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Goods and Services Tax in India Implementation and Impact- A Study

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Introduction

Indirect tax regime in India experienced a land mark reforms with the introduction of Goods and Service Tax in 2017. It is the biggest tax reform in the past independence period. It has introduced a structural change providing much needed stimulus to economic growth by transforming the existing base of indirect taxation towards the free flow of goods and service. G S T is considered as a game changer in the Indian economy.

Global Dimensions of Goods and service Tax (GST) and Its Evolution in Indian Tax Systems

France was the first country to implement GST Law in the year 1956. Since the more than 150 other countries have adopted the GST Law in same form or other. The objectives of introducing GST by various countries were to maintain the transparency in the system and to minimize tax evasion in phased manner and to push further the creation of infrastructure facility to match the growing expectation of the industrial houses, farmers traders and the citizens of each country.

Goods and Service Tax – Indian experience

In the Indian context GST has replaced total indirect tax structure such as Central Excise, Customs Entry Tax and service tax etc. Indian tax system has undergone tremendous reform. The tax structure has undergone reforms for better compliance, ease of tax payment and better enforcement. GST is a comprehensive indirect tax on manufacture, sale and consumption of goods and service throughout India.

Initiatives towards GST Cronological Details

The emergency of this landmark tax reform in the indirect tax structure has been a story of continuous efforts by the Government of India since the early phase of current era of 2000. The earliest move towards initiation of a major tax reform was in 1986 when V. P. Singh the Finance Minister in Rajiv Gandhi Government proposed in the budget a major over haul of the excise taxation structure. This was similar to GST in a theoretical sense. Discussion on GST was initiated in 2000 by the Central Government headed by Mr. Vajpayee An empowered Committee headed by Asim Gupta Finance Minister of West Bengal was appointed by prime Minister Vajpayee. In 2004 introduction of GST in place of the existing tax regime was recommended by Mr. Vijaya Kelkar the then Advisor to Finance Minister. In 2006 the Finance Minister Mr. Chidambaram announced about implementing GST by April 2010. Further he made a statement in his budget speech in 2007 an Empowered Committee of Finance Minister will prepare a road map for GST.

The Concept of Goods and service Tax

Goods and service tax is applicable on supply of goods and services. It replaces the current taxes excise, VAT and services tax. GST will bring uniform taxation across the country. It will allow full tax credit from the procurement of inputs and capitals goods which can later be set off against GST output liability. This tax reform gives equal footing to big enterprises as well and Small and Medium Enterprises thus leading to simplification of tax hurdles for the entire economy.

GST is paid by all manufacturers and sellers and by service providers such as telecom providers, consultants, chartered accountants etc. However GST being an indirect tax it will be ultimately borne by end consumers.

GST Model in India:

India will implement the Canadian model of Dual GST i.e. both Centre and State will collect GST. GST is a destination based tax system. Supply of goods and services are the based for charging the tax. It is a very comprehensive indirect taxation system on manufactured products and services, sale and consumption of goods at national level.

Components of GST

GST is based on the grounds of Value Added Tax. GST is basically divided into two components i.e. Central Goods and Services Tax and also State Goods and Services Tax. GST is applicable to all Goods and services sold and provided in India except from the list of exempted goods which fall outside its purview. The payment of GST is made separately at Central and State level.

Impact of Goods and Services Tax on Indian Economy

The much needed stimulant for economic growth in India is expected from the transforming the existing basis of indirect taxation through Goods and Services Tax (GST) GST provides the stimulus for economic growth within the economy and also by eliminating the cascading effect of tax on tax. India is expected to play an important role in the world economy in the years to come. The expectation of GST being introduced is high not only within the country but also in neighbouring countries and in developed countries of the world.

i. Increased Foreign Direct Investments:

The follow of Foreign Direct Investments may increase due to the introduction of GST as the earlier complicated complicated/multiple tax laws were one of the reasons foreign companies were wary of coming to India.

ii. Growth in Overall Revenue: It is estimated that by implementing GST India could get revenue of $ 15 billion per annum since it would promote experts, raise employment and beast economy growth.

iii. Single Point Taxation: GST with uniformity in tax law will lead to single tax point taxation for supply of goods or service all over the country. This will help in increasing the tax compliance and more assesses will come into tax net.

iv. Simplified Tax Laws: GST with its simplified tax laws will lead to reduction in litigation and waste of time of the judiciary and the assessees to frivolous proceedings at various levels of adjudication and appellate authorities.

v. Increase in Exports and Employment: GST is helpful in increasing employment promotion of exports and consequently a significant boost to overall economic growth.

There wile will more beneficial impact in the various areas of tax implementation in the country i.e.

- Reduction in tax burden fostering of growth through more production.
- A single taxation on producers would translate into a lower final selling price for the consumer.
- GST would add to government revenues by widening the tax base.
- GST removes the customs duties applicable on exports.
- GST which subsumes most central and state level taxes would have a single unified list of concessions/exemptions as against the current mammoth exemp and concessions across goods and services.

The Issue of GST Compensation

When the GST regime was implemented in 2017 by subsuming most of the indirect taxes both the Centre and the States lost some of their taxation rights. State had agreed to the GST on the condition that the Centre compensates them for revenue losses for the next five years. The compensation was to be paid by collecting cess on luxury goods such as automobiles aerated drinks and tobacco. States were also guaranteed a 14% tax revenue growth per year on the base year 2015-16 until 2022 under the GST (Compensation to State Act 2017) GST collection have been declining during the last year. Covid – 19 made the matters worse. Centre started delaying its GST compensation payments to states. States have insisted in the payment and they did not receive anything since April last. The total dues of compensation to States for the fiscal year were estimated to collect only Rs. 65,000/- crore through compensation cess in fiscal year that ends in March 31 – 2021. It suggested to States to borrow the remaining Rs. 2.35 lakh crore from the market at lower interest rates. The Centre will partially pay these loans after 2022. The States indicated their reluctance to borrow and that compensation dues to them were guaranteed by law.

Change in Centre's Approach

Central Government has made a conciliatory approach in its stand relating to the pay must of compensation to States. It has announced that it will borrow Rs. 1.1 lakh crore to lend to the States to compensate them for the short fall in the GST revenue. The amount that the Centre now agreed to borrow is about half the expected short fall of Rs. 2.35 lakh crore. It considers the remaining Rs. 1.25 lakh crore gap as the result of Covid – 19 for which it is not responsible. The Centre will borrow the loan which will be repaid from the GST compensation cess. The cess will be extended beyond the scheduled 2022.

GST – Implementation Hurdles

Successful implementation of GST is faced with some hurdles. In the GST regime the government revenue would not be the same as earlier. Hence a Revenue Neutral Rate (RNR) is an important factor for the GST's success. Hence through RNR it has to ensure that its revenue remains the same despite tax credit.

A robust IT Network has to be ensured (GSTN). GSTN has to develop GST portal which ensure technology support for GST Registration, GST return filing, tax payment etc. thus there should be a robust IT back bone.

GST is absolutely different from the existing system. Hence it is necessary for a tax administration staff at both Centre and State to be trained properly in terms of concept legislation and procedures.

Conclusion

The introduction of Goods and Services Tax is a noteworthy step in the field of indirect tax reform in India. By amalgamating a large number of Central and State taxes onto a single tax GST has alleviated double taxation in a major way and has paved the way for a common natural market. Consumers have the benefit in terms of reduction in the overall tax burden on goods and services. GST has the impact of making Indian products competitive in domestic and international markets. The tax is having transparency and ease of administration. GST system holds great promise in terms and sustaining growth for the Indian economy.

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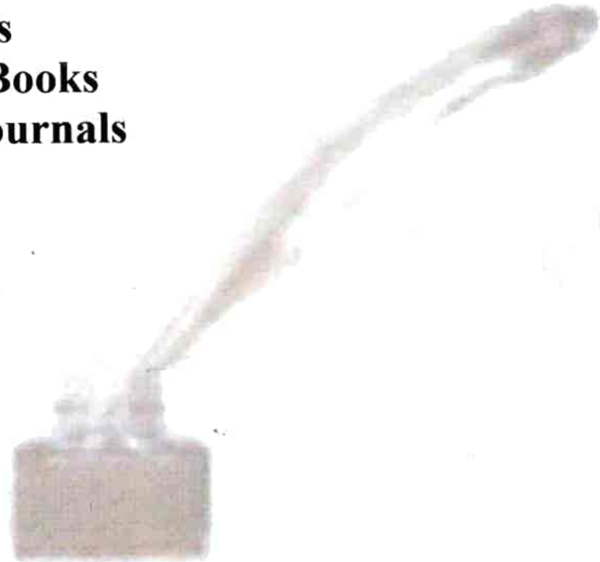

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