



## GST- A NEW BEGINNING IN INDIAN FINANCIAL SYSTEM

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**Abstract:** *GST means Goods and Services Tax. The main aim of GST is to abolish all types of indirect taxes and adopt a single taxation system that is GST. GST is a tax on goods and services under which every person is liable to pay tax on his output and is entitled to get input tax credit (ITC) on the tax paid on its inputs (therefore a tax on value addition only) and ultimately the final consumer shall bear the tax. In the present system multiplicity of tax system is available. For example Central taxes such as excise duty, service tax and countervailing duty, and State taxes, such as VAT, entertainment tax and luxury tax are levied on the products. GST will eliminate these multiple taxes and bring uniformity of taxes all over the country. This will surely prove beneficial in simplifying the tax system. As there will be a single tax system. Indian market will convert into a unified market. This results in lowering business costs and also facilitates free flow of goods from one state to another. This will also reduce the transaction cost of business. The difference of taxes in different states divides the National Market along the state boundaries. GST will be levied only at the final destination of consumption based on VAT principle. GST is likely to eliminate these state boundaries and make the market as one unified National Market with a simple levy and lowering effective tax on goods. According to analysts GST could boost India's economic growth by up to 2 percentage points. As per the experts GST will provide a gain of \$15 billion a year to India. They have the given logic behind it that GST will promote more exports; increase in exports will generate more employment opportunities and all this will boost the overall growth of the country. The present research work has been done with the objectives to understand the meaning of GST, to discuss the worldwide applicability of GST, to explain the benefits of GST implementation, to understand the mechanism of GST application in India and to discuss the challenges in GST implementation. It is based on secondary data as the data has been collected through internet and other published sources. The paper ends with the conclusion that although there are lots of challenges in implementation of GST in India but the benefits which will be received after implementing it properly will outweigh its cost. Hence it should be implemented in its full-spirit as early as possible.*

**Keywords:** *GST, Taxes, VAT, States, SGST and CGST and System*



## **INTRODUCTION**

GST means Goods and Services Tax. The main aim of GST is to abolish all types of indirect taxes and adopt a single taxation system that is GST. Multiplicity of indirect taxes by centre and state level increases the cost of goods manufactured till final consumption. Under this system the tax is levied only at one level that is National Level.

GST is a tax on goods and services under which every person is liable to pay tax on his output and is entitled to get input tax credit (ITC) on the tax paid on its inputs (therefore a tax on value addition only) and ultimately the final consumer shall bear the tax.

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.

Analysts say GST could boost India's economic growth by up to 2 percentage points.

The bill, cleared by the Lok Sabha, has attempted to introduce the definition of GST. It is defined as any tax on the supply of goods or services that will subsume CENVAT, service tax, central excise duty, additional excise duties, excise duties levied under the Medicinal and Toilet Preparations (Excise Duties) Act, 1955, service tax, additional customs duty (countervailing duty or CVD), special additional duty of customs (SAD), central surcharges and cesses, State VAT, State sales tax, entertainment tax not levied by local bodies, luxury tax, taxes on lottery, betting, and gambling, tax on advertisements, State cesses and surcharges related to supply of goods and services and entry tax not levied by local bodies.

## **OBJECTIVES OF THE STUDY**

The objectives of this study are as follows

- To understand the meaning of GST.
- To discuss the worldwide applicability of GST.
- To explain the benefits of GST implementation.
- To understand the mechanism of GST application in India.
- To discuss the challenges in GST implementation.

## **RESEARCH METHODOLOGY**



The present research paper is secondary data base. The data for this paper has been collected through internet and other published sources.

## **WORLDWIDE GST**

The country France was the first among all the nations to introduce GST in the year 1954. Now around 150 countries have adopted GST in the one form or the Canada has dual GST system. A unified GST system is adopted by most of the countries in the world. In China GST applies to only goods and the provision of repairs, replacement and processing services.

GST rates of some countries

<b>Country</b>	<b>Rate</b>
Australia	10%
France	19.6%
Canada	5%
Germany	19%
Japan	5%
Singapore	7%
New Zealand	15%

## **OBJECTIVES OF GST**

- Removal of Cascading effects of taxes on cost of goods and services.
- Developing a common National market, for goods and services.
- Increase the domestic as well as international competitiveness of Indian trade and industry and contribute significantly to the growth of the economy.

## **BENEFITS OF GST**

### **Simplification of taxes**

In the present system multiplicity of tax system is available. For example Central taxes such as excise duty, service tax and countervailing duty, and State taxes, such as VAT, entertainment tax and luxury tax are levied on the products. GST will eliminate these multiple taxes and bring uniformity of taxes all over the country. This will surely prove beneficial in simplifying the tax system.

### **Reduction of costs**

As there will a single tax system. Indian market will convert into a unified market. This results in lowering business costs and also facilitates free flow of goods from one state to another. This will also reduce the transaction cost of business.



### **Wider Market**

The difference of taxes in different states divides the National Market along the state boundaries. GST will be levied only at the final destination of consumption based on VAT principle. GST is likely to eliminate these state boundaries and make the market as one unified National Market with a simple levy and lowering effective tax on goods.

### **More Transparency and revenue generation**

GST will bring better transparency in the tax system. This is so because as the tax is collected at one place that is at the stage of final consumption, the number of tax collection department reduces and the chances of corruption will also reduce. Now more business entities like unorganized sector also come under the tax umbrella which in turn increases the revenue of the country as a whole.

### **Better growth of the country**

As per the experts GST will provide a gain of \$15 billion a year to India. They have the given logic behind it that GST will promote more exports; increase in exports will generate more employment opportunities and all this boost the overall growth of the country. According to a study by the National Council of Applied Economic Research (NCAER), full implementation of the GST could expand India's growth of gross domestic product by 0.9-1.7 percentage points.

### **Beneficial for both Individuals and Companies**

Under GST, taxes for both the Centre and State are collected at the point of sale. These taxes are charged only on the manufacturing cost of the product. No multiple taxes will be imposed on the same product due to which the cost of the product becomes lower than earlier. This will directly benefit the consumers as lower price will be paid by him. Other things remaining the same lower prices will increase the consumption and this will create more demand which increase the production of goods and will also result in more employment generation also. This will prove beneficial towards the growth of the individuals as well as the companies.

### **Beneficial to Traders and producers**

Suppliers, Manufacturers, wholesalers and retailers become able to recover the GST incurred cost on input costs as tax credits. This reduces the cost of doing business, thus enabling fairer prices to consumers.



### Better segregation of Manufacturing and service cost

Imposition of taxes separately on goods and services requires division of transaction values into value of goods and services. This leads to greater complications, administration, including compliances costs. Under GST when all the taxes got integrated, it would make possible the taxation burden to be split equitably between manufacturing and services.

### APPLICABILITY OF GST

Indirect Taxes	GST	Goods/Services Produced & Consumed in same State	Goods/Services Produced & Consumed in different States (Inter-State)	Goods & Services Exported	Goods & Services Imported
Excise Duty	CGST	CGST rate + SGST rate Levied	Integrated GST	GST not Applicable	CGST rate + SGST rate Levied
Service Tax					
Custom Duties					
Central Sales Tax					
State Sales Tax	SGST	CGST rate + SGST rate Levied	Integrated GST	GST not Applicable	CGST rate + SGST rate Levied
Entertainment Tax					
State VAT					
Professional Tax					

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It is proposed by the empowered committee that a dual GST system will be implemented in India under which GST will be divided in two parts:

- State Goods and Services Tax (SGST)
- Central Goods and Services Tax (CGST)

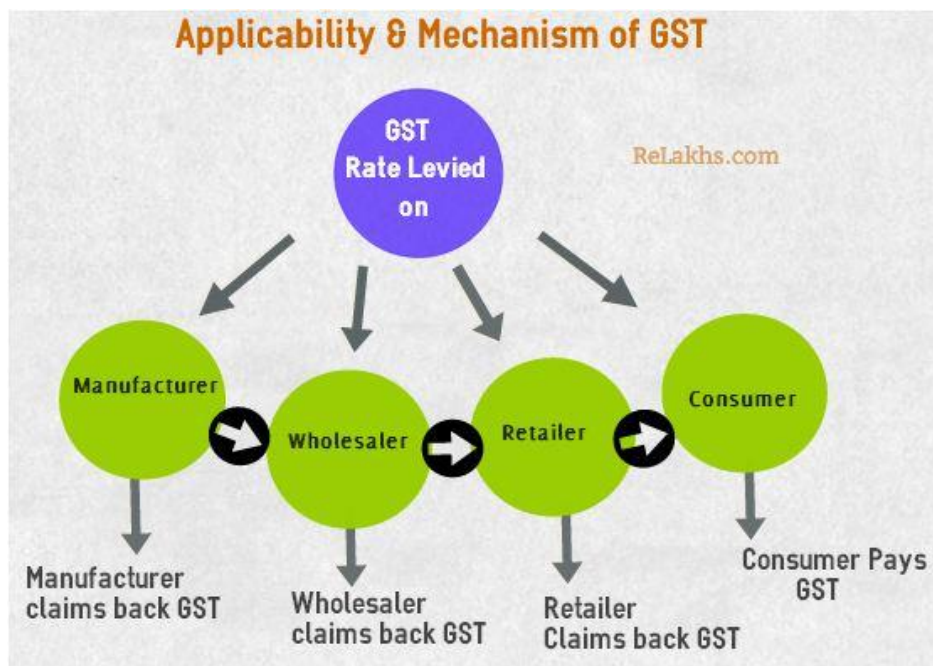
For tackling the complicated issues related to inter-state transactions, an innovative Integrated Goods and Services Tax (IGST) is also under consideration. Both SGST and CGST will be levied on taxable value of a transaction. GST will not be applicable on few goods viz. petroleum crude, high speed diesel, petrol and natural gas, Aviation turbine fuel, Alcohol for human consumption. All the goods and services except these goods will come under GST. Goods and services will be treated as same under GST. Central Excise duty, additional excise duty, services tax, State VAT, entertainment tax etc. all will come under one tax i.e. GST. GST rates have not yet finally decided. Two or three different rates are expected to be imposed on the goods and services based on their importance or necessity. Like a lower rate is expected for an essential commodity and higher rate on luxury or precious goods or services. The rate expectations will be around 14-16 percent. The SGST and CGST rates will



be decided by the States and Centre after the fixation of GST rates. Presently 10 percent rate is levied on services and 20 percent indirect taxes are imposed on most of the goods.

### Mechanism of GST

Being a consumption based tax GST is applied at the place of the final consumption of the goods or services. While the GST is collected on value-added goods and services at each stage of sale or purchase in the supply chain, but whatever GST has been paid on the procurement of goods and services are to be set off against that payable on the supply of goods or services.



As the GST paid by the manufacturer or the wholesaler or the retailer will be set off through tax credit mechanism. The tax is finally to be paid and beard by the consumer as he stands in the last in the supply chain.

### CHALLENGES IN IMPLEMENTATION OF GST

#### Fear of States for loss of revenue

States are under the impression that after the implementation of GST they will not earn that much revenue which they are earning presently. Due to this reason they want to have compensation from the government for first few years of implementation of GST.

#### Technological Challenges

To cover the GST nationwide for the effective calculation of revenue generation reports, tracking of interstate movement of goods and services, preparation of list of defaulters etc.



A high end and efficient IT Infrastructure which is capable of Centralised revenue generation is the required. Lready Although the Government has already incorporated Goods and Services network (GSTN). GSTN has to develop GST portal which ensure technology support for registration, return filing, tax payments, IGST settlements etc.

### **Trained Tax Administration Staff**

As GST is to be implemented for the first time in India an efficient and fully trained tax administration staff is required at both Centre and State Level. The staff should have clarity about the concept of GST, its legislation and procedure as well.

### **Passing the Bill**

The GST Constitutional Amendment Bill was passed by the Lok Sabha in May 2015. But the bill is to be passed by in the Rajya Sabha two-thirds majority in both Houses of Parliament and and by the legislatures of half of the 29 States. However, some of the states outrightly rejected it by giving some points. So, passing of GST Bill is itself a big challenge in it.

### **Revenue Neutral Rate (RNR)**

It is one of Prominent Factor for its success. We know that in GST regime, the government revenue would not be the same as compared to the current system. Hence, through RNR Government is to ensure that its revenue remains the same despite of giving tax credits.

### **Threshold Limit in GST**

While achieving broad based tax structure under GST, Both empowered committee and Central Government must ensure that lowering of threshold limit should not be a “taxing” burden on small businessmen in the country.

### **Dispute Resolution Mechanism**

There are a lot of questions regarding the resolutions of pending cases and the solutions of further disputes which may arise in future. There is no clarity that whether there will be a separate tribunal after the implementation of GST or the the same tribunal will deal with the cases.

## **CONCLUSION**

GST being the goods and service tax will work as a powerful tool in eliminating the loopholes present in the current taxation system and also gives a basket full of benefits like increased GDP, employment, better markets, more exports, lower costs and better markets etc. But to implement the GST in its full-fledged spirit a series of challenges also have to be faced. As





success always requires hard work hence in order to reap the benefits these challenges have to be overcome successfully. The conclusion of the paper is that although there are lots of challenges in implementation of GST in India but the benefits which will be received after implementing it properly will outweigh its cost. Hence it should be implemented in its full-spirit as early as possible.

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