this light, the paper is trying to focus on the brief on GST picture, its development life cycle and potential impact on the operations and the different approaches by tax specialists towards policy implementation. An attempt is also made to assess the impact of the new tax reform from two Largest business operations in India, i.e. EY and KPMG.

Keywords: Business operations GST, GST Council, Indirect Tax, Industry, Impact, Tax Reforms.

Introduction:
The introduction of Goods and Services Tax (GST) is one of the biggest tax reforms for India. GST is not just a tax change but it will benefit the economy as a whole and have far-reaching impact on businesses.

The main function of the GST is to transform India into a uniform market by breaking the current fiscal barrier between states. Thus the GST will facilitate a uniform tax levied on goods and services across the country.

Objective of the study:
• To have a brief understanding on GST.
• To Know the Evolution and Policy Development life cycle of GST Proposal.

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- To analyze the potential impact of GST implementation on Businesses operations.
- To understand the approach towards Indirect Tax Reform (GST) by KPMG India and EY India.

Literature Review:
Indirect tax professionals, tax directors and chief financial officers are in the opinion to welcome the policy.

By Satish S, partner, Indirect Tax, PwC India & Kartik Dedhia, assistant manager, PwC Indirect Tax
“GST will be a welcome change for the economy since it is expected to simplify the indirect tax structure in India. However, it is expected to have far-reaching impact on businesses. While the Constitution Amendment Bill has not yet been passed, at this stage, the businesses should prepare for GST by undertaking GST impact assessment study and have a high-level plan for the GST transition”.

By Sanjay Kumar, Experienced Finance professional
“GST Bill is going to be an economic Revolution of India and its impact of Indian industry process plan, Implementation and future success will give new scope for study in the areas of GST and its prospects”.

Methodology:
The study is made by referring various tax experts opinion. Different sources used in order to collect the information or data are
- The internet, Blogs.
- Journals
- Articles

Understanding the GST picture:
The Goods and Services Tax Bill or GST Bill, officially known as The Constitution (122nd Amendment) Bill, 2014, proposes a national Value added Tax to be implemented in India from June 2016. "Goods and Services Tax" 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. Goods and services tax would be levied and collected at each stage of sale or purchase of goods or services based on the input tax credit method.
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**GST Framework**

Framework of the GST will replace indirect taxes. The GST will have a 'dual' structure, which means it will have two components- the Central GST and the State GST. They will both have separate powers to legislate and administer their respective taxes. Thus equally empowering both.

Taxes such as excise duty, service, central sales tax, VAT (value added tax), entry tax or octroi will all be subsumed by the GST under a single umbrella.

With passing of the GST bill, we can expect a climate of improved tax compliance.

Thus, the GST will basically have only three kinds of taxes, Central, State and another called the integrated GST to tackle inter-state transactions.

**Salient Features of GST**

- The power to make laws in respect of supplies in the course of inter-State trade or commerce will be vested only in the Union government. States will have the right to levy GST on intra-State transactions including on services.
- Centre will levy IGST on inter-State supply of goods and services. Import of goods will be subject to basic customs duty and IGST.
- GST defined as any tax on supply of goods and services other than on alcohol for human consumption.
- Central taxes like, Central Excise duty, Additional Excise duty, Service tax, Additional Custom duty and Special Additional duty and State level taxes like, VAT or sales tax, Central Sales tax, Entertainment tax, Entry tax, Purchase tax, Luxury tax and Octroi will subsume in GST.
- Petroleum and petroleum products i.e. crude, high speed diesel, motor spirit, aviation turbine fuel and natural gas shall be subject to the GST on a date to be notified by the GST Council.
- 1% origin based additional tax to be levied on inter-State supply of goods will be non-creditable in GST chain. The revenue from this tax is to be assigned to the Origin State. This tax is proposed to be levied for initial two years or such period as recommended by the GST Council.
- Provision for removing imposition of entry tax / Octroi across India.
- Entertainment tax, imposed by States on movie, theatre, etc will be subsumed in GST, but taxes on entertainment at panchayat, municipality or district level to continue.
• GST may be levied on the sale of newspapers and advertisements and this would give the government’s access to substantial incremental revenues.
• Stamp duties, typically imposed on legal agreements by the state, will continue to be levied by the States.

Administration of GST will be the responsibility of the GST Council, which will be the apex policy making body for GST.

Policy Development Life Cycle:

Benefits of GST:
GST has been envisaged as a more efficient tax system, neutral in its application and distributionally attractive. The advantages of GST are:
• Wider tax base, necessary for lowering the tax rates and eliminating classification disputes.
• Elimination of multiplicity of taxes and their cascading effects.
• Rationalization of tax structure and simplification of compliance procedures.
• Harmonization of center and State tax administrations, which would reduce duplication and compliance costs.
• Automation of compliance procedures to reduce errors and increase efficiency.
**Requirements for Implementation:**

The tax-rate under the proposed GST would fall, but the number of assesses would increase by 5-6 times. Although rates would come down, tax collection would go up due to increased buoyancy. The government is working on a special IT platform for smooth implementation of the proposed Goods and Services Tax (GST). The IT special purpose vehicle (SPV) christened as GST N (Network) will be owned by three stakeholders—the centre, the states and the technology partner NSDL, then Central Board of Excise and Customs (CBEC) Chairman S Dutt Majumdar said while addressing a "National Conference on GST".

**Impact on Indian Business operations : Implementation and future success :**

GST would be one of the most significant fiscal reforms of independent India. GST is expected to result in major rationalization and simplification of the consumption tax structure at both Centre and State levels. It is expected to replace all indirect taxes, thus avoiding multiple layers of taxation that currently exist in India.

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. 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%.

**The Ultimate Indirect Tax Reform**

The successful implementation of Value Added Tax (‘VAT’) regime across all States In India over 2005-07 has put to rest all aspersions about the rationale for Undergoing a tedious process of transition to a new tax regime. Inspired by the Positive response from taxpayers as well as implementing agencies around VAT, India is now headed towards a much more comprehensive indirect tax reform i.e.A Dual GST regime. The new regime is slated to substantially rehash the existing taxation framework, Which is not only complex, but also entails significant tax leakages. Once Implemented in its ideal form, GST could make various business decisions 'tax neutral’, thus, ensuring that commercial efficiencies are not compromised on account of tax imperatives.
While the finer points of the new levy would continue to unwind right until the Date of transition, the moot point is whether one should wait for further details of implementation, or whether the time has come to adopt a more proactive approach and actively participate in GST transition. Considering the magnitude of the reform, organizations that adopt the latter approach are likely to be better geared not only for a seamless transition, but also for reorganizing the Business operations in a timely manner, to garner full advantages of GST.

The precise GST impact would, of course, depend on the final shape that the legislation takes. Some of the key facets of business operations likely to be impacted by GST are as follows:

- Changes in effective tax rates for supplies as well as purchases.
- Transactions/Supplies which are currently exempt from tax may become liable to GST, and vice-versa.
- Input taxes which are currently a cost may be eligible as "credit" in future.
- Special tax computation schemes, valuation provisions may be amended or withdrawn.

### Summary of Key Business Impacts:

<table>
<thead>
<tr>
<th>Sourcing</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Inter-State procurement could prove viable</td>
<td>• Changes in tax system could warrant changes in both procurement and distribution arrangements</td>
</tr>
<tr>
<td>• This may open opportunities to consolidate suppliers/vendors</td>
<td>• Current arrangements for distribution of finished goods may no longer be optimal with the removal of the concept of excise duty on manufacturing</td>
</tr>
<tr>
<td>• Additional duty/CVD and Special Additional duty components of customs duty to be replaced</td>
<td>• Current network structure and product flows may need review and possible alteration</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Pricing and profitability</th>
<th>Pricing and profitability</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Tax savings resulting from the GST structure would require repricing of products</td>
<td>• Margins or price mark-ups would also need to be re-examined</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Introducing GST and Its Impact on Indian Economy

| Cash flow | • Removal of the concept of excise duty on manufacturing can result in improvement in cash flow and inventory costs as GST would now be paid at the time of sale/supply rather than at the time or removal of goods from the factory. |
| System changes and transaction management | • Potential changes to accounting and IT systems in areas of master data, supply chain transactions, system design  
• Existing open transactions and balances as on the cut-off date need to be migrated out to ensure smooth transition to GST  
• Changes to supply chain reports (e.g., purchase register, sales register, services register), other tax reports and forms (e.g., invoices, purchase orders) need review  
• Appropriate measures such as training of employees, compliance under GST, customer education, and tracking of inventory credit are needed to ensure smooth transition to the GST regime |

The above impacts are only illustrative and by no means, exhaustive.

**Findings:**

Needless to say, a reform of such magnitude calls for massive preparations not only for the implementing agencies, but also for the taxpayers.

There is a need to
- Monitor closely the developments around GST implementation.
- Identify existing bottlenecks as well as those likely to arise from proposed GST framework, and communicate these to the implementing agencies (either directly or through industry associations) through representations/personal interactions.
- Ensure flexibility in any new systems/processes/contracts being implemented, to accommodate changes warranted by GST.
- Assess potential impact of GST on business operations.
• Identify need for restructuring business/transactions in light of GST framework, if required.
• Modify internal IT, invoicing and other systems/processes/policies to make them GST compliant.
• Create awareness within the organization about the changes, and modifications in roles/responsibilities of concerned personnel.

Conclusion:
According to Finance Minister Arun Jaitley the GST will be instrumental in helping the GDP of India to grow by 2 percent. The GST also offers a solution to the multinationals as it breaks down the indirect tax structure into one single tax payable by the companies.

I would like to conclude that there are some of the major challenges before the government and the industry, ahead of the actual implementation of GST. GST has an important role to play in easing supply bottlenecks. More than baby steps are required to make it a reality. The Budget has moved incrementally, but the big moves are awaited.

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Proposed GST and Its Impact on the Indian Economy

Venkatmurthy S.G.*

Abstracts:

The liberalization of economic policies in the country during 1990’s has increased the pace of the economic growth 3% to 8%. This structural change has resulted with greater opportunity for business enterprises and increased per capita income of the people. The stiff competitive environment prevailed in the international market is forcing the nations and their business enterprise to remove inefficiency from their system and business structure. The macroeconomic impact of GST is significant in terms of growth effects, price effects, current account effects and the effect on the budget balance. It is preferred every economy must adopt GST or VAT at national level to make their economy attractive for foreign investors. By implementing GST, the developing economy like India can achieve sustainable and balanced development.

Introduction:

The liberalization of economic policies in the country during 1990’s has increased the pace of the economic growth 3% to 8%. This structural change has resulted with greater opportunity for business enterprises and increased per capita income of the people.

At the international level the establishment of WTO and adoption of common trade policies by leading economies has removed trade barriers among the member countries, which in turn has increased the international trade as well as competition among economies and MNC’s. The stiff competitive environment prevailed in the international market is forcing the nations and their business enterprise to remove inefficiency from their system and business structure. So it’s the time to overcome the bottlenecks which prevalent in the Indian tax regime, to make economy competitive and to serve today's international standards.

Bottlenecks in the existing tax structure and its impact on growth of economy:

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• **High compliance and administrative cost:**
  In the existing framework of taxation multiple taxes are being levied on goods and services at different stages in the supply chain. Such different tax structure results in high cost of compliance and tax administration, wastage of time and efforts, tax avoidance and litigation and unexpected delays in supply chain and business process and which will result in slow down the economic growth.

• **Adverse effect on the competitiveness of indigenous goods and services because of the cascading effect:**
  Because of the cascading effect due to multiple taxes the cost for production of service and goods shoots up and that will end up with decrease in profit on such products and services.

• **High selective tax incidence suppress demand for certain industry:**
  There is over-lapping of tax base in the case of several taxes. This leads to significantly higher tax incidence on selected products and services, where VAT as well as excise/service tax is also levied on the same base value.

  Items like consumer products, white goods and automobiles are taxed under VAT as well as Excise on the same sale price at a high tax rate (12.5% and 16% respectively + cascading tax on tax). The high tax incidence suppresses the demand for such goods/services due to demand elasticity with resultant adverse impact on the growth of such sectors.

• **Leads to fragmented markets and promoted inefficient production/distribution:**
  The taxes on Inter State movement of goods (CST& entry tax etc.) create tax barriers within India. It holds back India from becoming a single national market. The combined effect of CST and state VAT is reflected in fragmenting India into different state markets.

• **Increases litigation:**
  Separate and independent taxation of goods and services under different legislations increases tax disputes. There is a strong interdependence of goods and services in the supply chain until any goods or service reaches ultimate consumer. The line between goods and services is getting blurred by the day such as in the case of intangibles, telecom and IT products it’s difficult to decide whether charged under service tax rate or product tax rate.

• **Domestic tax inefficiencies influence protectionism:**
  The existence of inefficiencies in the domestic tax structure influences government to continue with the policy of high rate of custom duty to protect
Introducing GST and Its Impact on Indian Economy

domestic industries. Such policy make India high cost economy and makes Indian exports less competitive.

- **Leads to Economic distortion:**
  The wide spread taxation of inputs at different stages encourages vertical integration of firms only for tax purpose and not based on economic consideration.

- **Tax reform is imperative:**
  In the emerging highly competitive world market, the continuation of existing inefficient tax structure will hold back India’s growth aspirations and desire to become economic super power. We need to seriously consider replacing the existing tax structure with efficient National VAT/ GST structure, without disturbing country’s federal democratic structure. We are far behind in tax reforms compared to other competing countries.

**Goods and service tax:**

GST is comprehensive value added tax on goods and services. It collected on value added in each stage of sale and purchase in the supply chain without state boundaries. In gst regime, goods and services are not differentiated as it moves through the supply chain. The fundamental feature of gst is the eligibility of the manufacturer and the dealers to claim credit for ‘input tax paid’ at each stage without any limit or the barriers of the state boundaries till it reaches the ultimate consumer.

If GST is implemented in Indian context, it would integrate all the taxes currently levied in India by central and state governments on goods and services like excise duty, service tax, state VAT/ Sales tax, entry tax on octroi, state excise, countervailing custom duty, telecom license fee, luxury tax and entertainment tax etc.

**GST models:**

Goods & Services Tax (GST) or Value Added Tax is implemented by about 160 countries in the world. France was being the first country to implement GST in 1954. There are various models of GST followed across the World, Which are different from one to another based on the economic and market conditions. Following are popular GST models and their features:
### Proposed GST Model for India:

India is opting Concurrent Dual GST model. The need for a Dual-GST model is based on the following premise:

- At existing framework, both levels of Government i.e. Centre and State, as per Constitution holds concurrent powers to levy tax domestic goods and services;
- The proposed Concurrent Dual-GST model would be a dual levy imposed concurrently but independently by the Centre and the States;
- Both the Centre and State will operate over a common base, i.e. the base for levy and imposition of duty/tax liability would be identical.

To understand the operating procedure of Concurrent Dual GST Model we have to consider the tax/taxes which shall be levied as per place of supply of goods and services. They are as follows:

- CGST – Central Goods and Service Tax
- SGST – State Goods and Service Tax
- IGST – Integrated Goods and Service Tax

Additional Tax (up to 1%) to be levied in case of inter-state supply of goods. Hence, no input credit available on such.

A summary of levy and the imposing and collecting authority:
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<table>
<thead>
<tr>
<th>Nature of Levy</th>
<th>To be levied by</th>
<th>collecting authority</th>
</tr>
</thead>
<tbody>
<tr>
<td>CGST</td>
<td>Central Government on Intra-State Supply of Goods and/or Services</td>
<td>Central Government</td>
</tr>
<tr>
<td>SGST</td>
<td>State Government Intra State Supply of Goods and/or Services</td>
<td>State Government</td>
</tr>
<tr>
<td>IGST</td>
<td>Central Government on Inter-State Supply of Goods and/or Services</td>
<td>Central Government</td>
</tr>
<tr>
<td>Additional Tax</td>
<td>Central Government on Inter-state supply of goods, but the net proceeds to be assigned to the States from where supply originates</td>
<td>Central Government</td>
</tr>
</tbody>
</table>

Available GST patterns across the world:
- **Gross Income GST:**
  Credit of tax paid in inputs and capital goods to the extent attributable to depreciation on capital goods in a given year.
- **Production GST:**
  The production GST treats both consumption and capital formation as final use of goods. It considers capital goods not as inputs and no ITC on capital goods.
- **Consumption GST:**
  Under consumption GST final consumption is treated as final use of goods. It considers full credit on Capital goods, in year of purchase.

  The reasons for adoption of destination based consumption GST:
  - It is the most favoured tax base from both the perspective of economic neutrality and ease of administration.
  - It restricts tax burden to final consumption goods.
  - Consumption is argued to be a broad measure of the ability to pay taxes.
  - It excludes savings from the base, hence does not discourage investment.

**GST rate:**
At present the GST rate which is in practice across the world is ranges between 5% to 40%, some of the European and Asian countries are charging minimum
rate of 5%, where as some of the African countries are charging maximum rate of 38%-40% on the goods and services. And most of the countries in the world are charging within the range of 15%-25%.

In India it is proposed 18% rate on goods and services but, still it is under discussion. It is expected that the GST will implement with 16%-22% as against the aggregate rate of around 24%-36% which is presently collected on the goods which is consumed.

**GST Coverage:**
The proposed GST in India would include all goods & services except:
- Special Industrial Area schemes are exempted during validity period.
- Around 99 items presently exempted under VAT may continue in GST regime without any scope to change any list.
- Common list of exemption for CGST & SGST.
- Transactions which are below threshold limits.

**Positive impacts on the economy:**
Implementation of a single National GST will have major beneficial impact on all stakeholders. The key highlight of such impact is given below:

- **Eliminates cascading effect & barrier free tax structure:**
  GST will eliminate cascading[tax on tax/compounding tax] impact on the production and distribution cost of goods and services. This reduced cost of goods and service leading to accelerated GDP growth. GST without tax barriers will leads to economies of scale in manufacturing industry and reduces the supply chain cost.

- **Expected to reduce the production cost:**
  GST is expected to reduce the production cost by 15% to 20% in many of the products in view of full input tax credit which will have favorable impact on the prices of product.

- **Expected to increase the tax revenue:**
  GST will widen the tax base and improve the tax compliance higher tax: GDP ratio. The Tax: GDP ratio is expected to increase by 2% as per FRBM report. This works out to rupees 70,000 to 80000 crores of additional annual revenue to the central and state governments.
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- **Leads to sustainable growth in the economy:**
  GST will remove the tax distortions from the economy. This will lead to sustainable higher growth based on competitive strength of the country. Simple tax system will attract more productive investment for growth.

- **Will lead to optimization and comparative cost advantage:**
  GST will eliminate the Inter State tax by which it will leads to optimization of physical facilities to the extent of full capacity. If the manufacturing is done at full capacity industry will be benefited by comparative cost advantage.

- **Increase in the GDP and standard of living:**
  Since it is expected that with the implementation of GST the price level will reduced in the economy, it will results in increase in the consumption level and growth in GDP of the economy. According to study by NCAER (National Council for Applied Economics and Research) complete implementation of GST could lift GDP growth by 0.9-1.7%.

- **Positive effects on export and BOP level:**
  In proposed GST the exporter will get the full tax credit, the export units will be able to quote better price for their products and services in comparison with present scenario. Increased export will ultimately have positive effect on the BOP of the country.

- **Leads to Unique price and removes inequalities between the markets:**
  As GST will leads to imposition of same tax rate on the goods and services everywhere in the country and by implementing same tax rate it will removes the inequalities between the market which we can seen in the market at present because of the tax rate differentials.

- **Will lead to reduced chance for tax evasion:**
  Since the proposed GST will charges full tax on the each and every transfer, it’s difficult for the firms to evade tax from the payment. E.g.: e-commerce firms can’t evade tax by operating business from the place where tax rates are comparatively less.

- **Leads to centralized where housing for manufacturers:**
  In the present tax system if the dealer and the ware house are from different states, then the dealer needs to pay a Central Sales Tax of about 2%. This will increases the price of the commodity. Thus companies use to setup a warehouse in each state. In GST as the CST gets eliminated, the centralized where housing can be availed by the manufacturers.
• Makes the tax structure simple and reduces the compliances:
  Multiple taxes that currently exist will no longer remain in the picture. This will reduces the compliances to be fulfilled as compared to present situation.

Negative side of GST:
The proposed GST may lead to following negative impact on the stakeholders:
• Negatively affect the price level of essential goods and services:
The proposed GST may lead to increase the price of essential products and services which are presently exempted from the taxation.
• Negative effect on the real estate industry:
  As per the study undertaken by the Curtin University of Technology, Perth in 2000, GST would negatively impact the real estate market as it would add up to 8% to the cost of new homes and reduce demand by about 12%.
• Negative effect on working capital:
  As the firms are suppose to make the payment of the tax on every transfer the companies working capital requirement will shoots up by proportional to the purchase of inputs for the value addition.
• Emergence of transfer pricing issues:
  As the GST considers all the transaction for taxation purpose, this procedure will increases the price of the transfer from one department to another for further process.

Conclusion:
By the above discussions one can reach following conclusion:
• The macroeconomic impact of GST is significant in terms of growth effects, price effects, current account effects and the effect on the budget balance.
• In developing open economy with growing service sector, a change in the tax mix from income to consumption-based taxes is likely to provide a fruitful source of revenue.
• The proposed structure will simplify the procedure which will end up with equal opportunity for all the markets and in other hand will leads reduced tax evasion.

It is preferred every economy must adopt GST or VAT at national level to make their economy attractive for foreign investors. By implementing GST, the developing economy like India can achieve sustainable and balanced development.
Introducing GST and Its Impact on Indian Economy

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Introducing GST and Its Impact on Indian Economy

Baby R.1
Pavan.G.Kameshwar2

Abstract:
Goods and Service Tax is a consumption tax based on value-added concept. It is a tax to replace the current sales tax and service tax. Many countries have adopted GST/VAT because they are dis-satisfied with their consumption tax structure. The chance of success in implementing GST is high as there is much experience for Malaysia to draw upon them around the world in designing the system. Over the years, GST/VAT has been adopted as a main form of taxation. Currently, more than 160 countries have implemented GST/VAT. GST is a better tax system. It is more transparent, efficient, effective, self-policing and less bureaucratic. GST on export will be zero-rated and the exporter can recover all the input tax incurred in the course of their business. At present imported goods are subject to import duty and sales tax unless exempted. Under GST, imported goods will still be subject to import duty but sales tax will be replaced with GST. As to whether the imported goods will be cheaper or more expensive will depend on a number of factors besides the GST rates. It is a tool to manage economy of our country, leads to more competitive pricing, increase in GDP, reduce shadow economy activities etc.

This paper focuses on the process of introducing the GST. The importance behind this GST and also it explains about the impact towards our Indian economy.

Keywords: Consumption Tax, Export, Business, Pricing, economy activities.

Introduction:
The government has taken many initiatives to realize its objectives. In this context, the discussion on GST have been underway for more than a decade. In 2005 budget, the Government had announced the introduction of GST. However,
it was deferred to a later date. In December 2009, the GST Bill was tabled for the First Reading in the Dewan Rakyat and in 2010.

Present Taxation System in India includes Multi-stage taxation on manufacture and distribution channels, Sectors specific taxes like Entertainment Tax, Luxury Tax and Textile Cess etc. Difference types of Cess like Education Cess, Secondary & Higher Education Cess etc. Tax on value additions i.e. Value Added Tax and Tax on Inter State transaction i.e. Central Sales Tax

Goods and Services Tax or GST is a consumption tax based on value-added concept. According to the 122nd CAB, 1 the term ‘GST’ was defined by introducing a clause 12A in Article 366 of the Constitution of India, to mean “any tax on supply of goods or services or both except taxes on supply of the alcoholic liquor for human consumption.”

Unlike the present sales tax or service tax which is a single stage tax, GST is a multi-stage tax. Payment of tax is made in stages by intermediaries in the production and distribution process. The tax itself is not a cost to the intermediaries since they are able to claim back GST incurred on their business inputs. GST is imposed on goods and services at every production and distribution stage in the supply chain including importation of goods and services.

Source: Taxation in India 1925 to 2007: History, Policy, Trends and Outlook, Indian Tax foundation, New Delhi
Review of Literature:

Poirson (2006) assesses the effects of India’s tax system on growth through the level and productivity of private investment during 1974-75 to 2004-05. She discovers that the overall tax burden, as measured by the Average Effective Tax Rates (AETR), is low in India as compared to advanced economies and higher-income emerging markets in the region. She views that the proposed introduction of GST with few exceptions should enhance indirect tax productivity and improve economic efficiency by harmonizing tax rates across states.

Srinivasan Pagalthivarthi (2015) in this paper author addresses important issues in detail relating to the proposed Goods and Service Tax in India. The issue he has raised pertains to remaining gaps in the proposed structure as well as the consequences that could be expected from the anomalies. Importantly he points towards possible disputes over the event of taxation, classification, value, place of supply and applicable rates that would continue under GST.

G. Raghuram (2015) here the scholar brought out the perspectives of different stakeholders and the contentious issues and subsume a variety of taxes and simplify the indirect tax regime.

International Journal of Research –GRANTHAALAYA (2015): This paper presents an overview of GST concept, explains its features along with its timeline of implementation in India. The paper is more focused on advantages of GST and challenges faced by India in execution.

Statement of Problem:

The discussion on GST have been underway for more than a decade. There are have been many occasions in the past when it appeared that GST will be ushered in. GST is acknowledged by all to be an important economic legislation to remove distortions and spur growth. However, GST in India has remained a story of so near and yet so far.

Objective of Study:

• To study the impact of introduction of GST towards Indian economy in general.

Scope of Study:

Introduction of a GST to replace the existing multiple tax structures of Centre and State taxes is not only desirable but imperative in the emerging economic environment. Increasingly, services are used or consumed in production and distribution of goods and vice versa. Separate taxation of goods and services
often requires splitting of transaction values into value of goods and services for taxation, which leads to greater complexities, administration and compliances costs. Integration of various taxes into a GST system would make it possible to give full credit for inputs taxes collected. GST, being a destination-based consumption tax based on VAT principle, would also greatly help in removing economic distortions and will help in development of a common national market.

Based on the study conducted by the Ministry of Finance, GST can overcome the various inherent weaknesses under SST namely:

- Tax cascading and tax compounding
- Issue of transfer pricing and value shifting
- No complete relief of the tax on goods exported
- Discourages vertical integration
- Bureaucratic red tape

**Research Methodology:**

The present study is purely depending upon secondary data which is procured from Webpages, books, journals.

**Justification of GST**

Despite the success of VAT, there are still certain shortcomings in the structure of VAT, both at the Centre and at the State level.

**A. Justification at the Central Level**

i. At present excise duty paid on the 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.

ii. 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 and services are covered.

iii. At present, the service tax is levied on restricted items only. Many other large number of services could not be taxed. It is to reduce the effect of cascading of taxes, which means levying tax on taxes.

**B. Justification at the State Level**

i. A major defect under the State VAT is that the State is charging VAT on the excise duty paid to the Central Government, which goes against the principle of not levying tax on taxes.
ii. 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.

iii. Many of the States are still continuing with various types of indirect taxes, such as luxury tax, entertainment tax, etc.

iv. As tax is being levied on inter-state transfer of goods, there is no provision for taking input credit on CST leading to additional burden on the dealers.

Cascading effect (SST)

Cascading effect (service tax)

Source: www.gst.customs.gov.my
Introducing GST and Its Impact on Indian Economy

The goods and service which are subject to GST.
Not all goods and services will be subjected to GST. Certain basic food and
amenities such as rice, poultry, fish, meat, vegetable, sugar, flour and cooking oil
are free from tax. Meanwhile, the sales and rental of residential and agricultural
properties and services like private health and education as well as public
transportation are exempted from GST.

The following are the GST rate among the ASEAN countries:

<table>
<thead>
<tr>
<th>Countries</th>
<th>Year of Implementation</th>
<th>Initial Rate (%)</th>
<th>Current Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>1984</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Thailand</td>
<td>1972</td>
<td>10</td>
<td>7</td>
</tr>
<tr>
<td>Singapore</td>
<td>1993</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>Philippines</td>
<td>1998</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>Cambodia</td>
<td>1999</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Vietnam</td>
<td>1999</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Laos</td>
<td>2009</td>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>

Impact on Indian Economy in General:
1. GST is a better tax system. It is more transparent, efficient, effective, self
   policing and less bureaucratic. GST would eliminate double taxation under
   the current SST. Consumer will pay fair prices for most goods and services
   compared to SST.
2. For businesses, they are able to reduce their cost of doing business since
   they are able to claim GST incurred on their business inputs. For example,
   under the current taxation system, manufacturers are not allowed to claim
   service tax on telecommunication, accounting and legal services and sales
   tax on indirect inputs such as office equipment and furniture. These taxes
   are embedded into the price of the goods sold. Hence, the cost of doing
   business increases. Under the GST system, any GST incurred on acquisition
   is claimable and is not a cost to businesses.
3. As such, Malaysian exports will become more competitive in the global
   market as no GST is imposed on exported goods and services. This will
   strengthen our export sector which would contribute to the economic growth
   of the country.
4. To make our exports more competitive, GST on exports will be zero-rated and the exporter can recover all the input tax incurred in the course of his business.

5. At present, imported goods are subject to import duty and sales tax unless exempted. Under GST, imported goods will still be subject to import duty but sales tax will be replaced with GST. As to whether the imported goods will be cheaper or more expensive will depend on a number of factors besides the GST rate.

6. There will be a positive impact on the economy due to the following:
   • Reduction in business costs:
     - Special schemes to alleviate cash flow problems
     - Credit offset mechanism
     - Can claim the input tax due based on the invoice produced
   • Lead to more competitive pricing
   • Speeds up economic union of India
   • Better compliance and revenue buoyancy replacing the cascading effect (tax on tax) created by existing indirect taxes, tax incidence for consumers may fall lower transaction cost for final consumers
   • Makes our export more competitive as exports are to be zero-rated
   • Increase in Gross Domestic Product
   • By merging all levies on goods and services into one, GST acquires a very simple and transparent character
   • Reduce shadow economy activities
   • Uniformity in tax regime with only one or two tax rates across the supply chain as against multiple tax structure as of present
   • It is a tool to manage the economy e.g. tourist refund scheme is proposed as a means to boost the tourism industry and tourism spending in the country, exports are zero-rated to make our goods more competitive globally.
   • Increased tax collections due to wide coverage of goods and service
   • Improvement in cost competitiveness of goods and services in the international market.

There might not be a reduction in consumption due to:
   • Prices of certain goods and services might be lower
   • Change in consumption pattern. GST works on the affordability concept. Consumers have to decide on which goods or services to buy and GST is
only incurred when the goods or services are consumed. They may divert more of their expenses towards essential goods and services rather than on luxury goods
• A lot of basic necessities are not subject to GST
• GST is a replacement tax
• Input tax credit mechanism should reduce business cost.

**Measures undertaken by the Government to ensure a smooth GST implication:**

The Government has given businesses ample time to be ready for GST. Education, training, awareness programs and advisory visits regarding GST implementation have and will be conducted on an ongoing basis. Businesses will be allowed to register early before GST enforcement date. Prior to GST implementation, the Government will carry out pilot runs on the systems. The Government has set up a Customs Call Centre (CCC) to enable the public to make inquiries on GST and the existence of the GST Portal will disseminate information on GST to ensure high compliance when GST is implemented. The Government has prepared itself fully to implement GST. The GST legislation, infrastructure, computer system, personnel, and all process and procedures are in place to implement GST.

**Findings and Suggestions:**

1. GST should be preceded by adequate groundwork on the experience of other countries and a credible study on the impact of the GST regime on state revenues.
2. Harmonized Tax Structure should be the guiding principle and not the obligatory feature of the GST.
3. The formation of a GST evaluation committee should monitor and evaluate the implementation of GST. The mandate was to study the immediate impact of GST on inflation, GDP, retail price and other parameters.

**Conclusion:**

The taxation of goods and services in India has, hitherto, been characterized as a cascading and distortionary tax on production resulting in miss-allocation of resources and lower productivity and economic growth. It also inhibits voluntary compliance. It is well recognized that this problem can be effectively
addressed by shifting the tax burden from production and trade to final consumption. A well designed destination-based value added tax on all goods and services is the most elegant method of eliminating distortions and taxing consumption. Under this structure, all different stages of production and distribution can be interpreted as a mere tax pass-through, and the tax essentially ‘sticks’ on final consumption within the taxing jurisdiction.

GST in the context of the federal structure which would optimize efficiency, equity and effectiveness.

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“Goods and Services Tax: Its Impact on Indian Economy”

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Nagarjuna²

Introduction:
GST is a value added tax, levied at all points in the supply chain with credit allowed for any tax paid on inputs acquired for use in making the supply. It would apply to both goods and services in a comprehensive manner with exemptions restricted to a minimum.

Objectives of GST:
One of the main objective of Goods & Service Tax (GST) would be to eliminate the cascading effects of taxes on production and distribution cost of goods and services. The exclusion of cascading effects i.e. tax on tax will significantly improve the competitiveness of original goods and services in market which leads to beneficial impact to the GDP growth of the country. It is felt that GST would serve a superior reason to achieve the objective of streamlining indirect tax regime in India which can remove cascading effects in supply chain till the level of final consumers.

India’s Tax Regim:
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 policies and infrastructure development.

The present structure of taxation entails the levy of a number of indirect taxes on businesses and individuals. These include the following:

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(i) Central Excise Duty  
(ii) Service Tax  
(iii) Sales Tax  
(iv) Value Added Tax  
(v) Securities Transaction Tax

Traditionally India’s tax regime relied heavily on indirect taxes including customs and excise. Revenue from indirect taxes was the major sources of tax revenue till tax reforms were undertaken during 1990s.

**Review of Literature:**

Value added tax was first introduced by Maurice Laure, a French economist, in 1954. The tax was designed such that the burden is born by the final consumer. Since VAT can be applied on goods as well as services it has also been termed as goods and services tax (GST). During the last four decades VAT has become an important instrument of indirect taxation with 130 countries having adopted this, resulting in one-fifth of the world’s tax revenue. Tax reform in many developing countries has focused on moving to VAT. Most of the countries thus indicating thus other countries would gain from its adoption (Keen and Lock Wood, 2007)

Witter and Kym (2002) use a computable general equilibrium model (CGE) to analyze the impact of the GST and wine tax reform on Australia’s wine industry introduced in 2000. It is concluded that export-oriented premium segment would gain at the expense of non-premium segment of wine industry. The implicit message is that such gains would originate from increased prospects of exports of the premium wine segment.

**Benefits of GST:**

GST has been envisaged as a more efficient tax system, neutral in its application and distributionally attractive. The advantages of GST are:

- Wider tax base, necessary for lowering the tax rates and eliminating classification disputes
- Elimination of multiplicity of taxes and their cascading effects
- Rationalization of tax structure and simplification of compliance procedures
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- Harmonization of center and State tax administrations, which would reduce duplication and compliance costs
- Automation of compliance procedures to reduce errors and increase efficiency

Impact of GST on Indian Economy:

GST would be one of the most significant fiscal reforms of independent India. GST is expected to result in major rationalization and simplification of the consumption tax structure at both Centre and State levels. It is expected to replace all indirect taxes, thus avoiding multiple layers of taxation that currently exist in India.

Depending on the final GST base and rate, there will be a significant redistribution of tax across different goods and services. Goods currently subject to both Centre and State taxes should experience a net reduction in tax, with positive impact on consumer demand.

Besides simplifying the current system and lowering the costs of doing business, GST will call for a fundamental redesign of supply chains. It will affect how the companies operate their businesses, presenting significant opportunities for long-term revenue and margin improvement.

For instance, under the current tax structure, supply chains are invariably designed to minimize the burden of the Central Sales Tax, with distribution centers located in individual States where the consumers are located. They are sub-optimal from a strategic and economic perspective. The elimination of the central sales tax will provide an opportunity to optimize supply chains, enabling companies to re-evaluate existing procurement patterns, and distribution and warehousing arrangements.

Features of GST:

- The power to make laws in respect of supplies in the course of inter-State trade or commerce will be vested only in the Union government. States will have the right to levy GST on intra-State transactions including on services.
- Centre will levy IGST on inter-State supply of goods and services. Import of goods will be subject to basic customs duty and IGST.
- GST defined as any tax on supply of goods and services other than on alcohol for human consumptions.
Central taxes like, Central Excise duty, Additional Excise duty, Service tax, Additional Custom duty and Special Additional duty and State level taxes like, VAT or sales tax, Central Sales tax, Entertainment tax, Entry tax, Purchase tax, Luxury tax and Octroi will subsume in GST.

Petroleum and petroleum products i.e. crude, high speed diesel, motor spirit, aviation turbine fuel and natural gas shall be subject to the GST on a date to be notified by the GST Council.

1% origin based additional tax to be levied on inter-State supply of goods will be non-creditable in GST chain. The revenue from this tax is to be assigned to the Origin State. This tax is proposed to be levied for initial two years or such period as recommended by the GST Council.

Provision for removing imposition of entry tax / Octroi across India.

Entertainment tax, imposed by States on movie, theatre, etc will be subsumed in GST, but taxes on entertainment at panchayat, municipality or district level to continue.

GST may be levied on the sale of newspapers and advertisements and this would give the government’s access to substantial incremental revenues.

Stamp duties, typically imposed on legal agreements by the state, will continue to be levied by the States.

Administration of GST will be the responsibility of the GST Council, which will be the apex policy making body for GST. Members of GST Council comprised of the Central and State ministers in charge of the finance portfolio.

Conclusion:

GST Law may provide for mandatory mention of address of the buyer in every invoice whose taxable values is more than INR 50,000. GST law may provide what constitutes a sale price with respect to post-sale discount. The law may also contain suitable provisions about admissibility or otherwise of post-supply discounts. GST law may also provide for imposition of automatic late fees for non-filers which can also be inbuilt in the notices. It may also provide for adequate penal provisions for non-filing of returns.
“Issues and Challenges in the Implementation of Goods & Service Tax (GST) in India:”

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Abstract:
India has witnessed significant reforms in indirect taxes over the past two decades. The Goods and Service Tax (GST) is one of the prime indirect taxreforms in India, the decision on which is pending in Parliament since March 2010. The fundamental idea behind this form of taxation is to replace existing indirect Taxes like central excise duty, customs duty, service tax and value-added tax or sales tax by levying a comprehensive tax on the manufacture, sale and consumption of goods and services in the country i.e., GST. It is expected to remove the cascading effect of taxation. At present the date of introduction of Goods and Service Tax is like a ‘mirage’. It is because of lack of support from opposition party and other political parties in the parliament in amending the constitution, improper support and autonomy of various state governments, creation of Information Technology infrastructure for tax administration. In spite of all these challenges the government has taken lot of steps in implementing GST, as if everything goes well as the union finance minister says the GST would be come in to force from 1st April, 2016.

Keywords: Indirect tax reform, Goods and Service Tax (GST), Cascading effect, Comprehensive tax.

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Introduction:
Indirect Taxes are taxes that are imposed on goods or services, such as Central Excise Duty, Customs Duty, Service Tax, Value added tax or sales tax. In order to regulate indirect taxation in India, there are a number of tax laws and regulations enforced by Central or State governments. In any economy, tax policies play a major role through their impact on both proficiency and equity. A good tax system should keep in view issues of income distribution and also attempt to generate tax revenues to upkeep government expenditure on public services and infrastructure development. The introduction of VAT was one of the major reforms in Indian indirect taxes at state & central level. If that was a major reform in indirect taxes then implementation of Goods and Service Tax (GST) would be progression over the current existing system of indirect taxes in India.

Origin of Goods and Service Tax:
Goods and Services Tax is a broad-based and a single comprehensive tax levied on goods and services consumed in an economy. GST is levied at every stage of the production-distribution chain with applicable set-offs in respect of the tax remitted at previous stages. It is basically a tax on final consumption. In simple terms, GST may be defined as a tax on goods and services, which is leviable at each point of sale or provision of service, in which at the time of sale of goods or providing the services the seller or service provider may claim the input credit of tax which he has paid while purchasing the goods or procuring the service. Goods and Services Tax also known as the Value Added Tax (VAT) or Harmonized Sales Tax (HST) was first devised by a German economist during the 18th century. He envisioned a sales tax on goods that did not affect the cost of manufacture or distribution but was collected on the final price charged to the consumer. Thus it did not matter how many transactions the goods went through, the tax was always a fixed percentage of the final price.

The tax was finally adopted by France in 1954. Maurice Laure, Joint Director of the French Tax Authority, the Direction generale des impots, was the first to introduce VAT on April 10, 1954. Initially directed at large businesses, it was extended over time to include all business sectors. Personal end-consumers of products and services cannot recover VAT on purchases, but businesses can recover VAT on the materials and services that they buy to make further supplies or services directly or indirectly sold to end-users. In this way, the total tax levied
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at each stage in the economic chain of supply is a constant fraction of the value added by a business to its products, and most of the cost of collecting the tax is borne by business, rather than by the state. VAT was invented because very high sales taxes and tariffs encouraged cheating and smuggling. Value added taxation avoids the cascade effect of sales tax by only taxing the value added at each stage of production. Value added taxation has been gaining favor over traditional sales taxes worldwide. In principle, value added taxes apply to all commercial activities involving the production and distribution of goods and the provision of services. VAT is assessed and collected on the value added to goods in each business transaction. Under this concept the government is paid tax on the gross margin of each transaction.

Background of Goods and Services Tax (GST) in India

The Vijay Kelkar Task Force on implementation of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 had pointed out that although the indirect tax policy in India has been steadily progressing in the direction of VAT principle since 1986, the existing system of taxation of goods and services still suffers from many problems. The tax base is fragmented between the Centre and the States. Services, which make up half of the GDP, are not taxed appropriately. In many situations, the existing tax structure has cascading effects. These problems lead to low tax-GDP ratio, besides causing various distortions in the economy.

In this context, the Kelkar Task Force had suggested a comprehensive Goods and Services Tax (GST) based on VAT principle. Value-added tax (VAT) is a modern and progressive system of sales tax. It brings in the system of self-assessment giving rise to transparency and mutual trust. It is charged and collected by dealers on the price paid by the customer. The empowered committee released a White Paper on VAT on 17th January 2005. This was the uniform basis the States agreed to adopt to avoid competition between States. VAT replaced sales tax on 4th January 2005. The Empowered Committee, constituted by Government of India, provided the basic framework for uniform VAT laws in the states but the States have a liberty to set their own valuations for the VAT levied in their own territory.

The effort to introduce the new tax regime was reflected, for the first time, in 2006-2007 Union Budget Speech. The then Finance Minister Mr. P. Chidambaram remarked that there is a large consensus that the country must move towards a national level GST that must be shared between the center and
the states. He proposed 1st April 2010 as the date for introducing GST. The present rates for service tax and CENVAT, that is most proximate to the global GST rate, and the continuous steps towards phasing out of Central Sales Tax (CST), clearly hints at the endeavor on the part of Government of India. Subsequently the Empowered Committee of State Finance Ministers agreed to work with the Central Government to prepare a roadmap for introducing a national level GST with effect from 1st April 2010.

In May 2007 Empowered Committee (EC) of State Finance Ministers in consultation with the Central Government, constituted a Joint Working Group (JWG), to recommend the GST model. The mandate of the Working Group was as follows: GST should be so designed that it should be revenue neutral to the Centre and the States. Interests of the Special Category, North-Eastern States and Union Territories are to be especially kept in mind. The Group will examine different models and ensure that the power of levy, collection and appropriation of revenue must be vested with the Centre and the States by examining the pros and cons.

**Need for Goods and Service Tax**

Indian economy is getting more and more globalised. In recent times, a number of Free Trade Agreements (FTAs) have been signed, which will allow imports into India duty free or at very low duties. India's economic growth the recent year has fallen sharply and there is stagnation in Indian exports. One of the main reasons for this situation is the inefficient domestic indirect tax structure. Hence, there is need to have a nation-wide simple and transparent system of taxation to enable the Indian industry to compete not only internationally, but also in the domestic market. The complex tax structure discourages economy of scale and efficiency in the supply chain which has adverse impact on economic growth.

In the present global economic scenario, there is an urgent need to replace the existing tax structure by rational Goods and Service Tax covering all tradable goods and services. By the integration of goods and services taxation India will get a world class tax system and tax collections will also improve. It would end the long standing issue of differential treatment of manufacturing and service sector. GST will make Indian economy competitive and accelerate its growth. It will eliminate the cascading effect of taxes from cost of products. It is expected that a rational GST structure will reduce overall cost of indigenous products and services by about 10 per cent resulting in higher exports and reduced
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inflationary impact. A simplified GST structure will reduce litigation and compliance cost. Any losses on account of abolition of multiple taxes are likely to be balanced by the additional GST revenues that will obtain from taxation of services and from access to GST on imports. Inbuilt check through the credit mechanism will improve tax compliance, widen tax base which will lead to higher tax, GDP ratio and elasticity in tax revenue. Implementation of GST is expected to boost GDP growth by at least 1% apart from attracting higher investment for future growth the economy.

Review of Literature:

Girish Garg, (2014) - “Basic Concepts and Features of Good and Service Tax in India”, it is found that GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. GST will create a single, integrated Indian market to make the economy stronger. Under GST, the taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions. Through this it 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.

Pinki, Supriya Kamna & Richa Verma (2014) Goods and Service Tax - Panacea for Indirect Tax System in India” it is found that the GST is India’s most ambitious indirect tax reform plan, which aims at removing the cascading effect of tax. The movement of GST was declared in 2008 and supposed to be in force by 2010. Due to various reasons it could not be in force. GST has been implemented in more than 150 countries which will leads to economic growth of the country.

Syed Mohd Ali Taqvi (2013) “Challenges and Opportunities of Goods and Service Tax in India” the researcher explains the GST is only indirect tax that directly affect all sectors and sections of our country. It is aiming at creating a single, unified market that will benefit both corporates and economy. He also explain the proposed GST model will be implemented parallel by the central and state governments as Central GST and State GST respectively.

Jana V. M., Sarma & V Bhaskar (2012) “A Road Map for implementation of Goods and Service Tax”, from the study it is found that the steps to be undertaken to implement the comprehensive tax system i.e., GST. The authors have thrown light on the constitutional amendment required for the implementation of GST in India.
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BeriYogita (2012) “Problems and Prospects of Goods and Services Tax (GST) in India” in this article the author say that India has witnessed with number of tax reforms since Independence. The implementation of GST will become major indirect reform in India though is subsumes many existing indirect taxes like central excise duty, customs duty, service tax, additional duties etc. by implementation of GST there will be levy of central taxes both on goods and services which integrates and widen the tax base.

Dr. R. Vasanthagopal, (2011) “GST in India: A Big Leap in the Indirect Taxation System”, found that the positive impacts are dependent on a neutral and rational design of the GST. Balancing the conflicting interests of various stakeholders, complete political commitment for a fundamental tax reform with a constitutional amendment, the method of valuation for levying the tax is to be required.

Govinda Rao (2009) “Goods and Service Tax – Some progress towards clarity” the author in his article express his views on the first empowered committee report of state finance ministers of Goods and Service tax to be implemented in India. He also explains salient features, shortcomings of the proposed GST. He suggests that the proposed GST model should overcome the shortcomings of VAT system. He also throw light on the challenges faced in the implementation of GST in India.

Objective of the Study:
1. To study the issues and challenges in the implementation of GST in India.

Issues & Challenges in the Implementation of GST:
Successful implementation of GST regime is a great challenge for Centre and States. Everybody in the political class agrees India must switch to the goods and services tax (GST) regime. Centre-state talks have been on for some time to fix GST’s contours and modalities of implementation. Improving tax compliance, in turn, will boost state coffers, thereby reducing fiscal deficits and providing resources for social spending. Removal of tax multiplication will mean consumer-friendly product pricing, benefiting individual of the country. Replacing the existing Indirect Tax Structure by entirely a new model would pose a series of challenges like – Classification of taxable and exempt goods and services and deciding GST rate in line with the International Standards, Preparing the administrative machinery for levy and collection of GST , Simplified tax
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structures with clarity of Points of Tax and Tax Credits, Creating consumer and supplier awareness before introduction of the new system, Attaining high technical standards for implementation of GST model with the help of information technology and thereby reducing transaction cost. The Recent Reports says that there are disagreements among states and Unions over formation of Council to monitor GST in all states and the role of Union Finance Minister to veto the proposals passed by Council by majority decision. The states have demanded that any proposals of Union finance minister should be approved by the consensus among the GST Council members; otherwise, any such proposals would not be binding on the states.

The major challenges faced by the government in the implementation of GST in India are as follows:

- **Constitutional Amendments:** Implementation of GST calls for effecting widespread amendments in the Constitution and the various constitutional entries relating to taxation. The various levies of the Union and the states are also to be harmonized. The Constitution provides for an elaborate procedure for effecting a Constitutional Amendment. The procedure to be followed depends on the nature of Constitutional Amendment. The ordinary procedure to pass a Constitutional Amendment involves, firstly introduction of the amendment bill in either house of the Parliament, secondly the bill being passed in each house by a majority of total membership of the house and a majority of not less than 2/3rd of the members of that house present and voting and lastly obtaining the Presidential Assent. However with respect to the implementation of GST, the Constitutional Amendment involves rearrangement of powers in the Seventh Schedule to the Constitution. Constitutional amendments for levy of GST by both the Centre and States – Centre already in advanced stages of discussion. Presently Constitution empowers Centre to levy and collect income tax, Custom duties, Excise, Central Sales tax Service tax. Now as both Centre and States would get power to levy tax on goods and services, a constitutional amendment is required. Ratification by states required before assent by the President of India.

- **State’s Autonomy And Their Power Of Taxation:**
  India, being a federal state, has bifurcated its legislative power between States and the Union. As per Indian Constitution’s Article 245 and 246, it has been made clear that States and the Union can legislate on the different areas per the
entries given in List I, II and III in Seventh Schedule. However, this has not been accepted by States. The Union Finance Minister has recently given an indication that GST Council would have no role on matters of tax rates and taxation making way for the state’s supremacy. Also, the constitutional amendment which has been introduced intending to take away some of the state’s power of taxation is likely to be a major bone of contention among states.

Another issue on which the states and the union were at loggerheads was inclusion of GST dispute settlement mechanisms in the Constitution where states were demanding the statutory backing to such mechanism rather than constitutional sanctity.

The States do not have the powers to levy a tax on supply of services while the Centre does not have the power to levy tax on the sale of goods. In the current scenario it is difficult to visualize constitutional amendments of such far reaching implications going through, more so in view of the fact that sharing of legislative powers is such an essential element of our federal polity and it may be perceived to be a basic feature of the Constitution.

- **Fixation of Tax Threshold Limit:**

The threshold limit for turnover above which GST would be levied will be one area which would have to be closely looked at. First of all, the threshold limit should not be so low to bother small scale traders and service providers. It also increases the allocation of government resources for such a petty amount of revenue which may be much more costly than the amount of revenue collected. The low threshold limit also encourages the small scale traders and service providers to avoid payment of tax and bribe government officials. Therefore, low threshold limit will not designate well in modern tax reforms.

Similarly, setting higher tax threshold will be another challenge for the governments. The first impact of setting higher tax threshold would naturally lead to less revenue to the government as the periphery of tax base shrinks. Another impact it may have on such small and not so developed states which have set low threshold limit under current VAT regime. Therefore, high threshold will lead to revenue loss to these states where these states will not be able to collect as much revenue as they are collecting today.

It is important to highlight one good aspect of keeping tax threshold limit low is that it widens the tax base and more revenue can be collected even keeping tax rate very low.
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• **Issue regarding Nature of taxes that are going to be subsumed:**
  The ‘First Discussion Paper’ has mentioned that taxes levied by the central government like excise, additional excise duty and various surcharges and cesses would be part of the GST. The taxes that are generally subsumed in GST would be excise duty, countervailing duty, cess, service tax, and state level VATs among others. Interestingly, there are numerous other states and union taxes that would be still out of GST.
  Keeping out numerous taxes, levies and cesses out of GST will only make proposed GST an incomplete one and we will still have fractured indirect tax regime in India. There is no certainty over the inclusion of purchase tax (imposed on sale/purchase of food grains), road & toll tax, octroi, taxes on liquor, petroleum products, mineral cesses etc. in GST which will make GST introduction a halfhearted effort.

• **Agreement On GST Rates:**
  Final rate with allocation between CGST & SGST not yet finalized. Finance Minister proposed a 3-rate structure for GST which will simplify the indirect tax regime – under which goods will attract 20% levy, services 16% essential items a concessional 12%. Wherein both Centre and State would have an equal share. After initial protest, States are filing in line as Centre have agreed to compensate States for revenue losses consequent to the shift. However, a number of industries currently outside the indirect tax net could come within the purview of the GST. Single GST rate is desirable as multiple rates become source of complexity and disputes adding to the cost of tax administration and compliance.

• **IT Infrastructure:**
  IT infrastructure is a key component for success of GST. States as well as the Centre agreed to setup a clearing house to resolve tax collections and credits under the National Securities Depository Ltd (NSDL). The clearing house, a key part of the GST architecture, is expected to ease the creation of the common market, ensure that each state gets its share of revenue and also provide useful tax information to the authorities. The proposal envisages a standard electronic return. Centralized or integrated system integrating payments, refunds, returns and tracking of inter-state movement of goods and services – end to end tracking with proper re-conciliation and exception reports for enforcement agencies for assessment.
• **Transition Rules:**

Various questions in stakeholders minds how the existing input tax credit under the excise and the VAT laws will be allowed to be transitioned into the GST system.

- Can SGST arising in the post-GST period be paid out of input tax credit of state VAT (i.e. relating to pre-GST period) & CGST out of Cenvat credit balance as on date of transition?
- Transition issues to shift from the litigation under the existing tax litigation system to the litigation system under the GST regime?
- Who would be the refund granting authority for any amount pre-deposited pending litigation under the pre-GST period but decision delivered in the post-GST regime?
- In a dispute over any transaction, will one have to file two appeals, i.e., one for state GST and the other for central GST?

Dispute resolution mechanism Challenges that will be faced for Tax litigation system. Unifying the tax litigation policies and processes under the GST regime. The answer may be even more complex in the case of interstate transactions attracting integrated GST (IGST). The other difficulty that may arise is due to destination based tax principle. Will it mean that the goods or services provider will have to file an appeal in the destination state over dispute arising on goods or services supplied by him.

• **Advance Ruling Mechanism:**

There is a procedure in some states to obtain an order on determination of disputed question; in some states additionally, there exists an advance ruling mechanism. Excise and Customs advance ruling authorities are different from the VAT advance ruling authorities. Under the GST regime, whether these processes can be clubbed into a single, simple and standard appellate or advance ruling mechanism.

• **Design And Structure:**

Success of any tax reform policy or administrative measures depends on the inherent simplifications of the system, which leads to the high compliance with the administrative measures and policies. No less significant is the issue of an appropriate design and structure of GST. For instance, how the issue of inter-state movement of goods and services may be addressed. The phasing out of
CST may go a long way in addressing the issue of inter-state trade and commerce in goods but the crucial issue regarding services originating in one state and being consumed in other state still remains.

- **Sharing of resources:**
  Another contentious issue that is bound to crop up in this regard is the manner of sharing of resources between the Centre and the states and among the states as also the basis of their devolution. Taking away the powers of taxation of goods by the States will not be favored by them.

- **Efficient administration:**
  Apart from all these, there has to be robust and integrated machinery dedicated to the task of tracking flow of goods and services across the country and rendering accurate accounting of levies associated with such flow of goods and services. No meaningful risk management system can work without efficient tax administration software.

- **Taxation issues:**
  The contentious issue of taxing financial services and e-commerce is to be appropriately addressed and integrated. The other issue will arise in treatment of financial services, insurance, banking, telecommunication, passenger and freight transportation from one state to another, etc. – which are rendered and consumed in different states – Place of supply rules for purpose of taxability (similar to the one pertaining to export and import of services under the current service tax legislation) need to be defined elaborately which are not yet in place.

- **Determination of Revenue Neutral Rate (RNR):**
  At present States are charging VAT rates 0%, 4%, 12.5% and 20% besides other levies and thus the average rate of tax comes to 17%. Similarly, Centre is charging Central Excise duty @ 14%, CST 2%, Service Tax 12%. The combined effect of all the taxes taken together comes to an average rate of tax @ 27.5%. The proposed GST rate is proposed @ 20% both for the Central GST @ 12% and the State GST @ 8%. Assuming that the States may agree on the implementation of GST based on compensation being given to them like what was decided at the time of introduction of VAT i.e. 1st April, 2005, the Centre may suffer loss while satisfying the needs of about 30 states.
• **Training And Awareness Among Stakeholders:**

Various stakeholders in the new regime (i.e. Department officials, professionals, manufacturers, service providers, trade associations, etc.) would need to be trained on various provisions of new legislation. The contours of new law would appear to be complicated at the outset creating apprehensions about the new regime. Time required for shift – For companies, entire systems have to be amended, such as purchase orders and invoices and sales orders and invoices and the accounting systems also which needs time. Department officials would need training for enforcing compliances. GST would be a landmark initiative which would kick start the next generation of reforms. All stakeholders would need to gear themselves for the regime.

**Conclusion:**

GST is a single national uniform tax levied across India on all goods and services. In GST, all Indirect taxes such as excise duty, Customs duty, Service tax, Octroi, Central sales tax (CST) and Value-added tax (VAT) etc. will be subsumed under a single regime. Introduction of The Goods and Services Tax (GST) will be a significant step towards a comprehensive indirect tax reform in the country. It is expected to bring about efficiency and transparency in the indirect tax mechanism in India. However, the implementation of GST has been delayed several times because of lack of consensus between the States and Centre on aspects relating to limiting fiscal autonomy of the States, constitutional amendments, support from the state governments, etc... It seems quite clear that there is an agreement between the Centre and the states and across the political spectrum that the GST is a “must have” for India to grow its economy significantly. History has proved that many countries have benefited from moving to a GST regime. In India, Implementation of GST would also greatly help in removing economic distortions caused by present complex tax structure and will help in development of a common national market.

**Suggestions for Effective Implementation of GST in India:**

Some suggestions for better administrative mechanism to handle the implementation of Goods and Services Tax Act in India are:

• Standardization of systems and procedures.
• Uniform dispute settlement mechanism.
• Adequate training for both tax payers and tax enforcers.
• Re-organization of administrative machinery for GST implementation.
• Building information technology backbone – the single most important initiative for GST implementation.
• Uniform Implementation of GST should be ensured across all states (unlike the astounded implementation of VAT) as many issues might arise in case of transactions between states who comply with GST and states who are not complying with GST.

References:
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“The Does Goods and Services Tax (GST) Leads to Indian Economic Development”

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Abstract
Goods and Services Tax (GST) is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level. One of the biggest taxation reforms in India, the (GST) is all set to integrate State economies and boost overall growth. Currently, companies and businesses pay lot of indirect taxes such as VAT, service tax, sales tax, entertainment tax, octroi and luxury tax. Once GST is implemented, all these taxes would cease to exist. There would be only one tax, that too at the national level, monitored by the central government. GST is also different in the way it is levied — at the final point of consumption and not at the manufacturing stage. At present, separate tax rates are applied to goods and services. Under GST, there would be only one tax rate for both goods and services. The goods and services Tax will indeed be a further significant improvement towards a comprehensive indirect tax reforms in the country. Integration of goods and services taxation would give India a world class tax system and improve tax collections. It would end distortions of differential treatments of manufacturing and service sector. GST is expected to create a business friendly environment, as price levels and hence inflation rates would come down overtime as a uniform tax rate is applied. It will also improve government’s fiscal health as the tax collection system would become more transparent, making tax evasion difficult. An attempt is made in this paper to study the concept of goods and service tax and its impact on Indian economy. The study also aims to know the advantages and challenges of GST in Indian scenario

Introduction
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

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Income distribution and, at the same time, also endeavour to generate tax revenues to support government expenditure on public services and infrastructure development.

Taxes are the only means for financing the public goods because they cannot be priced appropriately in the market. They can only be provided by governments, funded by taxes. It is important the tax regime is designed in such a way that it does not become a source of distortion in the market or result in market failures. The tax laws should be such that they raise a given amount of revenue in an efficient, effective and equitable manner. 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 endeavour to generate tax revenues to support government expenditure on public services and infrastructure development. GST stands for Goods and Services Tax. 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. A value added tax exempts all inputs including capital goods. Hence, it becomes a general tax on domestic consumption. It is a convenient and economically efficient way of taxing consumption. If it is levied at a single rate and there are only very few exemptions, it becomes a proportional tax on consumption. In order to ensure that the tax burden is distributed according to the consumption of different individuals, it must be levied on the basis of the principle of destination, that is to say that the tax on a good should go to the state in which the concerned consumer lives. This automatically takes place if the tax is levied at only the central level, or if the state is a unitary one with only one level of taxation. In a federation, there are special problems to be solved if GST is to be levied at the level of the states as well as the federal government.

Objectives of the Study
1. To study the concept of Goods and Services Tax (GST) and its impact on Indian Economy.
2. To understand how GST will work in India.
3. To know the advantages and challenges of GST in Indian context.

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.
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Concept of Goods and Service Tax

GST is a comprehensive indirect tax on manufacture, sale and consumption of goods and services at national level. One of the biggest taxation reforms in India the (GST) is all set to integrate State economies and boost overall growth. Currently, companies and businesses pay lot of indirect taxes such as VAT, service tax, sales tax, entertainment tax, octroi and luxury tax. Once GST is implemented, all these taxes would cease to exist. There would be only one tax, that too at the national level, monitored by the central government. GST is also different in the way it is levied — at the final point of consumption and not at the manufacturing stage. At present, separate tax rates are applied to goods and services. Under GST, there would be only one tax rate for both goods and services. The goods and services Tax will indeed be a further significant improvement towards a comprehensive indirect tax reforms in the country. Integration of goods and services taxation would give India a world class tax system and improve tax collections. It would end distortions of differential treatments of manufacturing and service sector. GST is expected to create a business friendly environment, as price levels and hence inflation rates would come down overtime as a uniform tax rate is applied. It will also improve government’s fiscal health as the tax collection system would become more transparent, making tax evasion difficult. The GST is expected to replace all the indirect taxes in India. At the centre’s level, GST will replace central excise duty, service tax and customs duties. At the state level, the GST will replace State VAT.

GST – How It Works In India?

The GST system is based on the same concept as VAT. Here, set-off is available in respect of taxes paid in the previous level against the GST charged at the time of sale. The GST model has some aspects which are as follows:

Components: GST will be divided into two components, namely, Central Goods and Service Tax and State Goods and Service

Applicability: GST will be applicable to all Goods and Services sold or provided in India, except from the list of exempted goods which fall outside its purview.

Payment: GST will be charged and paid separately in case of Central and State level. Input Tax
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Credit: The facility of Input Tax Credit at Central level will only be available in respect of Central Goods and Service tax. In other words, the ITC of Central Goods and Service tax shall not be allowed as a set-off against State Goods and Service tax and vice versa.

Impact of GST on Indian Economy

The Goods and Service Tax (GST) bill is expected to have wide ranging ramifications for the complicated taxation system in the country. It is likely to improve the country’s tax to GDP ratio and also inhibit inflation. However, the reform is likely to benefit the manufacturing sector but may make things difficult for the services sector. Though there are expectations that the GDP growth is likely to go up by 1 to 2 %, the results can only be analysed after the GST implementation. The response is mixed from countries around the world. While the New Zealand economy had a higher GDP growth, it was lower in case of Canada, Australia and Thailand after the GST was implemented. The one per cent tax that has been proposed as a sop to appease the States for compensating their loss of revenue from the inter-state CST is likely to play a spoil sport. It is probable that it may affect the GDP adversely. The Congress is already opposing the 1 per cent tax. The GS Tax rate is expected to be around 17-18% and can be assumed as a tax neutral rate. This tax rate is not likely to give any incremental tax revenue to the government. The rate will prove beneficial for the manufacturing sector where the tax rate is around 24% at present. The major manufacturing sectors that will benefit the most are FMCG, Auto and Cement. This is because they are currently reeling under 24 to 38 per cent tax. The sector which is going to be adversely affected is the services sector. Already there has been a hike from 12 to 14% from the 1st of June this year. Another 4 per cent increase will break their backs. The uniformity in the taxation rate is fine but it should not result in disparity for the goods and services sectors. Nobody has thought of the implications it will have in the services sector if the government moots a higher GS Tax rate like 20% or 24%. The higher GST rate will definitely boost the tax to GDP ratio, while giving financial muscle to the government for increasing the capital expenditure. This is likely to spur growth in the economy. There is definitely a silver lining to the whole exercise. The unorganised sector which enjoys the cost advantage equal to the taxation rate can be brought under the GST bill. This will bring a lot of unorganized players in the fields like electrical, paints, hardware etc. under the tax net. It is easier said than done. It will take a
lot of meticulous planning in the implementation of the GST reform for capturing the unorganized sector under its ambit. For one it will widen the tax reach and secondly it will benefit the organized players who lose out revenue to the unorganized sector at present. There are still a lot of unchartered territories which need to be looked into through parliamentary discussions in the sessions. This will bring sanctity to the taxation system without hurting any of the sectors adversely. To The Individuals and Companies - With the collection of both the central and state taxes proposed to be made at the point of sale, both components will be charged on the manufacturing costs and the individual will benefit from lowered prices in the process which will subsequently lead to increase in consumption thereby profiting companies

Advantages of GST

Apart from full allowance of credit, there are several other advantages of introducing a GST in India:

Reduction in prices: Due to full and seamless credit, manufacturers or traders do not have to include taxes as a part of their cost of production, which is a very big reason to say that we can see a reduction in prices. However, if the government seeks to introduce GST with a higher rate, this might be lost. Increase in Government Revenues: This might seem to be a little vague. However, even at the time of introduction of VAT, the public revenues actually went up instead of falling because many people resorted to paying taxes rather than evading the same. However, the government may wish to introduce GST at a Revenue Neutral Rate, in which case the revenues might not see a significant increase in the short run.

Less compliance and procedural cost: Instead of maintaining big records, returns and reporting under various different statutes, all assesses will find comfortable under GST as the compliance cost will be reduced. It should be noted that the assesses are, nevertheless, required to keep record of CGST, SGST and IGST separately.

Move towards a Unified GST: Internationally, the GST is always preferred in a unified form (that is, one single GST for the whole nation, instead of the dual GST format). Although India is adopting Dual GST looking into the federal structure, it is still a good move towards a Unified GST which is regarded as the best method of Indirect Taxes. The following are the some more salient features of the proposed pan-India Goods and Services Tax regime that was approved by
the Lok Sabha by way of an amendment to the Constitution: 1. GST, or Goods and Services Tax, will subsume central indirect taxes like excise duty, countervailing duty and service tax, as also state levies like value added tax, octroi and entry tax, luxury tax. 2. The final consumer will bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages. 3. As a measure of support for the states, petroleum products, alcohol for human consumption and tobacco have been kept out of the purview of the GST. 4. It will have two components - Central GST levied by the Centre and State GST levied by the states. 5. However, only the Centre may levy and collect GST on supplies in the course of inter-state trade or commerce. The tax collected would be divided between the Centre and the states in a manner to be provided by parliament, on the recommendations of the GST Council. 6. The GST Council is to consist of the union finance minister as chairman, the union minister of state of finance and the finance minister of each state. 8. The bill proposes an additional tax not exceeding 1% on inter-state trade in goods, to be levied and collected by the Centre to compensate the states for two years, or as recommended by the GST Council, for losses resulting from implementing the GST.

**Challenges of GST in Indian Context**

At Present, lots of speculations are going as to when the GST will actually be applicable in India. Looking into the political environment of India, it seems that a little more time will be required to ensure that everybody is satisfied. The states are confused as to whether the GST will hamper their revenues. Although the Central Government has assured the states about compensation in case the revenue falls down, still a little mistrust can be a severe draw back. The GST is a very good type of tax. However, for the successful implementation of the same, there are few challenges which have to face to implement GST in India. Following are some of the factors that must be kept in mind about GST:

1. Firstly, it is really required that all the states implement the GST together and that too at the same rates. Otherwise, it will be really cumbersome for businesses to comply with the provisions of the law. Further, GST will be very advantageous if the rates are same, because in that case taxes will not be a factor in investment location decisions, and people will be able to focus on profitability.
2. For smooth functioning, it is important that the GST clearly sets out the taxable event. Presently, the CENVAT credit rules, the Point of Taxation Rules are amended/ introduced for this purpose only. However, the rules should be more refined and free from ambiguity.

3. The GST is a destination based tax, not the origin one. In such circumstances, it should be clearly identifiable as to where the goods are going. This shall be difficult in case of services, because it is not easy to identify where a service is provided, thus this should be properly dealt with.

4. More awareness about GST and its advantages have to be made, and professionals like us really have to take the onus to assume this responsibility.

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 endeavour to generate tax revenues to support government expenditure on public services and infrastructure development. 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. GST is not simply VAT plus service tax, but a major improvement over the previous system of VAT and disjointed services tax – a justified step forward. A single rate would help maintain simplicity and transparency by treating all goods and services as equal without giving special treatment to some ‘special’ goods and/or services. This will reduce litigation on classification issues. 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. Sooner or later, the GST will surely knock the doors of India. And when that happens, we as future torch bearers of the profession are required to be prepared and fully equipped with our knowledge regarding GST. Forewarned is forearmed. Thus,
we must be ready to deal with GST and many other changes that are going to take place in India. Slowly, India shall move to join the world wide standards in taxation, corporate laws and managerial practices and be among the leaders in these fields.

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**Goods and Service Tax in India**

**Supriyaa**

**Dr. Paramashivaiah**

### Abstract

Indirect taxation system in India is arduous with overlapping taxes levied by the centre and state Government separately. GST is levied at every stage of the production to distribution channel with applicable set offs in respect of the tax remitted at previous stages of all sectors and sections of society, hence it is a tax on final consumption. Good and Service Tax GST is the indirect taxation reform since 1947, which will be levied on manufacture, sale and consumption of goods and services. GST bill will be a form for economic integration of India. Its main trait of the GST is to transform India into a unified market by dismantling the present fiscal barrier among states and can expect a improved tax compliance. GST bill was passed in Lok Sabha amidst the congress protest on certain amendments on 6th May 2015, GST bill is yet to be reviewed in Rajya Sabha for its implementation. This paper is an effort to know the impact of GST on trade of goods, pros and cons of GST bill introduction. 

Keywords: Indirect Tax, Goods and Service Tax (GST), Value-added tax (VAT), Input tax credit method.

**Introduction:**

Goods and Services Tax is 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. Goods and services tax would be levied and collected at each stage of sale or purchase of goods or services based on the input tax credit method. This method allows GST-registered businesses to claim tax credit to the value of GST they paid on purchase of goods or services as part of their normal commercial activity. Taxable goods and services are not distinguished from one another and are taxed at a single rate in a supply chain

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Till the goods or services reach the consumer. Administrative responsibility would generally rest with a single authority to levy tax on goods and services. Exports would be zero-rated and imports would be levied the same taxes as domestic goods and services adhering to the destination principle.

Erstwhile prints of GST

In 2000, Prime Minister of BJP led government Atal Bihari Vajpayee framed a committee headed by Asim Dasgupta, the then Finance minister of West Bengal to design the model of GST and overseeing the back-end IT preparations for GST rollout.

The Kelkar Task Force on implementation of the Fiscal Responsibility and Budget Management Act, 2003 emphasized on Indirect taxation of goods and services still suffered, hence suggested comprehensive GST model based on value added tax (VAT) principle. The Empowered committee worked with an aim of facilitating a switch from the existing national-level central excise duty and state-level sales tax model to a value added tax (VAT) model. On 1st April 2005, many states rolled back the sales tax and adopted state-level VAT.

2006- The then Union Finance minister, P. Chidambaram announced in Union Budget about the Introduction of GST from 1st April 2010. 10th May 2007, Joint working group was set and many deliberations with experts and representative of chambers of commerce and Industry before submission to Empowered committee. Joint working Group submitted its report named “A Model and Roadmap for Goods and Services Tax (GST) in India” containing broad recommendations about the structure and design of GST on 19th November 2007. In response to the report, the Department of Revenue made some suggestions to be incorporated in the design and structure of proposed GST. Based on inputs from Government of India and States, The EC released its First Discussion Paper on Goods and Services Tax in India on the 10th of November, 2009 with the objective of generating a debate and obtaining inputs from all stakeholders. A dual GST model of the country has been proposed by Empowered committee.

March 2011- The Constitution (115th Amendment) Bill, introduced in parliament.

November 2012- Committee on GST design constituted by EC.

February 2013- Three committees constituted by EC, in order to take GST model to next level, working group was trifurcated into sub-working groups,
a) Group for draft legislation, thresholds and exemption required for GST regime.

b) Process to be followed in GST-RNRs for SGST and CGST and place of supply rules,

c) IT Infrastructure development for smooth functioning of proposed GST has been set up under the chairmanship of Dr. Nandan Nilekani.

March 2013 - GSTN incorporated as section 25 company.

June 2013 - committee constituted by EC to draft model GST law.

August 2013 - Standing committee on Finance submitted report.

April 2014 - committee constituted by EC to examine business processes under GST.


The Goods and Service Tax Bill or GST Bill, officially known as "The Constitution (122nd Amendment) Bill, 2014", 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.

Special IT platform is setup for smooth implementation of the proposed Goods and Services Tax (GST). The IT special purpose vehicle (SPV) christened as GST N (Network) will be owned by three stakeholders—the centre, the states and the technology partner NSDL, then Central Board of Excise and Customs (CBEC) Chairman S Dutt Majumdar said while addressing a “National Conference on GST”. On the possibility of rolling out GST, he said, “There was no need for alarm if GST was not rolled out in April 1, 2012.

The term GST is defined in Article 366 (12A) to mean “any tax on supply of goods or services or both except taxes on supply of the alcoholic liquor for human consumption.

Objectives of the study
1. To understand the conceptual framework of GST Bill.
2. To cognize the GST on trade on goods in India

Research Methodology
The study is descriptive and exploratory considering the objectives of the study; the data collected are secondary source of data like Journals, Newspapers and Government Reports.
Concept

The term GST is defined in Article 366 (12A) to mean “any tax on supply of goods or services or both except taxes on supply of the alcoholic liquor for human consumption.

A dual GST model of the country has been proposed by Empowered committee. Dual GST has two concurrent components:

1. Central GST levied and collected by the centre
2. State GST levied and collected by states

CAB provides that an inter-State supply of goods or services will attract Integrated GST. CAB provides that an additional tax up to 1% will be levied by Centre on inter-State supply of goods (and not on services). This additional tax will be assigned to States from where the supply of goods originates. This additional tax seems to be a new version of CST. Central Excise duty, additional excise duty, Service Tax, and additional duty of customs, State VAT, entertainment tax, taxes on lotteries, betting and gambling and entry tax (not levied by local bodies) would be subsumed within GST.

Table -01 Present system of Indirect tax

<table>
<thead>
<tr>
<th>Sl. no.</th>
<th>TAX</th>
<th>Levy by</th>
<th>Nature levied on</th>
<th>Can be set-off against</th>
<th>Covered by GST</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Central Excise</td>
<td>Centre</td>
<td>Manufacture</td>
<td>1,2</td>
<td>YES</td>
</tr>
<tr>
<td>2</td>
<td>Service Tax</td>
<td>Centre</td>
<td>Providing services</td>
<td>1,2</td>
<td>YES</td>
</tr>
<tr>
<td>3</td>
<td>Customs</td>
<td>Centre</td>
<td>Import</td>
<td>-</td>
<td>NO</td>
</tr>
<tr>
<td>4</td>
<td>Countervailing duty (CVD) under customs</td>
<td>Centre</td>
<td>Additional Import duty (compensating Excise)</td>
<td>1,2</td>
<td>YES</td>
</tr>
<tr>
<td>5</td>
<td>Special Additional duty (SAD) under customs</td>
<td>Centre</td>
<td>Additional Import duty (compensating sales tax)</td>
<td>1,2</td>
<td>YES</td>
</tr>
<tr>
<td>6</td>
<td>CST</td>
<td>Centre</td>
<td>Inter-state sales</td>
<td>-</td>
<td>YES</td>
</tr>
<tr>
<td>7</td>
<td>VAT</td>
<td>State</td>
<td>Sales within states</td>
<td>7</td>
<td>YES</td>
</tr>
</tbody>
</table>
The GST shall subsume all the above taxes, except the Basic Customs Duty that will continue to be charged even after the introduction of GST.

**Table-02- Proposed Central and State levies subsumed into Dual GST system**

<table>
<thead>
<tr>
<th>Central Levies</th>
<th>State Levies</th>
<th>Levies not in purview of GST</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Central Excise duty</td>
<td>1. VAT, Sales tax</td>
<td>1. Levies on items containing alcohol and petroleum products to remain status quo.</td>
</tr>
<tr>
<td>2. Additional Excise duty</td>
<td>2. Entertainment tax</td>
<td></td>
</tr>
<tr>
<td>3. Excise duty on Medicinal and Toilet preparations</td>
<td>3. Luxury tax</td>
<td>2. Excise duty by centre on tobacco products may continue.</td>
</tr>
<tr>
<td>4. Service Tax</td>
<td>4. Taxes on lottery, betting and gambling</td>
<td></td>
</tr>
<tr>
<td>5. Countervailing duty (CVD)</td>
<td>5. State cesses and surcharges</td>
<td></td>
</tr>
<tr>
<td>6. Special Additional duty (SAD)</td>
<td>6. Entry tax which is not lieu of Octroi</td>
<td></td>
</tr>
<tr>
<td>7. Surcharges and cesses</td>
<td>7. Purchase tax</td>
<td></td>
</tr>
</tbody>
</table>

**Table-03 Dual GST chart**

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Old System</th>
<th>New System</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale within the State</td>
<td>VAT/Excise/</td>
<td>SGST and CGST</td>
<td>Under new system, sales within state will have two taxes, SGST goes to state and CGST goes to centre.</td>
</tr>
<tr>
<td></td>
<td>Sales Tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sale outside the State</td>
<td>CST/Excise/Sales Tax</td>
<td>IGST</td>
<td>Under new system, sales outside state will attract one tax IGST which goes to centre.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Benefits of GST Bill**

a) To Centre Government and State Governments
   - GST Bill will promote more Exports
   - Increase in employment opportunities which will reciprocate with a boost in growth of the economy.
   - The tax burden is divided between manufacturing and services.

b) To Individuals and Companies
   - Centre and State Government will collect taxes at the point-of-sale and both will be charged on manufacturing cost.
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- Prices may be lowered, lower prices will increase in consumption, and more consumption means more production, more production means growth of the companies.

Bottlenecks in Introducing the GST
1. Will GST help small traders and small entrepreneurs?
2. How will manufacturers, traders and ultimate consumers be affected?
3. Whether tax payers are ready for a change?
4. What will be impact on the Government revenue?
5. What preparations are needed for implementing the GST at the level of Central Government and State Governments?
6. Items not under GST- Alcohol, tobacco, petroleum products.
7. India’s GST rate should not go beyond 20% for standard rate, suggested RNR of around 27%, and later it was reported to be somewhere between 20 and 23%. Internationally, GST rate normally varies between 16 to 20%, with exceptions like Australia at 10%, New Zealand at 15%, Japan at 8%, Germany at 23% and Malaysia at 6%. France has four rates, the highest 20% and lowest 2.1%, while UK has two rates 20% and 5%.

Chart-01  Scenario Before GST- Intra-state Trade of Goods
Analysis of Chart-01
Intra-state trade of goods-Pre-GST scenario, the Illustration of a Tax invoice of Input manufacturer with value Rs.200, with 10% excise, VAT on Rs.220 at 10%, raise in VAT Rs.2.20 to output manufacturer, Excise raise by Rs.2, The end effect on State tax collected is Rs.26.22 whereas Central Tax Rs.22 is collected from production to distribution channel.

Chart-02 GST Scenario - Intra-state Trade of Goods

Analysis of Chart-02
Intra-state trade of goods-GST Scenario, the Illustration of a Tax invoice of Input manufacturer with value Rs.200, with 10% CGST, SGST on Rs.200 at 10%, raise in SGST Rs.2.00 to output manufacturer, CGST raise by Rs.2, The end effect on State tax collected is Rs.24.20 and Central Tax Rs.24.20 is collected from production to distribution channel, thereby GST scenario Intra-state trade of goods is favorable, Post-GST scenario the net tax paid will be less which reduces the price of the products.
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Chart-03 Scenario Before GST- Inter-state Trade of Goods

Intra-state trade of goods-GST Scenario, the Illustration of a Tax invoice of Input manufacturer with value Rs.200, with 10% Excise, VAT on Rs.22.00 at 10%, raise in Excise Rs.2.00 to output manufacturer, CST Rs.4.84, The end effect on State tax (A) collected is Rs.22 at Input manufacturer, State tax (B) collected is Rs.33.82 and Central Tax Rs.22 is collected from production to distribution channel is same, thereby GST scenario Intra-state trade of goods is favorable. Pre-GST scenario the net tax paid will be more which increases the price of the products.
**Analysis of Chart-04**

Intra-state trade of goods-GST Scenario, the Illustration of a Tax invoice of Input manufacturer with value Rs.200, with 10% CGST, SGST on Rs.200 at 10%, IGST Rs.44.00 to output manufacturer, Additional Tax to Rs.2, The end effect on State tax (A) collected is Rs.2.20 and State tax (B) collected is Rs.24.44. Central Tax Rs.24.44 is collected from production to distribution channel is same, thereby GST scenario Inter-state trade of goods is favorable, Post-GST scenario the net tax paid will be less which reduces the price of the products.
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Table-04  Comparative Table Of Trade Of Goods

<table>
<thead>
<tr>
<th>Serial No.</th>
<th>Particular</th>
<th>Intra- State present Rs.</th>
<th>Intra- State GST Rs.</th>
<th>Inter- State present Rs.</th>
<th>Inter-State GST Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Initial Value</td>
<td>242.00</td>
<td>240.00</td>
<td>242.00</td>
<td>240</td>
</tr>
<tr>
<td>2</td>
<td>Centre’s Value</td>
<td>22.00</td>
<td>24.20</td>
<td>22.00</td>
<td>24.44</td>
</tr>
<tr>
<td>3</td>
<td>State (A) Tax</td>
<td>26.62</td>
<td>24.20</td>
<td>22.00</td>
<td>2.20</td>
</tr>
<tr>
<td>4</td>
<td>State (B) Tax</td>
<td>-</td>
<td>-</td>
<td>33.82</td>
<td>24.44</td>
</tr>
<tr>
<td>5</td>
<td>State's Total</td>
<td>26.62</td>
<td>24.20</td>
<td>55.82</td>
<td>26.64</td>
</tr>
<tr>
<td>6</td>
<td>Total Tax Paid To Govt.</td>
<td>48.62</td>
<td>48.20</td>
<td>77.82</td>
<td>51.08</td>
</tr>
<tr>
<td>7</td>
<td>Non-vat Abletax Borne by Business</td>
<td>22.00</td>
<td>0</td>
<td>50.00</td>
<td>2.20</td>
</tr>
<tr>
<td>8</td>
<td>Total Tax Paid By Consumer</td>
<td>26.62</td>
<td>48.20</td>
<td>27.82</td>
<td>48.88</td>
</tr>
<tr>
<td>9</td>
<td>Final Value Paid By Consumer</td>
<td>292.82</td>
<td>290.40</td>
<td>305.94</td>
<td>293.30</td>
</tr>
</tbody>
</table>

Analysis of Table-04

The table depicts the comparative state of pre-GST and Post-GST. The total tax paid to Government for intra-trade of goods in pre-GST is Rs.48.62 whereas post-GST is Rs.48.20, Final value paid by consumer in pre-GST is Rs.292.82 whereas post-GST is Rs.290.40, thereby GST scenario the tax paid is relatively less when compared to present indirect tax system. In case of Inter-State present the total tax paid to Government for inter-trade of goods in pre-GST is Rs.77.82 whereas post-GST is Rs.51.08, Final value paid by consumer in pre-GST is Rs.305.94 whereas post-GST is Rs.293.30, thereby GST scenario the tax paid is relatively less when compared to present indirect tax system.

Conclusion

GST is the biggest taxation reforms that will take place in India once the Bill gets officially the green signal to implement. The idea is to create a single, cooperative and undivided Indian market to make the economy stronger and powerful. GST Bill is pitted with compromises, exclusions and exceptions that make it, Doubts clubbed with apprehensions of numerous types were raised and
brought to the notice of the Committee. Apprehensions were cast over the losses in revenue and their sources after the implementation of Goods and Services Taxes in India. Similarly, there were apprehensions relating to demands from all corners that whether States may be empowered to levy higher taxes on tobacco and tobacco products. The changeover to GST has different implications for different States based on their size and reliance on own tax revenues.

GST should not be in the interest of big corporate houses, who want a free flow of goods and services with the technology promoted and owned by them. With the Centre having an absolute say over the decision making process on the GST, the States will lose its financial independence in the long run and corporate will dictate the policies of even the local Governments. So, these concerns were given due consideration in the Bill.

By removing the system of multiple central and state taxes, GST can help in reducing taxation and filing costs and expand business profitability, thereby attracting investment and promoting GDP growth. Simple tax norms can help in improving tax compliance and increase in tax revenues.

References:
Impact of GST on a few selected sectors/development areas in the Indian Economy

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Abstract
Goods and Services Tax (GST) is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level. One of the biggest taxation reforms in India the (GST) is all set to integrate State economies and boost overall growth. Currently, companies and businesses pay lot of indirect taxes such as VAT, service tax, sales tax, entertainment tax, octroi and luxury tax. Once GST is implemented, all these taxes would cease to exist. There would be only one tax, that too at the national level, monitored by the central government. GST is also different in the way it is levied — at the final point of consumption and not at the manufacturing stage. At present, separate tax rates are applied to goods and services. Under GST, there would be only one tax rate for both goods and services. The goods and services Tax will indeed be a further significant improvement towards a comprehensive indirect tax reforms in the country. Integration of goods and services taxation would give India a world class tax system and improve tax collections. It would end distortions of differential treatments of manufacturing and service sector. GST is expected to create a business friendly environment, as price levels and hence inflation rates would come down overtime as a uniform tax rate is applied. It will also improve government’s fiscal health as the tax collection system would become more transparent, making tax evasion difficult. Although there are many hurdles to be crossed before the implementation of GST the Central government reiterated its commitment towards the adoption of a ‘flawless’ GST for the survival of the India’s economy in the face of increasing international competition consequent to globalization and liberalization. Despite the various impediments to the proposed transition, until the

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time GST is implemented, it would be worthwhile to assess its positive impacts on the various development areas viz. agriculture, manufacturing industry, MSME, housing, poverty reduction, employment, price level, EXIM trade, GDP, government revenue, etc. Hence, an attempt is made in this paper to study the concept of goods and service tax and its impact on various development areas of the economy.

Key Words:—Value Added Tax, Central Value Added Tax, Flaw less Goods and Services Tax, Gross domestic Product

Introduction:

Indian Economy is characterized by the presence of a distorted indirect tax structure leading to the biggest obstacle/hindrance to investors/industries for doing business in India. Hence, it shall be hampering the growth of the industries and contradict the National Program of ‘Make in India’. Efforts undertaken by the Government of India are aimed to increase the degree of trust-worthiness for investors on Indian socioeconomic scenario. In order to create an investor-friendly tax-environment, there is a need for TAX REFORMS in India.

Tax Reforms – Need:

The need for Tax Reforms in India arises out of the following factors: Factors Impact to bring about certainty in tax laws, reduced litigation and higher degree of compliance. This would also bring in more elements of trust and faith between the tax administrator and the tax payer. There shall be higher degree of transparency to establish a tax system that is economically efficient. Tax efficiency minimizes the cost of complying with the tax laws by reducing its administrative burden and by minimizing any distortions in the economy caused by the existing tax policy, neutral in its application, no differentiation between rich and poor, no differentiation between goods and services across the tax horizon, distributionally attractive Shift towards GST would be lead to allow the tax credit to flow across the value chain. There would be a seamless transfer of tax credits. Hence, tax would not be a cost in the hands of the tax payer (i.e. the business entity) simple to administer with the abolition of multi-point andv multi-dimensional taxation with differential taxable events, there would be more simplicity in the tax law, hence, In order to create an investor-friendly tax-environment, there is a need for TAX REFORMS in India.
Introducing GST and Its Impact on Indian Economy

**Literature Review:**

Nishitha Guptha (2014) in her study stated 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.

Jaiprakash (2014) in his research study mentioned that the GST at the Central and the State level are expected to give more relief to industry, trade, agriculture and consumers through a more comprehensive and wider coverage of input tax set-off and service tax setoff, subsuming of several taxes in the GST and phasing out of CST. Responses of industry and also of trade have been indeed encouraging. Thus GST offers us the best option to broaden our tax base and we should not miss this opportunities to introduce it when the circumstances are quite favorable and economy is enjoying steady growth with only mild inflation.

Saravanan Venkadasalam (2014) has analysed the post effect of the goods and service tax (GST) on the national growth on ASEAN States using Least Squares Dummy Variable Model (LSDVM) in his research paper. He stated that seven of the ten ASEAN nations are already implementing the GST. He also suggested that the household final consumption expenditure and general government consumption expenditure are positively significantly related to the gross domestic product as required and support the economic theories. But the effect of the post GST differs in countries. Philippines and Thailand show significant negative relationship with their nation's development. Meanwhile, Singapore shows a significant positive relationship.

**Research Problem:**

The concept of Goods and Services Tax (GST) is the biggest tax reform in decades throughout the world, but India has been taking baby steps to meet its target of rolling out goods & services tax (GST) on April 1, 2016. The research intends to focus on understanding concept of goods and service tax and its impact on Indian economy.

**Objectives of the Study**

1. To study the concept of Goods and Services Tax (GST)
2. To understand the relevance of GST in India.
3. To understand how GST will work in India.
4. To understand the impact of GST on selected sectors in the Indian Economy.

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

Goods and Services Tax (GST) in India
Introduction:
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. Analysis of the tax levy can be extended to international competitiveness of the adversely affected sectors of production in the economy. Such domestic and international factors lead to inefficient allocation of productive resources in the economy. This results in loss of income and welfare of the affected economy.

Even though the country has moved on the path of tax reforms since mid 1980s yet there are various issues which need to be restructured so as to boost productivity and international competitiveness of the Indian exporters. ? Sales of services to consumers are not appropriately taxed ? Sales of services to consumers are not appropriately taxed with many types of services escaping the tax net. ? Intermediate purchases of inputs by the business firms do not get full offset and part of non-offset taxes may get added up in prices quoted for exports thus making exporters less competitive in world markets (Poddar and Ahmad, 2009) The proposed reform on moving to a ‘goods and services tax’ would impact the national economy, international trade, firms and consumers. ? GST is a tax on both goods and services across the supply chain/Value Chain. ? It is levied at every stage of supply/Value Addition. ? The GST on Inputs (known as ITC - Input Tax Credit) is generally available as credit for set-off against the GST on the output supply.
Definition of Goods and Service Tax:
New Article 366(12A) of the Indian Constitution defines Goods and Services Tax (GST) to mean any tax on supply of goods or services or both except taxes on the supply of the alcoholic liquor for human consumption.

Relevance of GST:
The relevance of GST arises on account of the following:
Positive Impact on GDP
Increase in economic activity leading to increasing in developmental activities
Simplicity certainty - common law - cost reduction - cascading reduction - ease of compliance - savings to industry/ government and consumer - creation of a Common Economic Market - Removing State Trade Barriers
Transparency - Total tax element for consumer is reflected on the invoice seamless credit across the value chain

Goods & Service Tax (GST) or VAT serves the purpose to impose a broad-based tax on final consumption by households. Hence, GST is a comprehensive tax levy on supply of goods and services.
• Both Government and Industry are keen to implement GST
• Governments are looking at increasing the tax base and tax collections (i.e. increase revenue buoyancy) through GST
• State is looking at GST as a window for taxing services
• Centre is looking at GST to go beyond the point of manufacture
• Industry wants GST to eliminate the cascading effect of taxes
• Harmonization of taxes

GST would also address issues of development through greater interaction between VAT/GST systems, along with growing risks of double taxation and unintended non-taxation in the absence of international VAT/GST coordination.
Basic principles of VAT/GST are generally same across the tax

Operation of GST in India:
The GST system is based on the same concept as VAT. Here, set-off is available in respect of taxes paid in the previous level against the GST charged at the time of sale. The GST model has some aspects which are as follows:
Components: GST will be divided into two components, namely, Central Goods and Service Tax and State Goods and Service
Applicability: GST will be applicable to all Goods and Services sold or
provided in India, except from the list of exempted goods which fall outside its purview.

Payment: GST will be charged and paid separately in case of Central and State level. Input Tax Credit: The facility of Input Tax Credit at Central level will only be available in respect of Central Goods and Service tax. In other words, the ITC of Central Goods and Service tax shall not be allowed as a set-off against State Goods and Service tax and vice versa.

**Impact of GST on a few selected sectors/development areas in the Indian Economy:**

**IT Sector:**
Goods and Services Tax (GST) is arguably the most talked about fiscal reform in recent times and India appears set to transition into a GST regime in the coming year. To recap, with a view to preserve the fiscal autonomy of the Central as well as State Governments, Indian lawmakers have proposed a "dual GST structure in terms of which, every supply of goods and services is expected to attract a Central GST as well as State GST. While at a conceptual level this seems simple, here is a look at some key aspects a service provider in the information technology (IT) services sector should evaluate from a GST transition perspective. As on date, there is no definitive indication on what the GST rate is likely to be. While a combined GST rate of 27 percent is being discussed in the context of goods, some reports indicate that services could attract a lower rate, at least, in the initial years of GST. Be that as it may, it should be reasonable to infer that the GST rate for services is likely to be higher than the current rate of 12.36 percent. In addition to a potential change in tax rate, in pricing services under GST, a service provider may well need to evaluate a reduction in the cost of providing services as well as the ability of the customer to absorb the GST charged on the supply GST on a supply of services.

**E-Commerce:**

Introduction of the goods and services tax (GST) may be a big positive for the ecommerce industry. With no tax laws in place for the industry currently, tax is imposed based on the understanding of various state governments. GST when implemented will resolve many supply chain issues surrounding e-commerce. The shipment and returns across the country will be done more efficiently and with lesser paperwork. The efficiency in the supply chain will also mean quicker
Introducing GST and Its Impact on Indian Economy

deliveries. Companies will also be able to execute more efficient supply chain strategies, with warehousing based on strategy rather than tax requirements (like Octroi). More importantly, with a uniform tax structure across India, goods can be priced and margins calculated properly without worrying about where the product is finally shipping. GST is a single comprehensive tax regime that will be applicable across all states in India on the sale, manufacture and consumption of goods and services. Since the same tax regulation will apply across different states, ecommerce companies (as well as those from other industries) will not have to struggle with the complex regulatory structure that currently prevails in the country. They will also be able to devise strategies in keeping with the GST norms. Let’s see how GST would be beneficial in E- Commerce 1) Finally a Tax Structure: E-Commerce currently faces a identity crisis of sorts (Tax Structure) of policy makers struggle to decide whether to classify it in retail or technology. A single tax will also be of immense use in the movement of goods across state borders. The ecommerce industry, hence, is understandably upbeat about GST. 2) Supply Chain Issues: GST will resolve many supply chain issues surroundings e-commerce and the increase in efficiency will lead to quicker deliveries. Shipment and returns across the country will be done more efficiently and with lesser paperwork. With the tax standardized there will be no more guessing game in terms of taxes when you cross state borders so companies will also be able to execute logistic strategies, with warehousing based on strategy rather than being depended on taxes. 3) Easy for new Entrants: People who found it difficult and expensive to enter who is at ease because of a simplified tax structure and clear norms regarding the same. Small Players of this market have a good chance to explore by expanding their businesses; setting warehouses and transportation system for better delivery of goods because of simplification in interstate goods transfer by implementation of GST

Financial Services:

Introduction of goods and services tax (GST) is now a certainty. Given that it is a transaction tax it would impact each industry or sector in its own way, as every sector will have some unique features in its business model. As regards the financial services sector, one of the key impact areas would be the treatment of fund-based activities. Currently, all fee-based activities are generally liable to service tax. They include various types of charges or transaction fees levied on a per unit or lump-sum basis. However, income from fund-based activities such as
interest, investment and asset financing, proprietor trading etc is largely out of the tax net (except for 10% of the interest earned in a financial leasing transaction). It is expected that GST would be an all-encompassing levy and tax may apply on all services, with a specific list of exclusions. Also, if one looks at some international precedents on what is the definition of services, say the EU VAT laws, the term is defined to include all transactions that are not regarded as supply of goods. Thus, it would be important for fund-based activities to be a part of the list of exclusions to have the effect of continuing the current no-tax situation.

Another change expected for service providers in this sector would be the introduction of Place of Supply Rules. These rules are expected to define the taxing jurisdiction of a particular service. One of the features of the dual-GST proposed by the empowered committee is that both the Centre and state governments would levy tax on supply of services. Given this, Place of Supply Rules would help determine the state to levy GST on a particular service. Another outcome of the dual structure is the requirement to maintain separate credit pools for CGST and SGST. The current input credit mechanism would be replaced by a new system. It is expected that the definition of input would get wider as GST merges several (present) taxes on goods and services. This would mean that the entire case bank on interpretation of current regulations would have to be re-built. With IGST also proposed to be treated as a separate pool, with protocol as to when can credits be used across pools, taxpayer would have to deal with three different streams of credit.

**FMCG (Fast Moving Consumer Goods):**

The fast moving consumer goods and retail sector welcomed the Budget proposal to introduce GST from April next year, saying the move will give a big fillip to the FMCG industry. The Budget clearly talks of a long term vision for economic growth, a vision which dreams of better amenities, infrastructure, skill development and jobs. The focus on broad-based growth will benefit the FMCG industry. Along with increased investments in MGNREGA (Mahatma Gandhi National rural employment guarantee act) and social security, a firm roadmap for reduction of corporate taxes, ease of doing business and GST is very reassuring for the long term balanced growth and augurs well for the industry. The Budget is a sincere effort to address all class of society and bringing the economy back on track. More money is in the hands of the masses by way of social sector schemes like farm credit, rural infrastructure funds allocation, MNREGA
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allocation and increasing agricultural area and productivity. This Budget proposes a lot of structural changes and avoids the usual high decibel measures like increase in tax exemption limits. I would say that the ease of doing business is the biggest plus. Reaffirmation of the GST roadmap, removal of SAD, relief for the footwear sector and general focus on easing approvals, reduction of tax on royalty from 25 per cent to 10 per cent, reduction of corporate tax, are quite positive. The hike in service tax to 14 per cent will have a negative impact on the retail sector but hopefully only for an year with GST implementation, it will be short lived. On the long-term, there seems to be a lot of focus on the social aspect with schemes for accident and health insurance and pension which will be very positive for the sector in the long run. With positive consumer sentiments and softening inflation, budget announcements on GST, revision of excise/ custom duty structure, fund allocations for skill development and rural markets development would ensure long-term consumption boom for the retail sector.

Logistics:

The Indian logistics industry was valued at an estimated US$ 130 billion in 2012-13. It has grown at a CAGR of over 16 per cent over the last five years. The industry comprises the following main segments: ? Freight and passenger transportation via road, rail, air and water ? Warehousing and cold-storage Aggregate freight traffic is estimated at about 2-2.3 trillion tone kilometers. Road dominates the mode of freight transport mix and constitutes about 60 per cent of the total freight traffic. Rail and coastal shipping account for about 32 per cent and 7 per cent, respectively, while the share of inland waterways transportation and air is less than 1 per cent each. Warehousing comprises industrial and agricultural storage. Of the total warehousing space of about 1,800 million sq ft, the industrial and agricultural segments constitute about 86 per cent and 14 per cent, respectively.

Pharmacy Industry:

The Indian Pharmaceuticals Industry (IPI), estimated turnover at 450 billion, ranks fourth globally in terms of volume and is amongst the largest producer of Pharma products in the world along with USA, Japan, Europe and China. The cutting edge that IPI enjoys over most other nations is the cost advantage, given that the cost of labour and overall production is lower in India as compared to other nations. To cite an example, the manufacturing cost of Pharma products
in India is nearly half the cost incurred in the US but the multistage taxation in
the Pharma Industry i.e. Customs Duty on imports, Central excise duty on
manufacture, Central Sales Tax (CST)/VAT on sale of goods. Service tax on
provision of services and levies such as entry tax, Octroi, cess by the State or
Local municipal corporations/ municipalities is one of the key stumbling blocks
in its progress. Levy of multiple taxes, loss of credit of tax paid, compliance and
litigation cost associated with the present tax set up are causing problems to the
Pharma Industry. Introduction of GST is a positive step and if implemented in
the right spirit could result in reduction in transaction cost

**Manufacturing Industry:**

The incidence of the present multistage taxation increases the manufacturing
cost of most of the production units in India. But a flawless GST can help this
sector to reduce their cost to the extent of almost 50 per cent. This will help them
to compete with their counterparts in the west. “Even a two per cent reduction
in production cost will increase profits by over 20 per cent, giving headroom for
reducing prices and benefitting end-users”(Kelkar,Vijay,2009). It is estimated that
the implementation of GST would reduce the overall prices of all manufacturing
sectors between 1.22 and 2.53 per cent (Thirteenth Finance Commission, 2009).

**MSME:**

The existing threshold of goods under State VAT is Rs. 5 lakh for a majority
of bigger States and a lower threshold for North Eastern States and Special
Category States. But as per the proposed GST enterprises above the turnover
threshold Rs. 10 lakh both for goods and services will have to be registered.
Again, keeping in view the interest of micro, small and medium enterprises and
to avoid dual control, the States consider that the threshold for Central GST for
goods may be kept at Rs.1.5 crore and the threshold for services should also be
appropriately high (Empowered Committee of Finance Ministers, 2009). This
increase in threshold will adequately protect the interests of small traders and
industries. D. GST and Housing At present, the value of a constructed property

**Agriculture:**

Through a comprehensive and wider coverage of input and service taxes set-
off, subsuming of several Central and State taxes in the GST and phasing out of
CST, it is expected that GST in India: A Big Leap in the Indirect Taxation System
Dr. R. Vasanthagopal International Journal of Trade, Economics and Finance,
Vol. 2, No. 2, April 2011 145 the GST could increase the prices of agricultural
produce between 0.61 and 1.18 per cent and this would be a boon to millions of
farmers in India (Thirteenth Finance Commission, 2009).

**Housing:**
At present, the value of a constructed property form part of stamp duty on
land and other indirect taxes on inputs. On registration of the property, stamp
duty is payable on the entire cost including the embedded taxes. There is no
mechanism for complete off-set of these taxes. This results in an increase in the
overall cost of the property. The GST provides for including within its scope the
transactions in real estate. Therefore, for a registered real estate builder, all taxes
on inputs (including that on land) will be off-set against the tax payable on the
constructed property. This will reduce cost of housing to the extent of embedded
taxes and hence will benefit the poor.

**Poverty Reduction:**
At present, primary food articles like rice and wheat are liable to tax by many
States either by way of purchase tax or sales tax at a lower rate. But under the
GST, all food items covered under the public distribution system including rice
and wheat are proposed to be exempted. As a result primary food articles like
rice and wheat would be exempted from GST. Since expenditure on food
constitutes a large proportion of the total consumption expenditure of the poor,
the GST is designed as a poverty reduction initiative. Like food, basic health and
education services are also intended to be fully exempted. In any case, as at
present, these services will continue to be exempted from tax and therefore no
additional burden will arise on account of the switchover to GST (Thirteenth

**Employment**
It is seen that the implementation of GST would result in increased income
and output in various sectors of the economy. On account of this increase in
higher growth, there will be large scale employment opportunities in various
areas like the skilled, semi skilled and unskilled categories.
Factors of Production:
It is also estimated that the implementation of a flawless GST in India would result in efficient allocation of factors of production thus leading to gain in factors of production, i.e. land, labour and capital. The gains in real returns to land range between 0.42 and 0.82 per cent. Wage rate gains vary between 0.68 and 1.33 per cent. The real returns to capital would gain in the range of 0.37 and 0.74 percent (Thirteenth Finance Commission, 2009).

Price Level:
Though there is an allegation that GST is a regressive tax as it minimizes the number of tax rates to even a single (dual) rate, the subsuming of major Central and State taxes in GST, continuous chain of set-off of input goods and services and phasing out of CST the commitment of taxes on goods would come down under GST. 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. Hence, a ‘flawless’ GST would be viewed as pro-poor and not regressive. I. GST and Exim Trade At present export of taxes to other countries is sought to be eliminated through the mechanisms of duty draw back on the basis of estimated incidence of embedded taxes. By considering its weakness the GST requires that exports from the taxing jurisdiction would be tax free and imports into the jurisdiction would be taxed at the same rate as products produced and consumed within the jurisdiction. Consequently, both export-oriented industries and import-substituting industries would become internationally more.

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. 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. GST is not simply VAT plus service tax, but a major improvement over the previous system of VAT and disjointed services tax – a justified step forward. A single rate would help maintain simplicity and transparency by treating all goods and services as equal without giving special treatment to some ‘special’ goods and/or services. This will reduce litigation on classification issues. 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. Sooner or later, the GST will surely knock the doors of India. And when that happens, we as future torch bearers of the profession are required to be prepared and fully equipped with our knowledge regarding GST. Forewarned is forearmed. Thus, we must be ready to deal with GST and many other changes that are going to take place in India. Slowly, India shall move to join the world wide standards in taxation, corporate laws and managerial practices and be among the leaders in these fields.

Though the positive impacts referred above are dependent on a neutral and rational design of the GST, balancing the conflicting interests of various stakeholders, full political commitment for a fundamental tax reform with a constitutional amendment, the switchover to a ‘flawless’ GST would be a big leap in the indirect taxation system and also give a new impetus to India’s economic change. It is also noted that, buoyed by the success of GST, more than 140 countries have introduced GST in some form or other and is fast becoming the preferred form of indirect tax in the Asia Pacific region.

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Introducing GST and Its Impact on Indian Economy


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GST in Indian Economy-A Bird’s-eye-view

Rajalakshmi.V
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Abstract:
The goods and service tax (GST) is one of the biggest taxation reforms in India. The decision on which is pending in parliament since March 2011. The central idea behind this form of taxation is to replace existing levies like value added tax, excise duty, service tax and sales tax by levying a comprehensive tax on the manufacture, sale and consumption of goods and services in the country. GST is expected to unite the country economically as it will remove varies forms of taxes that are currently levied at different points.

This paper presents background of GST, benefits of GST, and its impact on Indian economy.

Keywords: Goods and service tax (GST), Value added tax(VAT).
JEL Classification Codes: H250, H710.

Introduction:
India as world’s one of the biggest domestic country follow the federal tax system for levy and collection of various taxes. Tax policies of a country play 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 Endeavour to generate tax revenues to support government expenditure of public services and infrastructure development.

Announcement was made by shri P. Chidambaram, than union Finance Minister in the central budget (2007-2008) to the effect that GST would be introduced from April 1, 2010.

The framework of VAT, recognized as GST as well in several countries had been one of the major developments in taxation structures worldwide, more
than 135 countries adopted the GST/VAT framework effectively. The ongoing tax reforms on moving to the goods and services tax would impact the national economy.

**Objective of the study:**
- To study the concept of goods and service tax (GST) and its impact on Indian economy.
- To know the benefit of goods and service tax to economy, business and the industry and consumers.
- To understand how GST will work in India.

**Research methodology:**
The paper attempts at descriptive analysis based on the secondary data sourced from journals articles and media reports. Available secondary data was extensively used for the study.

**Review of literature:**
- **Shilpa parkhi:** “Goods and service tax: The changing face of economy.” And explained the concept of goods and service to be implemented in India and the changing face of Indian Taxation and helps in understanding the present structure of induced taxes, such as central sales tax, service tax etc. and the method of levy and collection of Goods and service tax.
- **Nitin Kumar (2014 studied):** Goods and service tax in India: Away forward and explained the background of GST, silent features, advantages and the impact of GST in the tax scenario in India.
- **Dr.R.Vasanthagopal (2011 studied):** “GST in India: A Big Leap in the IndirectTaxation System” and found that the positive impacts are dependent on a neural and rational design of the GST, balancing the conflicting interests of various stakeholders, full political commitment for a fundamental tax reforms with a constitutional amendment, the method.
- **Nishitha Gupta (2014 studied):** In her study stated 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 state government.
Introduction of GST:
Goods and service tax (GST) is a comprehensive indirect tax on manufacture, sale and consumption of goods and service at a national level. It is basically a tax on final consumption.

Why is it important:
- GST will widen the tax base improve tax compliance remove existing unhealthy competition among state and re-distribute the burden of taxation equitably among manufacturing and services.
- GST will ensure the uniformity of taxes across the states regardless of place of manufactures or distribution.
- GST would integrate the tax base and allow seamless flow of input tax credit across the value chain of goods and services which will lead to reduced cost of goods and services.
- GST environment would lead to improved disclosure of economic transactions which may have a positive impact on direct tax collections also.
- The average tax burden on companies will fall which will reduce the costs of Indian goods and services in the international market and give boost to Indian exports.
- It will mitigate cascading and double taxation and enable better compliance through the lowering of overall tax burden on goods and services.
- Overall it will result in increasing revenue at the centre at the tax collection system becomes more transparent, making tax evasion difficult.

Benefits of GST:
- For Business and industry:
  - Less compliance: - Instead of maintaining big records, returns and reporting under various different statutes, all assesses will find comfortable under GST as the compliance cost will be noted that the assesses are, nevertheless, required to keep record of CGST, SGST, and IGST separately.
  - Removal of cascading.
  - Improve competitiveness.
♦ For central and state government:
  • Increased in government revenues: - This might seems to be a little vague. However, even at the time of introduction of VAT, the public revenues actually went up instead of falling because many people resorted to paying taxes rather than evading the same. However, the government may wish to introduce GST at a Revenue Neutral Rate, in which case the revenues might not see a significant increase in the short run.
  • Simple and easy to administer.
  • Better controls on leakage.
  • Consolidation of tax base.
  • Higher revenue efficiency

♦ For the consumer:
  • Single and transparent tax proportions to the value of goods and services.
  • Reduction of prices: - Due to full and seamless credit, manufacturers or traders do not have to include taxes as a part of their cost of production, which is very big reason to say that we can see a reduction in prices. However if the government seeks to introduce GST with a higher rate, this might be lost.

How it works in India
The GST system is based on the same concept as VAT. Here set off is available in respect of taxes paid in the previous level against the GST charged at the time of sale. The GST model has some aspects which are as follows:
Components: - GST will be divided into two components namely: central goods and service tax and state goods and service.
Applicability: GST will be applicable to all goods and services sold or provided in India. Except from the of exempted goods which fall outside its purview.
Payment: GST will be charges and paid separately in case of central and state level input tax.
Credit: the facility of input tax credit at central level will only be available in respect of central goods and service tax. In other words the ITC of central goods and service tax shall not be allowed as a set off against state goods and service tax and vice versa.

Positive impact of GST on Indian economy
• Speeds up economic union of India and increases the revenue to the government.
Introducing GST and Its Impact on Indian Economy

- Better compliance and revenue buoyancy replacing the cascading effect (tax on tax) created by existing indirect taxes; tax incidence for consumers may fall lower transaction cost for final consumers.
- By merging all levies on goods and services into one, GST acquires a very simple and transparent character.
- Uniformity in tax regime with only one or two tax rates across the supply chain as against multiple tax structure as of present.
- Increased tax collections due to wide coverage.
- By merging all levies on goods and services into one, GST acquires a very simple and transparent character.
- Uniformity in tax regime with only one or two tax rates across the supply chain as against multiple tax structure as of present.
- Increased tax collections due to wide coverage of goods and services.
- Improvement in cost competitiveness of goods and services in the international market.

1. Revenue Consideration under GST

The proposed tax system will subsume both central and state indirect taxes and levies. On the combined tax based dual GST (CGST, SGST and IGST) will be levied. The details of state and central taxes those will be subsumed under GST are presented below:

<table>
<thead>
<tr>
<th>State taxes</th>
<th>Central taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>• State Value Added Tax/Sales Tax</td>
<td>• Central Excise Duty</td>
</tr>
<tr>
<td>• Entertainment Tax (other than the tax levied by the local bodies)</td>
<td>• Additional Excise Duty</td>
</tr>
<tr>
<td>• Central Sales Tax (levied by the centre and collected by the states)</td>
<td>• Excise Duty levied under the Medicinal and Toilet Preparations (Excise Duties) Act, 1995</td>
</tr>
<tr>
<td>• Entry Tax (in lieu of octroi)</td>
<td>• Service Tax</td>
</tr>
<tr>
<td>• Purchase Tax</td>
<td>• Additional Customs Duty commonly known as Countervailing Duty</td>
</tr>
<tr>
<td>• Luxury Tax</td>
<td>• Special Additional Duty of Customs, and</td>
</tr>
<tr>
<td>• Tax on lottery, betting and gambling, and</td>
<td>• Central Surcharges and Cesses (related to supply of goods and services).</td>
</tr>
<tr>
<td>• State cesses and surcharges (related to supply of goods and services).</td>
<td></td>
</tr>
</tbody>
</table>

Source: Government of India (2015)
Introducing GST and Its Impact on Indian Economy

Conclusion:

GST is not simply VAT plus service tax, but a major improvement over the previous system of VAT and disjoined service tax - a justified step forward. The 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 will be the possibility of a collective gain for industries, trade, agriculture and common consumers as well as for the central government and the state government.

Slowly, India shall move to join the world wide laws and managerial practices and fields.

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Introducing GST and Its Impact on Indian Economy

Raghavendra. B.S.¹  
Mohankumar. B.C.²

Introduction:

The introduction of 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.

Given the passage of the Constitution (122nd) Amendment Bill, 2014 for Goods and Services Tax (GST) in the Lok Sabha on 6th May, 2015, the Government of India seems committed to replace all the indirect taxes levied on goods and services by the Centre and States and implement GST by 2016. With GST, it is anticipated that the tax base will be comprehensive, as virtually all goods and services will be taxable, with minimum exemptions.

Goods & Service Taxes:

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.

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Introducing GST and Its Impact on Indian Economy

Benefits of GST:-

GST has been envisaged as a more efficient tax system, neutral in its application and distributional attractive. The advantages of GST are:

a. Wider tax base, necessary for lowering the tax rates and eliminating classification disputes
b. Elimination of multiplicity of taxes and their cascading effects
c. Rationalization of tax structure and simplification of compliance procedures
d. Harmonization of center and State tax administrations, which would reduce duplication and compliance costs
e. Automation of compliance procedures to reduce errors and increase efficiency

Salient Features of Proposed Indian GST System

1. The power to make laws in respect of supplies in the course of inter-State trade or commerce will be vested only in the Union government. States will have the right to levy GST on intra-State transactions including on services.
2. Centre will levy IGST on inter-State supply of goods and services. Import of goods will be subject to basic customs duty and IGST.
3. GST defined as any tax on supply of goods and services other than on alcohol for human consumption.
4. Central taxes like, Central Excise duty, Additional Excise duty, Service tax, Additional Custom duty and Special Additional duty and State level taxes like, VAT or sales tax, Central Sales tax, Entertainment tax, Entry tax, Purchase tax, Luxury tax and Octroi will subsume in GST.
5. Petroleum and petroleum products i.e. crude, high speed diesel, motor spirit, aviation turbine fuel and natural gas shall be subject to the GST on a date to be notified by the GST Council.
6. 1% origin based additional tax to be levied on inter-State supply of goods will be non-creditable in GST chain. The revenue from this tax is to be assigned to the Origin State. This tax is proposed to be levied for initial two years or such period as recommended by the GST Council.
7. Provision for removing imposition of entry tax / Octroi across India.
8. Entertainment tax, imposed by States on movie, theatre, etc will be
Introducing GST and Its Impact on Indian Economy

subsumed in GST, but taxes on entertainment at panchayat, municipality or district level to continue.

9. GST may be levied on the sale of newspapers and advertisements and this would give the government’s access to substantial incremental revenues.

10. Stamp duties, typically imposed on legal agreements by the state, will continue to be levied by the States.

11. Administration of GST will be the responsibility of the GST Council, which will be the apex policy making body for GST. Members of GST Council comprised of the Central and State ministers in charge of the finance portfolio.

12. GST would replace most indirect taxes currently in place such as:

<table>
<thead>
<tr>
<th>Central Taxes</th>
<th>State Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>f. Central Excise Duty [including additional excise duties, excise duty under the Medicinal and Toilet Preparations (Excise Duties) Act, 1955]</td>
<td>a. Value Added Tax</td>
</tr>
<tr>
<td>g. Service tax</td>
<td>b. Octroi and Entry Tax</td>
</tr>
<tr>
<td>h. Additional Customs Duty (CVD)</td>
<td>c. Purchase Tax</td>
</tr>
<tr>
<td>i. Special Additional Duty of Customs (SAD)</td>
<td>d. Luxury Tax</td>
</tr>
<tr>
<td>j. Central Sales Tax (levied by the Centre and collected by the States)</td>
<td>e. Taxes on lottery, betting &amp; gambling</td>
</tr>
<tr>
<td>k. Central surcharges and cesses (relating to supply of goods and services)</td>
<td>f. State cesses and surcharges</td>
</tr>
<tr>
<td></td>
<td>g. Entertainment tax (other than the tax levied by the local bodies)</td>
</tr>
<tr>
<td></td>
<td>h. Central Sales Tax (levied by the Centre and collected by the States)</td>
</tr>
</tbody>
</table>

Impact of Goods and Service Tax

I. Food Industry.

The application of GST to food items will have a significant impact on those who are living under subsistence level. But at the same time, a complete exemption for food items would drastically shrink the tax base. Food includes grains and cereals, meat, fish and poultry, milk and dairy products, fruits and vegetables, candy and confectionary, snacks, prepared meals for home consumption, restaurant meals and beverages. Even if the food is within the scope of GST, such
Introducing GST and Its Impact on Indian Economy

sales would largely remain exempt due to small business registration threshold. Given the exemption of food from CENVAT and 4% VAT on food item, the GST under a single rate would lead to a doubling of tax burden on food.

II. Housing and Construction Industry.
In India, construction and Housing sector need to be included in the GST tax base because construction sector is a significant contributor to the national economy.

III. FMCG Sector.
Despite of the economic slowdown, India’s Fast Moving Consumer Goods (FMCG) has grown consistently during the past three – four years reaching to $25 billion at retail sales in 2008. Implementation of proposed GST and opening of Foreign Direct Investment (F.D.I.) are expected to fuel the growth and raise industry’s size to $95 Billion by 201835.

IV. Rail Sector
There have been suggestions for including the rail sector under the GST umbrella to bring about significant tax gains and widen the tax net so as to keep overall GST rate low. This will have the added benefit of ensuring that all inter-state transportation of goods can be tracked through the proposed Information technology (IT) network.

V. Financial Services
In most of the countries GST is not charged on the financial services. Example, In New Zealand most of the services covered except financial services as GST. Under the service tax, India has followed the approach of bringing virtually all financial services within the ambit of tax where consideration for them is in the form of an explicit fee. GST also include financial services on the above grounds only.

VI. Information Technology enabled services.
To be in sync with the best International practices, domestic supply of software should also attract G.S.T. on the basis of mode of transaction. Hence if the software is transferred through electronic form, it should be considered as Intellectual Property and regarded as a service. And if the software is transmitted
on media or any other tangible property, then it should be treated as goods and subject to G.S.T. 35 According to a FICCI –Technopak Report. Implementation of GST will also help in uniform, simplified and single point Taxation and thereby reduced prices.

VII. Impact on Small Enterprises.
There will be three categories of Small Enterprises in the GST regime. Those below threshold need not register for the GST.

Those between the threshold and composition turnovers will have the option to pay a turnover based tax or opt to join the GST regime.

Those above threshold limit will need to be within framework of GST Possible downward changes in the threshold in some States consequent to the introduction of GST may result in obligation being created for some dealers. In this case considerable assistance is desired. In respect of Central GST, the position is slightly more complex. Small scale units manufacturing specified goods are allowed exemptions of excise up to Rs. 1.5 Crores. These units may be required to register for payment of GST, may see this as an additional cost.

Positive impact on Indian economy
• Speeds up economic union of India
• Better compliance and revenue buoyancy Replacing the cascading effect [tax on tax] created by existing indirect taxes Tax incidence for consumers may fall Lower transaction cost for final consumers
• By merging all levies on goods and services into one, GST acquires a very simple and transparent character
• Uniformity in tax regime with only one or two tax rates across the supply chain as against multiple tax structure as of present
• Increased tax collections due to wide coverage of goods and services
• Improvement in cost competitiveness of goods and services in the international market

Dual GST
Dual GST means, the proposed model will have two part called
1. CGST – Central goods and service tax for levied by central Govt.
2. SGST – State goods and service tax levied by state Govt.

There would have multiple statute one CGST statute and SGST statute for every state.
Conclusion:-

All the shortcomings of the present taxation regime lead us to develop a new system of Taxation for the ease of doing business and for the seamless flow of credit across the whole supply chain. If we have been following some system that is now obsolete for years, it does not mean that we need to continue with it in the fore coming years as well.

There is a criticism today that the proposed model of GST is fractured due to the compromises. But the compromised model in any case would be better than no model at all. Also the bitter truth is that a compromise often becomes necessary in Federal democracies.

The dual model will be like a joint venture between centre and the 29+ states. In order to make this joint venture successful, one has to take all the states on the board with the compromise this entails. Some states might lose revenue after introduction of GST but you cannot hold entire country hostage because of one or two such states. One should keep in mind that an ideally perfect GST has never been practiced in any federal democracy. Every expert was once a beginner. No full proof can be developed in a single stroke. Over the years things may come out to be very positive and it's quite possible that the estimate of 1-2% rise in GDP might be too low.

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Introduction

The Goods and Service Tax or GST is a taxation system where there is a single tax in the economy for goods and services. This taxation system is meant to create a single taxation system in the entire country for all goods and services. GST is a tax on goods and services with value addition at each stage having comprehensive and continuous chain of set-of benefits from the producer’s/ service provider’s point up to the retailer’s level where only the final consumer should bear the tax. The GST is all set to consolidate all State economies. This will be one of the biggest taxation reforms that will take place in India once the Bill gets officially the green signal to implement. The basic idea is to create a single, cooperative and undivided Indian market to make the economy stronger and powerful. The GST will see a significant breakthrough towards an all-inclusive indirect tax reform in the country. So, the introduction of GST is an important reform which will lead India into next rapid phase of economic growth.

Key words: GST, Economic growth, Benefits of GST
Introducing GST and Its Impact on Indian Economy

service provider's point up to the retailer's level where only the final consumer should bear the tax. The Goods and Services Tax (GST) is a value added tax that will replace all indirect taxes levied on goods and services by the Government, both Central and States, once it is implemented. The GST is all set to consolidate all State economies. This will be one of the biggest taxation reforms that will take place in India once the Bill gets officially the green signal to implement. The basic idea is to create a single, cooperative and undivided Indian market to make the economy stronger and powerful. The GST will see a significant breakthrough towards an all-inclusive indirect tax reform in the country.

What is GST?
The GST is basically an indirect tax that brings most of the taxes imposed on most goods and services, on manufacture, sale and consumption of goods and services, under a single domain at the national level. In the present system, taxes are levied separately on goods and services. The GST is a consolidated tax based on a uniform rate of tax fixed for both goods and services and it is payable at the final point of consumption. At each stage of sale or purchase in the supply chain, this tax is collected on value-added goods and services, through a tax credit mechanism.

Need for GST
The proposed GST is going to replace the existing multiple tax structures of Centre and State taxes, is not only desirable but imperative in the emerging economic environment. Increasingly, services are used or consumed in production and distribution of goods and vice versa. Separate taxation of goods and services often requires splitting of transaction values into value of goods and services for taxation, which leads to greater complexities, administration and compliances costs. Integration of various taxes into a GST system would make it possible to give full credit for inputs taxes collected. GST, being a destination-based consumption tax based on VAT principle, would also greatly help in removing economic distortions and will help in development of a common national market.

Salient features
• It would be applicable to all transactions of goods and service.
• It is to be paid to the accounts of the Centre and the States separately.
• The rules for taking and utilization of credit for the Central GST and the State GST would be aligned.
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• Cross utilization of ITC between the central GST and the state GST would not be allowed except in the case of interstate supply of goods.
• The Centre and the States would have concurrent jurisdiction for the entire value chain and for all taxpayers on the basis of thresholds for goods and services prescribed for the States and the Centre.
• 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 a total of 13/15 digits.

Tax Chargeability under GST
• It will replace the existing array of indirect taxes.
• There will be two parallel Statutes – one at the Centre and other under the respective State GST Act – governing the tax liability of the same transaction.
• All the items of goods and services are proposed to be covered and exemptions will be granted to few selected items.
• After introduction of GST, all the traders will be paying both the types of taxes i.e. CGST and SGST.

Bottlenecks in the implementation of GST
Though the Government wants the GST Bill to be implemented by April 2016, there are certain bottlenecks which need to be taken care of before that:
• What preparations are needed at the level of Central and State Governments for implementing the GST?
• Whether the Government machinery is efficient enough for such an enormous change?
• Whether the tax-payers are ready for such a change?
• What will be the impact on the Government’s revenue?
• How will the manufacturers, traders and ultimate consumers be affected?
• Will GST help the small entrepreneurs and small traders?

Understanding GST
GST is a value added tax, levied at all points in the supply chain with credit allowed for any tax paid on inputs acquired for use in making the supply. It would apply to both goods and services in a comprehensive manner with
exemptions restricted to a minimum. In keeping with the federal structure of India, it is proposed that GST be levied concurrently by the Centre (CGST) and the States (SGST). It is expected that the base and other essential design features would be common between CGST and SGST, across SGSTs for the individual States. Both CGST and SGST would be levied on the basis of the destination principle. Thus, exports would be zero-rated, and imports would attract the tax in the same manner as domestic goods and services. Inter-State supplies within India would attract an Integrated GST (aggregate of CGST and the SGST of the Destination State). In addition to the IGST, in respect of supply of goods, an additional tax of up to 1% has been proposed to be levied by the Centre. The revenue from this tax is to be assigned to the origin states. This tax is proposed to be levied for initial two years or such longer period as recommended by the GST Council.

Advantages

• GST is a transparent Tax and also reduces number of indirect taxes. With GST implemented a business premises can show the tax applied in the sales invoice. Customer will know exactly how much tax they are paying on the product they bought or services they consumed.
• GST will not be a cost to registered retailers therefore there will be no hidden taxes and the cost of doing business will be lower. This in turn will help Export being more competitive.
• GST can also help to diversification of income sources for Government other than income tax and petroleum tax
• Under Goods and Services Tax, the tax burden will be divided equally between Manufacturing and services. This can be done through lower tax rate by increase Tax base and reducing exemptions.
• In GST System both Central GST and State GST will be charged on manufacturing cost and will be collected on point of sale. This will benefit people as prices will come down which in turn will help companies as consumption will increase.
• Biggest benefit will be that multiple taxes like Octroi, central sales tax, state sales tax, entry tax, license fees, turnover tax etc will no longer be present and all that will be brought under the GST. Doing business now will be easier and more comfortable as various hidden taxation will not be present.
Disadvantages

- Critics say that GST would impact negatively on the real estate market. It would add up to 8 percent to the cost of new homes and reduce demand by about 12 percent.
- Some Economist says that CGST, SGST and IGST are nothing but new names for Central Excise/Service Tax, VAT and CST and hence GST brings nothing new for which we should cheer.
- Very high tax rates of 16% compared to current 12.5% VAT
- Since taxes are distributed across the chain, the consumer prices are likely to rise to maintain the current tax revenue levels.
- All goods and services brought under the GST with only few items are exempted and make the common people’s life miserable
- Amendment to constitution is a formidable task- where state governments consent is needed
- Training of Government officials/personnel

Role of GST in accelerating the economic growth

The introduction of GST is an important reform which will lead India into next rapid phase of economic growth. The most important reform will be GST which will bring this country as one market. Launching of GST has taken us into next very rapid phase of growth, the major central and state taxes will get subsumed into GST which will reduce the multiplicity of taxes, bringing down the compliance cost. With GST, the burden of Central sales tax will also be phased out. In a recent presentation of education sector to Prime Minister Narendra Modi, NITI Aayog has suggested to build 10-20 world class institutions with academic autonomy and to create funds to provide annual project-based grants for research to potential institutes of excellence. GST will be a game changing reform for Indian economy by developing a common Indian market and reducing the cascading effect of tax on the cost of goods and services. It will impact the Tax Structure, Tax Incidence, Tax Computation, Tax Payment, Compliance, Credit Utilization and Reporting leading to a complete overhaul of the current indirect tax system.

GST will have a far reaching impact on almost all the aspects of the business operations in the country, for instance, pricing of products and services; supply
Introducing GST and Its Impact on Indian Economy

chain optimization; IT, accounting and tax compliance systems. GST has been envisaged as a more efficient tax system, neutral in its application and distributional attractive. The impact of GST is:

- Wider tax base, necessary for lowering the tax rates and eliminating classification disputes
- Elimination of multiplicity of taxes and their cascading effects
- Rationalization of tax structure and simplification of compliance procedures
- Harmonization of center and State tax administrations, which would reduce duplication and compliance costs
- Automation of compliance procedures to reduce errors and increase efficiency

GST would be one of the most significant fiscal reforms of independent India. GST is expected to result in major rationalization and simplification of the consumption tax structure at both Centre and State levels. It is expected to replace all indirect taxes, thus avoiding multiple layers of taxation that currently exist in India. Depending on the final GST base and rate, there will be a significant redistribution of tax across different goods and services. Goods currently subject to both Centre and State taxes should experience a net reduction in tax, with positive impact on consumer demand. Besides simplifying the current system and lowering the costs of doing business, GST will call for a fundamental redesign of supply chains. It will affect how the companies operate their businesses, presenting significant opportunities for long-term revenue and margin improvement. For instance, under the current tax structure, supply chains are invariably designed to minimize the burden of the Central Sales Tax, with distribution centres located in individual States where the consumers are located. They are sub-optimal from a strategic and economic perspective. The elimination of the central sales tax will provide an opportunity to optimize supply chains, enabling companies to re-evaluate existing procurement patterns, and distribution and warehousing arrangements. GST is also expected to result in a reduction in inventory costs. Dealers would be able to claim a credit for the tax paid on their inventories, leading to improved cash flows. A successful implementation of GST is significantly dependent on IT capability – not just at the tax administration level but also at the taxpayer level. Efforts will be required to change existing IT systems for GST enablement which could be complex, challenging and lengthy task for the IT department.
Introducing GST and Its Impact on Indian Economy

Conclusion

The taxation of goods and services in India has, hitherto, been characterized as a cascading and distortionary tax on production resulting in mis-allocation of resources and lower productivity and economic growth. It also inhibits voluntary compliance. It is well recognized that this problem can be effectively addressed by shifting the tax burden from production and trade to final consumption. A well designed destination-based value added tax on all goods and services is the most elegant method of eliminating distortions and taxing consumption. Under this structure, all different stages of production and distribution can be interpreted as a mere tax pass-through, and the tax essentially ‘sticks’ on final consumption within the taxing jurisdiction.

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Possible Impact of GST on the Living Standards of People in India

Dr. K. Thulasi Krishna\textsuperscript{1} Ph.D.
Dr. R. Varadarajan\textsuperscript{2} Ph.D.

Introduction and Objective of the Study

Goods and Services Tax (GST) is a uniform tax system which allows seamless transfer of goods and services. This is the most simplified tax which facilitates multiple benefits such as increase in Gross Domestic Product (GDP), increase in tax collections, no differences between State’s taxes, strengthening of the economy and more importantly eliminates all complications in indirect taxes. The idea of introducing GST is not of recent phenomenon. It was first announced in 2006 by the then Finance Minister in his Union Budget speech that India would introduce GST by April 1st, 2010.\textsuperscript{1} Since then, many discussions went on the complexities involved in the implementation of GST in view of the prevailing Central and State Taxes. Further, due to lack of consensus between Central and State Governments and a few other practical issues, the implementation of GST is delayed. No doubt there are pros and cons in this regard. But the present study focuses only on how the GST will impact the living standards of people in India.

How GST Impacts the Prices of Goods?

All the current indirect taxes such as central excise duty, value added tax, service tax, octroi, etc., will cease to exist with the introduction of GST. As of now, in case of manufactured consumer goods the consumer is charged around 25 to 26 per cent more than the cost of production due to excise duty and value added tax. Sometimes, it may even go up to 30 per cent. Experts predict that the GST rate in India may be in between 14 and 16 per cent. The benefit of reduced taxes may be passed on to the consumer by the dealer in the long-run and thus, there are chances of decrease in the prices of basic goods.

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Reduction in prices may influence the working capital requirements of the companies and makes the price of the product uniform throughout the country. Decrease in prices may force the consumption rate to go up and results finally in the increase of production.

**Table 1 - GST Rates in Selected Countries**

<table>
<thead>
<tr>
<th>Country</th>
<th>GST Rate (%)</th>
<th>Year Introduced</th>
<th>Impact</th>
<th>GDP Per Capita (2011-15) in US $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>10</td>
<td>2000</td>
<td>Resulted in reductions in personal income taxes, federal wholesales tax and some fuel taxes.</td>
<td>61,979.9</td>
</tr>
<tr>
<td>Canada</td>
<td>5</td>
<td>1991</td>
<td>Goods exported are exempted while individuals with low incomes can avail GST rebate calculated in conjunction with their income-tax. The tax did not apply to products such as groceries, residential rent, and medical services, and services such as financial services.</td>
<td>50,230.8</td>
</tr>
<tr>
<td>France</td>
<td>19.6</td>
<td>1954</td>
<td>Proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at national level. It has motivated more than 140 countries to introduce GST in their countries.</td>
<td>42,725.7</td>
</tr>
<tr>
<td>Japan</td>
<td>8</td>
<td></td>
<td>Japan's domestic demand dropped after the government raised the national sales tax (Japan's</td>
<td>36,194.4</td>
</tr>
</tbody>
</table>
version of GST) from 5% to 8% in May, 2014.2 Ordinary people in Japan have stopped spending money.

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Anticipated Impact</th>
<th>Expected Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysia</td>
<td>6</td>
<td>Anticipated to expand the economy by three per cent and reduce the “hidden economy”, or incidence of tax evasion, by 15 percent. The prices of 532 items are expected to be reduced by up to 4.1 per cent.</td>
<td>11,307.1</td>
</tr>
<tr>
<td>New Zealand</td>
<td>15</td>
<td>Wholesalers often show prices exclusive of GST but collect the full amount at the time of purchase. There are few exemptions: for example, all types of food are taxed at the same rate. However, there are a few exceptions including rents collected on residential rental properties, donations, precious metals and financial services. The laws in New Zealand ensured that prices on headlines must be GST inclusive, except when businesses claim to be mainly wholesale client-based.</td>
<td>44,342.2</td>
</tr>
<tr>
<td>Singapore</td>
<td>7</td>
<td>Those who earned less or lived in smaller homes received more benefits</td>
<td>56,284.3</td>
</tr>
</tbody>
</table>

The above table shows the GST rates in selected countries, year in which it is introduced, its impact and the GDP Per Capita. The living standards of the people in such countries can be observed through GDP Per Capita. France is the first country in the world to introduce GST and more than 140 countries at present are following GST regime. Australia and Singapore are the countries with high GDP Per Capita with first and second positions respectively in the given table.

**Measures of Living Standards**

The standard of living of people of a country is generally measured by gross domestic product (GDP) per capita, real income per person (inflation adjusted), income and consumption, poverty rate, access and quality of healthcare, income growth inequality, educational standards, life expectancy, social rights, safety, environmental condition and a few other.

**Possible Impact of GST on Consumers and their Living Standards**

The possible impact of GST on consumers and their living standards are briefly presented below:

- It is strongly believed that the GST will remove the cascading effects of central value added tax (CENVAT) and service tax with a constant set-off right from the producer's point to the retailer's point. In view of the enhanced transparency and rationalization of tax regime, the consumer would benefit by lowering the overall tax burden on goods. This in turn may increase his purchasing power. In addition, this will help in boosting their consumption that in turn is beneficial to the companies.

- Disposable income of the people in India will increase due to decrease in prices of goods and services. Disposable personal income is considered as one of key economic indicators and hence the betterment of standard of living is predicted.

- There is a problem regarding the treatment of certain goods and services which are deliberately placed under high tax rates. This may be because of the nature of such goods like alcohol, tobacco, petroleum etc. This may discourage some consumers at least by a marginal rate and hence the life expectancy of the people can be increased.

- Tax evasion may become difficult and therefore the Government can boost the collection of taxes and spend for developmental activities.
• Per capita income of States is predicted to increase considerably and this may give scope for the Governments to introduce new welfare schemes to the public.

• The substantial growth in various sectors like Small Scale Industries, Information Technology, Real Estate, IT Enabled Services may lead to the improvement of the standard of living at a constant rate.

• As the real estate sector is excluded from GST, the builders and contractors would not be able to get input tax credit or goods, equipment, material and construction services. This in fact defeats the basic purpose of introducing GST. Perhaps the construction and housing sector should have been included in the GST scope since that sector is a significant contributor to the national economy and also to ensure that the benefits of GST to reach every common man in the country.

• In India, the households vary in the pattern of expenditure according to the size, composition of the family members, income, religion, and food habits. Therefore, it is expected that the households would be affected differently by the GST regime.

• The introduction of GST along with the prudent accounting policies, transparency and supported by a robust electronic controls will definitely bring down the tax rates and enhances the revenue growth.

• For goods where the current duty structure is lower, for example, small cars, which have an excise duty of only 8%, the impact of GST will most likely be opposite—these can get more expensive. Heavy vehicles such as SUVs and large cars that have an excise duty of 27-30% will see a marked drop in prices if GST is implemented in the expected range of 18-22%. People planning to buy small cars may not be ready to buy immediately.

• It has been proposed to keep the petroleum out of the GST umbrella for at least first two years. This practice may not yield the benefit of GST and continues with the changing petroleum prices across the states. Thus, would not result in any benefit as far as a common man in concerned.

• The prices of goods may not be completely uniform across the States in India as the Central Government is planning to allow States to have 1 to 2 per cent variance in tax. By and large, the maximum retail price (MRP) of goods may remain the same.

• If GST is implemented, the service tax rate will increase (provided the expected GST is in the range of 18 to 22 per cent) and makes the services
more expensive particularly the Restaurants, Insurance, Investments and Travel Agency services. This is an additional burden on part of the people.

- The HSBC Global Research report said that assuming GST at 20%, services would see a rise in tax rates while manufactured consumer goods may see a fall. The two are likely to offset each other resulting in a limited net impact on inflation based on the consumer price index. But actual impact on inflation can't be known with certainty as much depends on how the change in tax rates is passed on to consumers and what the actual GST rate is. If there is a partial pass through of higher taxes, impact could be limited, but if GST rate is higher than 18-22%, effect on inflation can be more than anticipated.

### Conclusion

The successful implementation of GST depends on the understanding and co-operation between Central and State Governments. Further, there are many hurdles to be crossed in its implementation. Whether, the GST makes life easy or more comfortable, future remains to be unseen. But it is certain that the monthly budget of people if goes beyond the essential consumer goods, will impact their overall expenses and creates more complications. In addition to this, the impact of inflation is always unpredictable. Even there is no guarantee that the manufacturer will pass on the tax benefit to the end user. Keeping these issues aside, one can say that GST will be a welcome change for the development of the economy since it is expected to simplify the indirect tax structure in India.

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Implementation of GST in India:
It’s Benefits and Impact on Various Sectors

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E Vanajakshi²
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Abstract
Goods and Services Tax (GST), will subsume of Central Indirect Taxes like; Excise duty, Service tax, CENVAT etc., and also State Levies like VAT, Octroi, Entry Tax and Luxary Tax etc. GST is comprehensive tax levy on manufacture, sale and consumption of goods and services at national level. GST is a part of proposed tax reforms in India, having extensive base that instigate the applicability of an efficient and harmonized consumption tax system. GST has been commonly accepted by world and more than 140 countries have acknowledge the same. To this backdrop the present paper explore the benefits of GST and Its Impact of GST on Various sectors in India. For this purpose the required the data have been collected from secondary sources like; articles, websites etc. Finally the study concluded that, Goods and Services Tax (GST) discussion have created high hopes and forecasted favorable impact for various sector in India. There are high hopes from current government to roll out the implementation of the bill soon, to get its benefits. GST is expected to broaden the tax base, improve tax compliance and also created harmony in Indirect Tax System.

Keywords: GST, Sectors, Indirect Tax

Introduction
Introduction of proposed Goods and Services Tax (GST) is to replace the existing multiple tax structures of Centre and State taxes. India is a federal country and both Centre and States have their own rights to collect taxes. Each State is independent in levying and collecting taxes. GST is not only desirable but imperative in the current economic environment. This is targeted to be a simple,
transparent and efficient system of indirect taxation. It has been adopted by over 140 countries around the world. The responsibility of preparing a Design and Road Map for the implementation of GST was assigned to the Empowered Committee of State Finance Ministers (EC). In April, 2008, the EC submitted a report titled, “A Model and Roadmap for Goods and Services Tax (GST) in India”, containing broad recommendations about the structure and design of GST. Calling it the “biggest tax reform since 1947” the Hon’ble Finance Minister Arun Jaitley has announced in the Union Budget, 2015 that GST will be introduced from April, 2016. The 122nd Constitution Amendment Bill, 2014, has been by the Lok Sabha to facilitate the introduction of proposed Goods and Services Tax (GST). A dual GST model for the country has been proposed by the EC. Under this model GST will have two components viz. the Central GST to be levied and collected by the Centre and the State GST to be levied and collected by the respective States. Central Excise Duty, Additional Excise Duty, Service Tax, and Additional Duty of Customs (equivalent to Excise), State VAT, Entertainment Tax (other than the tax levied by the local bodies), taxes on lotteries, betting and gambling and entry tax would be subsumed within GST. Empowered Group on IT infrastructure was setup under the chairmanship of Dr. Nandan Nilekani for the development of IT Systems required for GST regime.

Benefits of GST:

Benefits of GST shall accrue to all – trade & industry, Government and consumers. Trade and industry shall benefit in terms of easy compliance, removal of cascading effect of taxes and enhanced competitiveness. The Government shall have better control on leakages, higher revenue efficiency, consolidation of tax base and it may be easier to administer and monitor the law. Consumers will also benefit from likely reduced prices and single transparent tax structure.

- **GST will end cascading effects:** This will be the major contribution of GST for the business and commerce. At present, there are different state level and centre level indirect tax levies that are compulsory one after another on the supply chain till the time of its final consumption.

- **Growth of Revenue in States and Union:** It is expected that the introduction of GST will increase the tax base but lowers down the tax rates and also removes the multiple point taxation. This will lead to higher amount of revenue to both the states and the union.

- **Reduces transaction costs and unnecessary wastages:** If government works in an efficient mode, it may be also possible that a single registration
and a single compliance will suffice for both SGST and CGST provided government produces effective IT infrastructure and integration of states level with the union.

- **Eliminates the multiplicity of taxation**: One of the great advantages that a taxpayer can expect from GST is elimination of multiplicity of taxation. The reduction in the number of taxation applicable in a chain of transaction will help to reduce the paper work and clean up the current mess that is brought by existing indirect taxation laws.

- **One Point Single Tax**: Another feature that GST will hold is it will be 'one point single taxation'. This also gives a lot of comforts and confidence to business community that they would focus on business rather than worrying about their taxation that may crop at later stages. This will help the business community to decide their supply chain, pricing modalities and in the long run helps the consumers being goods competitive as price will no longer be the function of tax components but function of sheer business intelligence and innovation.

- **Reduces average tax burdens**: Under GST mechanism, the cost of tax that consumers have to bear will be certain and it is expected that GST would reduce the average tax burdens on the consumers.

- **Reduces the corruption**: It is one of the major problems that India is overwhelmed with. We cannot expect anything substantial unless there exists a political will to root it out. This will be a step towards corruption free Indian Revenue Services.

**Impact of GST on Various Sectors in India:**

A. Manufacturing and retail sector:-

- Increased fungibility of credit on goods and services
- Full credit of tax on interstate sale will reduce cost of procurement/production.
- No retention/ disallowance on stock transfer of goods will also reduce cost procurement.
- Credit of import duties will make imports cheaper for retailers. Thus, all imported consumers goods will benefit.
- With introduction of GST, the entry tax and its additional compliances will be eliminated.
- Job work transactions and stock transfers, currently no taxed, are likely to be taxed and will effect production outlay
B. Entertainment and hospitality :-
- Eliminates multiplicity of taxes.
- By allowing credit between goods and services, GST will prevent cascading of taxes, resulting in increased profits for companies in this sector.
- Simplifies levy and valuation on composite transactions. Thus, will reduce litigation challenges and related costs faced by companies in this sector.

C. IT & telephone :-
- End to classification disputes on software, SIM cards, franchise fees, AMCs, etc.
- Simplifies levy and valuation on composite transactions by eliminating multiplicity of taxes- VAT, service tax, entry tax

D. Service Sector :-
- Better credits across goods and services
- No segregation between manufacture, services and trading for utilization of credits

E. Infrastructure & real estate :-
- Simplifies levy and valuation on composite transactions by eliminating multiplicity of taxes- VAT, service tax, Entry Tax
- Increase in total tax incidence on certain products under the GST regime such as cement and steel
- SEZ benefits to continue – supplies to SEZ to be zero rated
- Real estate development transactions – no way forward provided yet
- Stamp duty may continue to appl

F. Banking, financial services and insurance:-
- Better credits across goods and services
- Increase in credit pool due to availability of GST credits on purchase of goods
- Interest on loans expected to be taxed under GST

G. Healthcare Industry:-
- Uniform classification of Healthcare products under both CGST and SGST to avoid litigations.
• Credit on all types of GST (on goods and services) incurred for all business functions to avoid cascading effect.
• Abolition of all other indirect taxes like- Entry tax, Cess, Additional Tax, octroi etc.
• Position of credit of taxes paid on pre-operative activities for establishing manufacturing set-up from construction activity till commercial production, Research & Development activity etc.

Conclusion
Goods and Services Tax (GST) discussion have created high hopes and forecasted favorable impact for various sector in India. There are high hopes from current government to roll out the implementation of the bill soon, to get its benefits. GST is expected to broaden the tax base, improve tax compliance and also created harmony in Indirect Tax System.

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Implications of GST Introduction on Indian Economy:
Issues and Challenges

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Abstract

For a developing economy like India it is desirable to become more competitive and efficient in its resource usage. Apart from various other policy instruments, India must pursue taxation policies that would maximize its economic efficiency and minimize distortions and impediments to efficient allocation of resources, specialization, capital formation and international trade. With regard to the issue of equity it is desirable to rely on horizontal equity rather than vertical equity. While vertical equity is based on high marginal rates of taxation, both in direct and indirect taxes, horizontal equity relies on simple and transparent broad-based taxes with low variance across the tax rates.

The Goods and Service Tax is a single rate tax levied on the manufacture, sale and consumption of goods as well as services at a national level. In this system the GST is implemented only on the value added at every stage of production. This will ensure there is no cascading effect of taxes (tax on tax paid) on inputs that are used in manufacturing goods. With the GST in place, the prices of goods are expected to fall, and in the long term we can expect the dealers to pass on these benefits to the end consumer as well. Currently, central government levies service tax for more than 100 services. No sales tax / VAT are levied by the states on services. However, once GST is in place, the service providers would need to pay the SGST to the states. Further, there will be a common tax rate and reduce tax avoidance & evasion, broadening the tax base, increase the transferenceetc.in all transaction of commodities and services. But implementation of GST in Indian economy is not so easy, because of social, political, administrative, general public and lots of other challenges needs to be addressed.

Key Words: GST, Cascading effect, VAT, Tax avoidance & Evasion etc.

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Introduction

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 argument can be extended to international competitiveness of the adversely affected sectors of production in the economy. Such domestic and international factors lead to inefficient allocation of productive resources in the economy. This results in loss of income and welfare of the affected economy.

Traditionally India’s tax regime relied heavily on indirect taxes including customs and excise. Revenue from indirect taxes was the major source of tax revenue till tax reforms were undertaken during nineties. The major argument put forth for heavy reliance on indirect taxes was that the India’s majority of population was poor and thus widening base of direct taxes had inherent limitations. Another argument for reliance on indirect taxes was that agricultural income was not subjected to central income tax and there were administrative difficulties involved in collecting taxes.

The differential multiple tax regime across sectors of production leads to distortions in allocation of resources thus introducing inefficiencies in the sectors of domestic production. With regard to India’s exports, this leads to lack of international competitiveness of the sectors which would have been relatively efficient under distortion-free indirect tax regime. Add to this, the lack of full offsets of taxes loaded on to the fob export prices. The export competitiveness gets negatively impacted even further. Efficient allocation of productive resources and providing full tax offsets is expected to result in gains for GDP, returns to the factors of production and exports of the economy.

The Government of India constituted a Task Force on implementation of Fiscal Responsibility and Budget Management Act, 2003 to chalk out a framework for fiscal policies to achieve FRBM targets. Task Force headed by Dr. Vijay L. Kelkar made a number of recommendations. Among others, it suggested an All India goods and services tax (GST) which would help achieve a common market and widen the tax base. It recommended that the multiplicity of tariffs should be reduced to three components viz., basic customs duty, additional duty and anti-dumping duties. All exemptions should be removed barring lifesaving drugs, security items, goods for relief and charitable purposes and international obligations.
Introducing GST and Its Impact on Indian Economy

Despite all the various changes the overall taxation system continues to be complex and has various exemptions. The Report of the Task Force on implementation of the FRBMA, chaired by Dr. Vijay Kelkar, submitted its Report in July 2004. It has recommended introduction of a national VAT on goods and services (GST) which would help improve the revenue productivity of domestic indirect taxes and enhance welfare through efficient resource allocation.

The Joint Working Group of the Empowered Committee of the State Finance Ministers submitted its report on the proposed Goods and Services Tax (GST) to the Finance Minister in November 2007. A dual GST, one for the Centre and other for the states, would be implemented by 1 April 2010. The new system would replace the state VAT and the CENVAT.

Most of the indirect taxes would be subsumed under GST except for stamp duty, toll tax, passenger tax and road tax. All goods and services would be taxed with some exceptions. There is a debate on the specific rate of the GST within a band varying from 12 to 20 per cent. Nevertheless the move to GST would be one of the most important indirect tax reforms in India.

“A well designed destination-based GST on all goods and services is the most elegant method of eliminating distortions and taxing consumption. Under this structure, all different stages of production and distribution can be interpreted as mere tax pass-through, and the tax essentially ‘sticks’ on final consumption within the taxing jurisdiction.” (Kelkar, 2009).

Given the passage of the Constitution (122nd) Amendment Bill, 2014 for Goods and Services Tax (GST) in the Lok Sabha on 6th May, 2015, the Government of India seems committed to replace all the indirect taxes levied on goods and services by the Centre and States and implement GST by 2016. With GST, it is anticipated that the tax base will be comprehensive, as virtually all goods and services will be taxable, with minimum exemptions.

GST will be a game changing reform for Indian economy by developing a common Indian market and reducing the cascading effect of tax on the cost of goods and services. It will impact the Tax Structure, Tax Incidence, Tax Computation, Tax Payment, Compliance, Credit Utilization and Reporting leading to a complete overhaul of the current indirect tax system. GST will have a far reaching impact on almost all the aspects of the business operations in the country, for instance, pricing of products and services; supply chain optimization; IT, accounting and tax compliance systems.

**Major Steps of Indirect Tax reforms**

1. 1974 Report of LK Jha Committee suggested VAT
2. 1986 Introduction of a restricted VAT called MODVAT
3. 1991 Report of the Chellaiah Committee recommends VAT/GST and recommendations accepted by Government
4. 1994 Introduction of Service Tax
5. 1999 Formation of Empowered Committee on State VAT
6. 2000 Implementation of uniform floor Sales tax rates Abolition of tax related incentives granted by States
7. 2003 VAT implemented in Haryana in April 2003
8. 2004 Significant progress towards CENVAT
9. 2005-06 VAT implemented in 26 more states
10. 2007 First GST stuffy released By Mr. P. Shome in January
11. 2007 F.M. Announces for GST in budget Speech
12. 2007 CST phase out starts in April 2007
13. 2007 Joint Working Group formed and report submitted
14. 2008 EC finalises the view on GST structure in April 2008

Major Issues
1. Abolition of Multiple taxes.
2. Increases in Voluntary tax Compliances.
3. Removes distortion in economy.
4. Removes in cascading effects of taxation.
5. Enhances manufacturing and distribution efficiency
6. Widening the tax base.
7. It is destination based tax- determining the place of supply.
8. Centralized registration system in case of service tax compliances.
9. Increasing the production and distribution of goods and services.
10. In the GST system, when all taxes are integrated, it would make possible the taxation burden to be split equitably between manufacturing and services.
11. GST helps in removing economic distortion and brings about development of a common national market by levied tax only at the final destination of consumption based.
12. It also build a transparent and corruption –free tax administration.
13. Experts can predict that, by implementing the GST system, India will gain $15 billion a year. This is because; it will promote more exports, create more employments and boost growth.
14. In GST system tax should be collected at the point of sale by state and
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central governments. Individuals are benefited with lower prices, more consumption resulted more production and employments.

15. Some commodities are excluded from the ambit of GST, i.e. Alcohol, tobacco, petroleum products etc.

Challenges

1. The GST Constitutional Amendment Bill was passed in Lok Sabha in May 2015, but failed to get it passed in Rajya Sabha due to tremendous political set-backs faced by the government.
2. Central Government must also look into that, the GST bill passed by the respective state governments.
3. Governments also put GST bill before the public domain and give sufficient time to all stakeholders to comprehend and give their views on the bills.
4. The success of GST depends on two important factors like RNS and threshold limit. RNS (revenue neutral rate) is the rate at which there will be no revenue loss to the governments after implementation of GST.
5. The threshold limit of turnover for dealers under GST is another bone of contention between the government and the empowered committee, aiming to broadening the tax base under GST.
6. For effective implementation of GST, tax administration staff – both at central and state levels, would require to be trained properly in terms of concept, legislation and procedure. The tax administration staff would also need to change their mindset, approach and attitude towards the tax payers.
7. The success of GST is depends on robust IT backbone connecting all state governments, trade and industry, banks and other stakeholders on a real time basis.
8. There is a confusion with regard to states would be allowed to levy an additional 1% non-vat tax on interstate supplies for initial two years. Recently Empowered Committee recommended abolition of the same.

Conclusion

The dual GST proposed to be introduced is expected to expand the tax bases and simplify and harmonize the conception tax systems presently levied at both central and state levels. The central VAT (Cenvat) levied at present, has a narrow base and multiple rates. It is levied on goods at the production stage, and value added in subsequent stages is not included in the base. In the proposed Central GST, the base will be expanded by merging the service tax with the Cenvat, extended to wholesale and retail levels and simplified to have only one or two rates. The merger of service tax in GST helps to ensure more comprehensive
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input tax credit and relieve the tax on exports. The State GST will expand the base of the prevailing VAT to include services. The tax will be simplified by merging a number of other taxes such as motor vehicles tax, goods and passengers’ tax, entertainment tax, electricity duty and entry taxes including those levied in lieu of octroi—local taxes on the entry of goods into a municipal area for consumption, use or sale. Harmonization of tax rates and administration across states would bring about significant gain in minimizing distortions and reducing compliance cost for taxpayers.

GST is the most logical steps towards the comprehensive indirect tax reform in our countrysince independence. GST is leviable on all supply of goods and provision of services as wellcombination thereof. All sectors of economy whether the industry, business including Govt. departments and service sector shall have to bearimpact of GST. All sections of economy viz., big, medium, small scale units, intermediaries, importers, exporters, traders, professionals and consumers shall be directly affected by GST. One of the biggest taxation reforms in India—the Goods and Service Tax (GST) — is all set to integrate State economies and boost overall growth. GST will create a single, unified Indian market to make the economy stronger. 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. Under GST, the taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the taxbase and minimizing exemptions.

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Goods and Services Tax Act in India:
An Impact and Ideal Regime

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Abstract
Taxation is a very important and critical source for the development and growth of an economy. Objectives of the tax policy of a country should be akin to its general economic policy. The major part of revenue of a government comes from taxation whether it is direct tax or indirect tax. A sound tax system is very important for the development of the good health of public finance of any country. That’s the reason; various taxation reforms in different countries are being witnessed in the era of globalization. Philosophy of tax reform has been changed significantly over the years with the changing perception of the role of state in tax policy and internationalization activities. In recent time, the market oriented tax policies are preferred to social one. To minimize distortion in tax policy, tax rates are reduced and tax base is broadened that leads transition from vertical equity to horizontal equity. Designing tax policy and reforming existing tax system are two different things. They may produce sometimes different results. Anushuya Pal, Narwal Karam (2014) India is presently at the doorstep of the revolutionary change in its taxation policy. The most recent phase of tax policy reforms in India witnessed the introduction of an important legislature i.e. constitutional amendment bill to introduce the Goods and Services Tax (GST). The objective of this paper is to evaluate which changes have occurred in Indian Indirect tax system and how their deficiencies make the way for GST - the most awaited Indirect tax reform.

Key Words: GST, Tax Policy, GDP, Economic Development

Introduction
GST or the Goods and Services Tax is an indirect tax that brings together most of the taxes that are imposed on all goods and services (except a few) under

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a single banner. This is in contrast to the current system, where taxes are levied separately on goods and services. The GST, however, is a comprehensive form of tax based on a uniform rate of tax for both goods and services. However, the GST is payable only at the final point of consumption.

How will it work in India?

The GST was first mentioned in India during the 2006-2007 budget and the latest budget too includes the need to take steps to make the implementation possible by April 1, 2010. Given the federal nature of the country, GST in India is expected to take the form of a dual GST including both a Central and a state GST. The Empowered Committee of the State Finance Ministers has been given the responsibility for creating a model and a roadmap for the GST. While there is very little clarity at present, it is expected that the central GST will subsume excise duty and service tax and the state GST may replace the VAT.

What are the benefits of the GST?

At the simplest level, the GST reduces the number of instances where taxes need to be paid thus reducing the possibility of manipulation on the part of tax authorities and is hence assumed to be a much transparent mode of administering taxes. It will alleviate the burden of cascading taxes for individuals. It is also expected to boost revenue collection in certain states and to reduce the prices of goods.

Review of Literature

The basic objective of tax reform would be to address the problems of the current system discussed above. It should establish a tax system that is economically efficient and neutral in its application, distributionally attractive, and simple to administer. As argued in Ahmad and Stern (1991), distributional or sectoral concerns have been at the heart of the excessive differentiation of the Indian tax system but that the objectives are negated by the cascading effects of the taxes. While an optimal design of the consumption tax system, taking into account both production efficiency and distributional concerns, would not imply uniformity of the overall tax structure, the desired structure can be achieved by a combination of taxes and transfers.

Ahmad and Stern (1991) analyze the optimal pattern of tax rates implied by a given degree of aversion to poverty and concern for the poor. At high levels of concern for the poor, one would reduce the tax on cereals (but not dairy products)
and increase the taxes on non-food items (durables). Thus, a differentiated overall structure appears desirable for a country in which the government has consistently expressed a concern for the poor. However, individual taxes should not be highly differentiated, as that complicates administration and makes it difficult to evaluate the overall effects of the tax design. This applies particularly to value-added type of taxes. In principle, a single rate (or at the most two-rate) VAT, together with excises and spending measures could achieve the desired distributional effects, for reasonable degrees of inequality aversion of policy makers.

Poddar and Bagchi (2007) calculations show that if the GST were to be levied on a comprehensive base, the combined Centre-State revenue neutral rate (RNR) need not be more than 12%. This rate would apply to all goods and services, with the exception of motor fuels which would continue to attract a supplementary levy to maintain the total revenue yield at their current levels. Here are some basic ingredients of the RNR calculations for 2005-06, the latest year for which the necessary data are available. The total excise/service tax/ VAT/sales tax revenues of the Centre and the States in that year was Rs.134 thousand crore and Rs.139 thousand crore respectively. Assuming that approximately 40% of the central excise revenues and 20% of the state VAT/sales tax revenues are from motor fuels, the balance of the revenues from other goods and services that need to be replaced by the GST are Rs 89 thousand crore for the Centre and Rs 111 thousand crore for the states, making up a total of Rs 200 thousand crore.

**Goods and Services Tax Act in India and Historical Development**

It is very important to know the historical developments of taxation policies in India and for the Goods and Services Tax Act in India. Let us understand some of the facts of historical developments for GST in India.

1. In 2000, the Vajpayee Government started discussion on GST by setting up an empowered committee. The committee was headed by AsimDasgupta, (Finance Minister, and Government of West Bengal). It was given the task of designing the GST model and overseeing the IT back-end preparedness for its rollout. 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.
2. The Kelkar Task Force on implementation of the FRBM Act, 2003 had pointed out that although the indirect tax policy in India has been steadily progressing in the direction of VAT principle since 1986, the existing system of taxation of goods and services still suffers from many problems and had suggested a comprehensive Goods and Services Tax (GST) based on VAT principle. 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. This involves taxation of goods and services in an integrated manner as the blurring of line of demarcation between goods and services has made separate taxation of goods and services untenable.

3. 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. Increasingly, services are used or consumed in production and distribution of goods and vice versa. Separate taxation of goods and services often requires splitting of transactions value into value of goods and services for taxation, which leads to greater complexities, administration and compliances costs. Integration of various Central and State taxes into a GST system would make it possible to give full credit for inputs taxes collected. 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.

4. A proposal to introduce a national level Goods and Services Tax (GST) by April 1, 2010 was first mooted in the Budget Speech for the financial year 2006-07. Since the proposal involved reform/ restructuring of not only indirect taxes levied by the Centre but also the States, the responsibility of preparing a Design and Road Map for the implementation of GST was assigned to the Empowered Committee of State Finance Ministers (EC). In April, 2008, the EC a report to the titled “A Model and Roadmap for Goods and Services Tax (GST) in India” containing broad recommendations about the structure and design of GST. In response to the report, the Department of Revenue made some suggestions to be incorporated in the design and structure of proposed GST. Based on inputs from GoI and States, The EC
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released its First Discussion Paper on Goods and Services Tax in India on the 10th of November, 2009 with the objective of generating a debate and obtaining inputs from all stakeholders.

5. A dual GST module for the country has been proposed by the EC. This dual GST model has been accepted by centre. Under this model GST have two components viz. the Central GST to be levied and collected by the Centre and the State GST to be levied and collected by the respective States. Central Excise duty, additional excise duty, Service Tax, and additional duty of customs (equivalent to excise), State VAT, entertainment tax, taxes on lotteries, betting and gambling and entry tax (not levied by local bodies) would be subsumed within GST.

6. In order to take the GST related work further, a Joint Working Group consisting of officers from Central as well as State Government was constituted. This was further trifurcated into three Sub-Working Groups to work separately on draft legislations required for GST, process/forms to be followed in GST regime and IT infrastructure development needed for smooth functioning of proposed GST. In addition, an Empowered Group for development of IT Systems required for Goods and Services Tax regime has been set up under the chairmanship of Dr.NandanNilekani.

7. A draft of the Constitutional Amendment Bill has been prepared and has been sent to the EC for obtaining views of the States.

8. The Goods and Service Tax Bill or 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.

The Historical Development of GST in India can be understood in the following diagram step by step by the successful central governments in India from 2000 to 2016.
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GST Journey So Far

2000
- In 2000, the Vajpayee Government started discussion on GST by setting up an empowered committee. The committee was headed by Asim Dasgupta, (Finance Minister, Government of West Bengal).

2002-2004
- The Kelkar Task Force on the implementation of Fiscal Responsibility and Budget Management (FRBM) Act, 2003 and suggested a comprehensive Goods and Services Tax (GST).

2006
- A proposal to introduce a national level Goods and Services Tax (GST) by April 1, 2010 was first mooted in the Budget Speech for the financial year 2006-07.

2007
- MAY 2007: Empowered Committee of State Finance Ministers, on this request, started worked on GST roadmap.

2008
- April 2008 - Empowered committee finalized views over GST and submitted report titled “A model and roadmap for Goods and Services Tax (GST) in India”

2009

2010
- Feb 2010 - Mentioned in the speech of then FM - GST to be introduced in April 2011

2011
- March 2011 - The Constitution 115th amendment bill introduced in Lok Sabha for levy of GST on all goods or services except for the specified goods.

2013
- AUG 2013 - Standing Committee Submitted its report on GST
- NOV 2013 - EC rejected Govt’s proposal to include petroleum products.

2014
- Dec 2014 - The Constitution 122th amendment bill passed in Lok Sabha for levy of GST which enables the introduction of GST probably by April 2016 on 17th December, 2014
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Ideal Regime of GST in India

The Empowered Committee describes the GST as “a further significant improvement the next logical step towards a comprehensive indirect tax reforms in the country.” Indeed, it has the potential to be the single most important initiative in the fiscal history of India. It can pave the way for modernization of tax administration - make it simpler and more transparent and significant enhancement in voluntary compliance. For example, when the GST was introduced in New Zealand in 1987, it yielded revenues that were 45% higher than anticipated, in large part due to improved compliance. It’s more neutral and efficient structure could yield significant dividends to the economy in increased output and productivity. The Canadian experience is suggestive of the potential benefits to the Indian economy. The GST in Canada replaced the federal manufacturers’ sales tax which was then levied at the rate of 13% 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 1.4%, consisting of 0.9% increase in national income from higher factor productivity and 0.5% increase from a larger capital stock (due to elimination of tax cascading). However, these benefits are critically dependent on a neutral and rational design of the GST. As the choices made today would not be reversible in the near future, one needs a longer-term perspective. Achieving the correct choice is then a political economy balancing act that takes into account the technical options and the differing needs and constraints of the main partners. Fortunately, there is a very substantial consensus among all stakeholders in the country for a genuine reform. In the circumstances, an incremental or timid response would be neither politically expedient, nor would it serve the needs of India of the 21st century. Experience of countries with modern VATs, such as New Zealand, Singapore, and Japan suggests that a GST with single-rate and comprehensive base can be a win-win proposition for taxpayers and the fisc alike.

The GST bill, which subsumes all indirect taxes to create one rate and integrate the country into a single market, is the biggest tax reform that is being undertaken since Independence.

The bill has been approved by the Lok Sabha and is pending approval of Rajya Sabha where the government lacks a majority. Pannu SPS (2015) the GST aims to cut red tape for taxpayers by replacing an array of central excise and state levies such as sales tax and VAT which currently range from 25 per cent to 30 per cent by a single rate of 18 per cent that is currently under
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consideration. It will also end the practice of imposing a levy on goods coming from outside a state which sees long queues of trucks stuck at state barriers which also slows the movement of goods across the country. The services tax which currently works out to 14.5 per cent after including the Swachh cess will go up to 18 per cent to bring it at par with the goods tax so that there is a uniform tax for both goods and services in the new GST regime. The GST is expected to bring about a qualitative change in the tax system by redistributing the burden of taxation equitably between manufacturing and services. The Finance Commission had commissioned a study by NCAER to assess its impact on GDP growth and exports. Preliminary results of the study indicate that the growth in GDP can be between 2-2.5 per cent with the implementation of a well-designed GST. The increase in exports can be between 10-14 per cent. It is because of this reason that the government is keen to push through economic reform. Finance ministry officials say introducing the new tax could increase the revenues of the Centre and state governments substantially as all consumers would pay taxes on most goods and services. However, many state governments fear revenue losses as a result of GST being introduced, and a parallel discussion is also under way about how to compensate them, complicating efforts to reach a workable compromise. The Empowered Committee of State finance ministers which met last week failed to reach a consensus over the threshold for levying the proposed Goods and Services Tax (GST) which is expected to further delay the introduction of this key economic reform. While the Centre is of the view that threshold for levying central GST and state GST be kept at an annual turnover of Rs 25 lakh, some small states want it to be at Rs 10 lakh. While some states are adamantly that it should be Rs 10 lakh, others are of the view the limit should be higher as bringing small traders under GST would lead to an ‘inspector raj’ and harassment of businessmen.

Rajesh Kumar Singh (2015) a major tax reform cleared a key hurdle in the parliament on Wednesday, May 6, 2015, when the Lok Sabha passed a bill to replace a patchwork of levies by the central and state governments with a single nationwide sales tax. One of major reforms proposed by Prime Minister Narendra Modi, the goods and services tax (GST) has been hailed by Finance Minister Arun Jaitley as the biggest reform in India since independence in 1947. He has said it could add up to 2 percentage points to the growth of Asia’s third-largest economy. “The whole country, which is one-sixth of the world’s population, would become a single market, and, therefore, it would give a necessary fillip as far as
trade is concerned,” Jaitley told lawmakers in the lower house. Approval in the Lok Sabha marks an important victory for Modi’s ruling Bharatiya Janata Party (BJP), but the bill still must pass in the Rajya Sabha. The opposition, including the Congress party, is stronger there. Congress supports the measure, but it boycotted the vote in the lower house, demanding the bill be first reviewed by a parliamentary panel. Further complicating matters are the competing interests of the central and state governments, which want to protect their tax revenue and retain fiscal control. The bill also needs the approval of more than a half of India’s 29 states. The battle has already led to several compromises on the bill, leading some analysts to say India could end up being saddled with a badly designed tax. A government think-tank proposed the tax rate be set at 27 percent, for example, which is well above the global average of 16.4 percent for similar taxes. On Wednesday, Jaitley told lawmakers that the proposed rate was “too high” and needed to be “much more diluted”. But some states are asking for an even higher rate. Exemptions and exceptions have also been worked into the bill. The tax does not apply to alcohol, for example, and petroleum products will be taxed separately at first. Manufacturing states will be allowed to levy an additional tax of 1 percent on supply of goods. “All this would make Indian manufacturers and service providers uncompetitive,” said Saloni Roy, senior director, tax consultants Deloitte. “We need a GST that would widen the tax base and encourage tax compliance.” Jaitley has imposed a deadline to roll out the common tax next year.

Conclusion

The fundamental problem involved is the decision of a revenue-neutral rate for the GST that will be acceptable to all those involved and also whether there will be a single rate or two rates at state and Central level. The federal nature of the country also accounts for its own share of complications and delays. For the Centre to be able to impose tax at the retail level and for states to be able to tax services will require constitutional amendments, which will further need to be passed by the Parliament and state legislatures. For nearly ten years, India has been on the verge of implementing a GST. But now, with political consensus close to being secured, the nation is on the cusp of executing one of the most ambitious and remarkable tax reforms in its independent history. Implementing a new tax, encompassing both goods and services, to be implemented by the Centre, 29 States and 2 Union Territories, in a large and complex federal system,
via a constitutional amendment requiring broad political consensus, affecting potentially 2-2.5 million tax entities, and marshalling the latest technology to use and improve tax implementation capability, is perhaps unprecedented in modern global tax history. Tax policy in the name of the poor turns out to be poor or ineffective social policy. And the cost is a tax base that is narrow, exemptions-ridden, and in the case of power, the cost also includes breaking up the value added chain because it is an important intermediate input. In the medium run, of course, direct benefit transfers or better public provision of essential services would relieve tax policy of the burden of having to meet social objectives. But even in the short run, greater attention needs to be devoted to finding better instruments of social policy, and leaving tax policy to meet broad macro-economic objectives.

References