



BENEFITS OF GOODS AND SERVICES TAX IN INDIA: A SYNOPTIC VIEW

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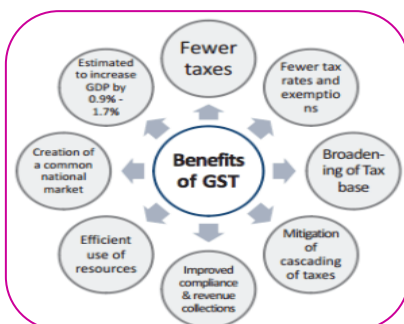
ABSTRACT

Goods and Services Tax (GST) is an indirect tax levied on supply of goods and services. It is a single biggest tax reform in India. Earlier there were more than 17 types of indirect taxes levied on sale of goods and services in India. The compliances like separate registration for separate taxes and their different dates for filing returns were troublesome to the businessmen. But GST law has replaced all these indirect tax laws in India. After the introduction of GST in the country a single set of indirect tax is applicable. Under this system, there is a single date for filing return and only five types of rates are levied on supply of goods and services. This simple process gives huge relief to the businessmen by way of easy online compliance. It also helps the business people in saving significant amount because payment of a considerable amount by them as consultancy fees to their tax consultants for compliance of different kinds of taxes levied on sale of goods and services tax was a common practice during the pre-GST era in India. The present paper attempts to identify various benefits that can be derived for all sections of people as well as the government with the introduction of GST in India.

KEY WORD: GST, Compliance, Reform, Indirect Tax.

INTRODUCTION

Goods and Services Tax is a country wide indirect tax which was introduced in India on 1st July 2017 and was applicable throughout India. It replaced various indirect taxes like Central Excise Duty, Service Tax, State Sales Tax, Octroi and Value added tax levied by different states and central as a whole. All this tax gets subsumed in GST to form a unified market across the country. GST is also known as VAT or value added tax in many countries a multi stage consumption tax on goods and services. GST brings in "One Nation One Tax" to unite indirect taxes under one umbrella and facilitate Indian business to be globally competitive. GST is implemented in India for efficient tax collection, reduction in corruption and easy inter- state movement of goods and services. GST has been already implemented by more than 160 countries in the world and they have been benefited a lot by way of reduction in tax evasion, minimising the corruption and by building a better nation. France was the first country to implement GST to reduce tax evasion. Since then, more than 160 have implemented GST with some countries having dual GST model. India has chosen the Canadian model of dual GST. It was introduced by Constitution Act 2017 by passing the constitution 122 amendment bill. The GST is governed by GST council and its chairman is the Finance Minister of the India. It is applicable across the supply chain from manufacturing to the consumption. It allow the constituent of supply chain to claim credit of input taxes paid at each stage in the subsequent stage of value addition, which means that a tax will be impose only on each stages of value addition. The structure of the GST has two components - CGST and SGST, both are levied simultaneously on supply of goods and services



except in exempted ones. As the nomenclature suggest CGST will be collected by Central Government on supply of goods and services while State Government will collect SGST on intra state supply of goods and services. The changes procedure in India tax collection framework was begun in 1986 by Viswanath Pratap Singh with the presentation of the Modified Value Added Tax (MODVAT). A solitary basic "Products and Enterprises Tax" proposed and given proceed in 1999 amid the gathering between then PM Atal Bihari Vajpayee and his monetary warning board, which comprises of three previous RBI representative IG Patel, Bimal Jalan and C Rangarajan. At that point Prime Minister Vajpayee set up a board of trustees headed by the then fund Minister of West Bengal, Asim Dasgupta the outline a GST demonstrate. The Ravi Dasgupta board was likewise entrusted with setting up the backend innovation and calculated (later came to be known as the GST Network, or GSTN, in 2017) for revealing a uniform tax assessment administration in the nation. In the year 2000, the NDA government shaped a team headed by Vijay Kelkar to prescribe assess changes. In the year 2005, the Kelkar board of trustees prescribed taking off GST as recommended by the twelfth Finance Commission. Anyway in 2010 Asim Dasgupta surrendered from the headship of GST board of trustees as his legislature out of intensity from west Bengal. Dasgupta conceded in a meeting that 80 per penny business related undertaking has been finished.

In 2014, the NDA government was re-chosen into control, this time under the initiative of Narendra Modi with the considerable disintegration of fifteenth Lok Sabha, the GST charge was endorsed by the standing board of trustees for reintroduction. Seven months after development of the present government, the new Finance Minister presented the GST charge in the Lok Sabha, where the focal government had a lion's share. In February 2015, Finance Minister, set another due date of first April 2016 to actualize GST. Anyway after that different sorts of issue were made by the different gathering of the general public. In any case, at long last in August 2016, the Amendment Bill was passed. Throughout the following 15 to 20 days, 18 states endorsed the GST Bill and the president gave his consent to it.

A gathering of 21 individuals was framed to investigate the proposed GST Bill laws. States and Union Territory GST laws were passed by every one of the states and Union regions of India with the exception of Jammu and Kashmir, preparing for smooth rollout of the duty from 1 July 2017. There was to be no GST discounted and buy of securities. That keeps on being represented by Securities Transaction Tax (STT). GST depends on the idea of "One Nation One Tax" so it subsumed a wide range of circuitous duties. The single GST supplanted a few previous expenses and requires which incorporates focal extract obligation, administrations assess, extra traditions obligation, additional charges, state level esteem included duty and octroi. Different tolls which were appropriate on between state transportation of products have likewise been discarded in GST administration. GST is demanded on all exchanges, for example, deal, exchange, buy, trade, rent, or import of products and additionally benefits. India embraced double GST show implying that tax collection is regulated by both the Union and State Governments. Double GST show is trailed by different nations however India received the Canadian model of GST. GST is an utilization based assessment, in this way charges are paid to the state where merchandise or administrations are devoured not the state in which they were delivered. IGST confuses assess accumulation for the state Government by debilitating them from gathering the owed to them straightforwardly from the Central Government. Under the past framework, state would just need to manage a solitary government keeping in mind the end goal to gather assess income.

The introduction of GST increased the costs of most of the consumer goods and services in India including food, hotel charges, insurance, and cinema tickets. But it is a primary effect but is expected that after few year inflation will reduce to some extent and it will come to a normal range. Long run effect of GST is good as expected.

In GST all consistence is done on online premise as there is no extent of manual consistence. So with a specific end goal to actualize the entire framework all the more viably we require solid data innovation foundation. For that the administration built up a Goods and Services Network (GSTN). A wide range of consistence are done through this system. GSTN is a non benefit association shaped for making a site/stage for all the concerned gatherings identified with the GST, specifically partners, government and citizen to

work together on a solitary gateway. The entry is by and large gotten to by focal government which enables it to find each exchange on its end while citizens are promoted to have capacity of interfacing this to their assessment forms. Anyway its productivity and adequacy isn't tried completely as in light of the fact that till date all individuals don't get enlisted. The IT organize was produced by anonymous private firms. The known approved capital of GSTN is 10 crores in which the Central Government holds 24.5 for every penny of offer while the state government holds 24.5 for each penny and rest with private managing an account firms for smooth running of the exchanges.

OBJECTIVES OF STUDY

The most important objectives of the paper are mentioned below.

1. To identify the benefits of implementing GST.
2. To identify how GST helps in curbing tax evasion.
3. To identify how GST helps in overall development of country.
4. To show the various benefit that each group of society is getting by implementation of GST.
5. To identify how GST helps in reducing compliance cost.

BENEFITS OF GOODS AND SERVICES TAX

The global experience has shown that the implementation of GST results in numerous benefits for all stakeholders. In the Indian GST regime, the consumers are benefited from lower prices due to removal cascading in taxes and efficiency gains. In the earlier taxation system before a particular goods or services is finally bought by consumer for his or her personal use, it passes through a number of stages in production and supply- chain, such as that it used to attract one or more indirect taxes at different stages, some levied by the Central government and others by respective State governments. For example – A Television set manufactured in India had to pay excise duty when leaving the factory. If it had used some imported components then custom duties on those items had to be paid, in the next leg of its journey from the manufacturer to the wholesaler there were sales tax, and finally from the wholesaler to retailer there could have been VAT. The situation was more complex when goods moved between the states as not only did they attract a Central sales tax, also rate for it varied across the states, just for example before implementation of GST value added tax was 12.5 per cent in Maharashtra while the same tax in Gujarat was 15 per cent. Many times, taxes were also levied to promote or dis-incentivise certain products or services, like luxury taxes or Sin tax. This multiplicity of taxes and complex incidence on multiple stages created two problems – first, it made tax compliance harder for tax payers and also provided opportunities for tax evasion. Secondly, since each new tax was applied on selling price that also includes tax paid in previous stage, it basically meant a tax on the amount of tax paid at the previous stage, a phenomenon known as cascading effects of taxes. Under the GST regime, a particular goods or services attract only one tax rate, and it remains uniform in all the state. Also, each manufacturer, seller or business entity can avail the benefits of a scheme know as 'Input Tax Credit' (ITC). Thus we can say that GST makes indirect tax simpler and uniform across states, the ITC mechanism reduces the total tax incidence and hence overall cost for business. There are two different ways in which GST can have impact on the consumers. Firstly, the direct and immediate impact of GST will be new 'effective' tax rate on each of the goods and services. Secondly, an indirect impact of GST, which is likely to be visible only in the medium to long term, can come through changes in production and supply chain processes. Under the GST, each goods and service will be subjected to five prescribed tax rate slabs – 0 per cent, 5 per cent, 12 per cent, 18 per cent and 28 per cent. A difference in the effective tax rate as compared to pre GST could arise due to goods or services being placed in different slab. For example – let's say there is a product Y which is manufactured and directly sold to the consumer. Under the previous regime, the taxes levied before final sale were Excise duty, State vat, Entry tax, etc. Let's assume that the sum total of all such taxes amounted to 15 per cent. If under GST this product is placed in the 18 percent slab then it becomes costlier, however if it is put in the 12 per cent of 5 per cent slab then it becomes cheaper. It should be noted that due to erstwhile differences in rates across states, there is possibility that a particular goods or service

becomes cheaper in one state while it gets costlier in another state. Under GST, agriculture and food products, like food grains, pulses, fruits, vegetables and milk have been exempted along with education and health care service. All of these together contribute close to 40-45 per cent of expenses of an average household as shown by the consumer price index. While other necessary items like coal, sugar, edible oil, coffee are placed at 5 per cent slab. However standard rate of services has been kept at 18 per cent which is higher than the pre GST rate of 14-15 per cent. Due to the multiplicity of taxes and incidences of taxes in multiple stages in the pre GST period, calculating exact changes in the effective tax rate for individual goods or service is rather difficult. However, it is estimated by some economist that in near future, tax incidence on 50 per cent of items will be remain same, 30 per cent can come down while another 20 per cent may actually see an increase to some extent but it could come down after few years.

Another way, in which the effective tax rate can change, is through the Input Tax Credit scheme. As explained earlier, this process, by reducing the effective total tax incidence, reduces the overall cost for manufacturer or sellers. This reduction in cost is expected to ultimately bring down the final price of the product at which products are sold in general market. To deal with firm not passing the benefits of reduced cost to the consumers, Government has introduced a clause in the GST bill known as 'Anti – Profiteering Rules' which mandates the business firms that any reduction in cost due to Input Tax Credit has to be passed to the consumer by way of commensurate reduction in prices.

Another important impact of implementation of GST is likely to be on transportation of goods, especially inter-state transportation. Generally long queues of truck and other various kinds of carriers are seen at the state border check posts waiting for clearance was a common phenomenon. The drivers were also harassed at the check posts by demanding various kinds of unwanted tax receipts just for the purpose of collecting money from them, if they did not agree to pay bribe in that case that particular carrier searched again and again to delay them. It takes huge time in negotiation with the officers at the state check posts. As per a survey it estimated that it consumed around 60 per cent of truck transit time in negotiation. However after implementation of GST most of the states have abolished the check posts as it is a destination based tax so no checking is required at the state border check posts. This uninterrupted movement of goods across the country has significantly reduced the transportation cost as well transportation time and that ultimately minimised the overall cost.

Highlighting the specific areas of difficulty in indirect tax compliance, which adversely affects the ease of doing business in India, a study shows that companies faced the major issues with respect to registration of VAT, excise, customs and service tax, movement of goods, dealing with tax authorities, settling tax disputes, availing tax incentives and obtaining timely tax refund. In the previous regime, states were imposing different tax rates, resulting in disadvantage for businesses working in states with higher tax rates. Transfer of goods across state borders involved payment of taxes in both states, besides resulting in compliance cost. Non-Uniformity in taxes across the states created uncertainty and confusion in the business decisions. Taxes levied on goods and services had no clear mechanism for rebated on taxes paid in previous stages on the value chain, and hence led to a cascading effect (tax on tax). Effective implementation of GST will result in redressal of all these issues, and many more, by way of simplifying tax compliance, reducing the restrictions in inter-state movement of goods, mitigating the tax burden, facilitating timely realization of tax refunds, and so on. This, in turn, also helped in sharply improving the country's global ranking in 'Paying Taxes' in the World Bank's doing business report, where it ranks poorly at 172 out of 190 economies.

EASIER COMPLIANCE

In the previous tax regime, business had to file several returns for multiple taxes, face multiple authorities and suffer long bureaucratic delays for the assessment of different indirect taxes. GST, by merging all indirect taxes into one single tax, has made the compliance much easier for business. Using IT platform of GST Network (GSTN), which is a shared IT infrastructure between the Central and States, Providing reliable and efficient IT backbone for the smooth functioning of the GST, taxpayer can register, file, make payments and claim refunds online at anytime from anywhere without having to interface with tax

officials. This makes the compliance process easier transparent, faster and paperless and sets the stage for enhanced productivity and efficiency of businesses going forward.

EASIER INTER- STATE MOVEMENT OF GOODS

Transport vehicle would earlier get inordinately delayed during inter-state movement of goods for paying taxes at check posts in different states. GST has done away with this requirement by amalgamating several indirect taxes including Entry tax and Octroi duty. Due to merger of all indirect taxes into a single tax, all the check posts throughout the country have been abolished and there is evidence that travel time of trucks has significantly reduced. Under GST tax is charged at destination not on source so checking at check posts becomes useless. This brings down the logistics cost in terms of money as well as in time terms for business and prices for consumers.

Single Interface for All

The GSTN provides a single interface of tax- payers with tax authorities and a single platform for resolving differences. With suppliers, buyers and tax authorities having access to all the relevant information, it helped a lot to collate and match the invoices. Besides, input tax credit requires all invoices to be matched in order to avail credit, which automatically places the onus on buyers to ensure that suppliers file returns and pay taxes on time.

Reduction in Tax Burden

Unlike the previous regime, GST allows availing credit on taxes on raw materials and inputs levied in the previous stages of the value chain, which mitigates the cascading effect (tax on tax). Since a manufacturer now pays tax only on the value added in a given stage of the process, rather on the total cost of products, the tax burden will be reduced.

Creates Common Market

Manufacturer can be able to take more rational decision regarding sourcing of raw materials, location of manufacturing and warehousing facilities and sale of output, as India became one big common market post implementation of GST as a single rate is applicable on supply goods and services throughout the India. Previous taxation system was a source based where tax charged at the source place so various problems arise at the time of branch transfer. Some big businessmen maintain stocks in warehouses at different states in order to save CST and smooth supply of products that increase huge cost but as GST is a destination based tax so goods can move easily without any barrier. Uniformity in the process and centralized registration will make expansion of business across the states much simpler.

Enhancing Export Competitiveness

In previous tax regime, we exported very less portion of goods or services due to double taxation, which increases the transaction cost related to tax compliance, lowered India's competitiveness in the global market. GST, by avoiding cascading taxes and reducing the burden of tax compliance, should help in boosting exports, as happened in several economies including New Zealand and Australia. New Zealand saw its export jumping by over 22 per cent in the very next year after it implemented GST in 1986.

Reducing Bias

Business have tendency to allocate resources in a state and sector offering favourable tax compliances and rates, disregarding other indirect factors or advantages. This leads to distortion in allocation of resources as well as supply chain, eroding the overall competitiveness of a firm. GST, by helping doing business in the country tax neutral, irrespective of the location of the business, addresses this issue by minimizing the sector and state variation in compliances as well as rates.

Improve Ease of Doing Business for MSMEs

In the previous tax regime, MSMEs with the annual turnover of rupees 5 lakh, were required to register for VAT. In case of multi stage operation, business had to comply with varied tax rules and procedures, across states. This not only had high compliance burden on MSMEs but also forced many of them to hire professionals to assist in tax compliance. GST brings a uniform, online, fast and transparent tax administration across states, making compliance much easier and saving money cost as well. MSMEs also stand to benefit from provision of input credit on taxes under GST, which would help them become more competitive.

CONCLUSION

There can hardly be any doubt about the positive impact of the roll out of GST. With the implementation of GST in India, our country benefited a lot from the different angle as GST fulfilled the promises that were expected from it by improving the position of our country in ease of doing business, and by reducing the tax burden for both the producer and consumer and increased the governmental tax collection. This reform touches the lives of all three major stakeholders of the economy comprehensively Consumer, Producer and Government. In other words we can say that GST also helped a lot in minimizing the tax evasion, brings more and more people and business houses into tax net, makes movement of goods freer in country attract foreign investors with a unified market with a single tax, though it has inconvenienced citizens from some aspect but it is expected that GST will make 81 per cent commodities cheaper in near future. A long term benefit with short term suffering as the country shifts to a new taxation regime. It is natural.

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