

Goods and Services Tax

The biggest and much needed tax reform of India

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Abstract

India is a huge country with vast market and enormous manpower. The business and industry in India are growing more rapidly. The Governments which come to power at the center always aim for better business growth as it is essential for economic growth of the country. The economic growth is another fundamental aim of any Government which assumes power at the center. The Governments which are in power generally bring in several changes in the business environment aiming at rapid business development in the short as well as in the long run. In this connection the present Government in power has brought in the most big tax reform of India i.e. The Goods and Services Tax (GST).

The reform process in indirect tax regime of India was started much earlier. The biggest of such reform is introduction of GST in India. It is a very brave initiative ignited by the present Government headed by the Prime Minister of India and supported by his cabinet colleagues. The primary purpose of this idea is to bring down the complications in the Indirect tax regime. This present move of reform is supported by very few but opposed by many and many. Any change or reform when introduced would have negatives as well as benefits but the authorities have to see that the negatives are overcome in the due course of time. We as common men should understand the benefits that the present move is going to award to the business men in particular and to the society in general, as all reforms initially are opposed by larger parts of the society. By and large it is a good scheme by the present Government to simplify the indirect tax administration as it results in a single tax by subsuming various indirect taxes including central excise duty. Hence, such moves will pave the way for the growth of business and industry which will contribute for economic growth of the country.

Introduction

India is a huge country with vast market and enormous manpower. The business and industry in India are growing more rapidly. The Governments which come to power at the center always aim for better business growth as it is essential for economic growth of the country. The economic growth is another fundamental aim of any Government which assumes power at the center. The Governments which are in power generally bring in several changes in the business environment aiming at rapid business development in the short as well as in the long run. In this connection the present Government in power has brought in the most big tax reform of India i.e. The Goods and Services Tax (GST).

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Goods and Services Tax Bill in India

The Goods and Service Tax bill was officially introduced as constitution (One Hundred and Twenty Second Amendment) bill, 2014. Arun Jaitley the finance minister of India introduced the Goods and Service Tax bill in the lok sabha on 19th December 2014. The bill was passed in the parliament on 6th May 2015, with 352 votes for the bill and 37 votes against the bill. It is a historic move in the indirect tax regime of India. The same bill was cleared by the Rajya Sabha

on August 3, 2016. This bill permits a modification in the constitution to permit both the Centre and States to charge the goods and services tax.

What is Goods and Services Tax in India

It is a single indirect tax for the entire nation. It is a single tax on the supply of goods from the manufacturer to the consumer. It is a kind of tax imposed on sale, manufacturing and usage of goods and services. It has replaced all the indirect taxes levied by the central and several state Governments. At present the tax rates differ from state to state but the GST aims at a uniform/comprehensive tax system for the whole nation. This will help business and industry.

How is Goods and Services Tax Levied

The Goods and Services Tax will be levied at the point of consumption as it is a consumption based tax. The taxes are paid to the state where the goods and services are consumed and not to the state where they are produced. The Goods and Services Tax is levied on all the transactions such as sale, transfer, purchase, barter, lease, or import of goods and/or services.

In India a dual GST model is being adopted where the taxation system is administered by both the Central and State Governments. The transactions taking place within a state will be levied with the Central Goods and Service Tax (CGST) by the Central Government and the State Goods and Service Tax (SGST) by the State Government concerned. In the case of inter-state transactions and the imported goods or services the Integrated Goods and Service Tax (IGST) is levied by the Central Government.

Why Goods and Services Tax

The aim of Goods and Services Tax is to break the much complicated tax structure of central and state governments and to bring in an uniform tax system for the entire nation which will benefit the business men as well as the consumers. Hence, the Goods and Services Tax is to replace all the existing indirect taxes and thereby simplify the indirect tax system. It creates a single Indian market entity instead of several sub categories.

Goods and Services Tax Council

As per the Article 279A of the amended Constitution, the Goods and Service Tax Council was established. The Union Cabinet under the Chairmanship of the Prime Minister Shri Narendra Modi approved the setting up of Goods and Services Tax Council on 12th September, 2016 and also Secretariat.

The Goods and Service Tax Council is a joint forum of the centre and states. The union finance minister is the chairperson of the council and the union minister of state for finance is a member. In which all states finance ministers are members. In the council the states have 2/3 of weightage and centre has 1/3 of weightage. The decisions of the council should have 75% of majority. The Council can make recommendations on everything relating to Goods and Service Tax, including laws, rules and rates.

Goods and Services Tax Network

A nonprofit organization called Goods and Services Tax Network is established to create a platform for all the concerned parties i.e. stakeholders, Government, taxpayers to work together on a single portal. The central Government can have access to the portal to track down every transaction from its side while the taxpayers can file their tax returns and maintain the details. The IT firms which have tie up with the central government can develop network and they will have stakes accordingly.

Goods and Services Tax Rates

The GST Council, under the chairmanship of the Finance Minister Mr.Arun Jaitly and all states Finance Ministers as members, has approved four slabs of tax rates. They are 5 percent, 12 percent, 18 percent, 28 percent. The aim is to charge lower tax on essential articles and to charge highest tax on luxury items. The lowest rate of 5 percent is charged on goods of mass consumption and which are used by common people. The tax rates of 12 percent to 18 percent are accommodating most of the goods and services. The tax rate 28 percent is charged on white goods such as refrigerators, washing machines etc.

Goods and Services Tax Exemption

The Union Government, under Goods and Services Tax, has fixed rates of tax on 1211 goods and 500 services at the rate ranging from 5 percent to 28 percent. There are items which are fully exempted from Goods and Services Tax which are alcohol, petrol, diesel and natural gas. There is another category of goods for which the tax rate is zero percent. This shows that Goods and Services Tax is not levied on these goods. This list includes goods of daily use such as rice, wheat, milk, fresh vegetables, meat, fish, eggs, bindi, sindoor, stamps, judicial papers, printed books, news papers, bangles, handloom, children's picture, drawing or coloring books, human hair etc., etc. The services such as healthcare, education, hotels and lodges with tariff below Rs.1000 are kept out of Goods and Services Tax bracket. In case of precious and semi precious stones the rate of tax is .25 percent. It may not be the final picture as the Goods and Services Tax council is meeting often and in the meetings the council may bring in any modifications and we will be updated as and when necessary.

Merits of Goods and Services Tax

The Goods and Services Tax law is a central law. In this connection the State Governments will not have the right to formulate new laws on taxation of goods and services.

The stakeholders of industry, the government and the consumers will be benefited from the Goods and Services Tax law.

It simplifies the existing tax system and makes it easier to understand as well as easy and cheaper to implement at all levels.

The cost of goods and services will become less which can make the products and services globally competitive. Thus, it will improve the country's economy.

It will make the way for an integrated economy at the national level and will also remove the economic barriers

The Goods and Services Tax will widen the tax base and will improve the taxpayer compliance and thereby may improve the liquidity of the businesses.

The Goods and Services Tax will help the country to improve the ranking in the 'Ease of Doing Business Index'. According to the World Bank Group's annual report on the ease of doing business the present rank of India is 130 out of 190 countries.

The Goods and Services Tax regime is mostly technology driven which will reduce the human interface to a great extent and this will lead to quick decision making.

Tax evasion at various stages will be eliminated as tax offsets can be collected only if taxes have been paid originally. You will also be able to buy raw materials or constituent materials for production only from those who have paid taxes, in order to claim benefits.

The purchase of raw materials from other states will become cheaper.

The current supply and distribution chain may undergo a change with a change in taxation system that does away with excise and customs duties.

The Goods and Services Tax is eliminating multiple taxes and because of this the consumers will get products at cheaper prices.

The Goods and Services Tax system does not include petroleum and petroleum as of now.

According to the Finance Minister Mr.Arun Jaitley, the Goods and Services Tax will boost economic growth by as much as 2 per cent. This will bring down the budget deficit which will help the government to allocate more funds for development projects.

Demerits of Goods and Services Tax

The Goods and Services Tax is not good news for all the sectors. Many products are exempted from taxation under the present system. The Goods and Services Tax proposes to have the exemption list at its minimum. Under the present system higher taxes are levied on smaller number of items and lower taxes will be levied on almost all items.

The Goods and Services Tax is not applicable for liquor for human consumption. Hence the advantages of The Goods and Services Tax will not be available to alcohol.

The Goods and Services Tax does not include Stamp duty in its preview and it will continue to be state's subject.

Conclusion

The Goods and Services Tax is the biggest and most historic tax reforms the country will ever experience. The Goods and Services Tax will transform the messy indirect tax network to a simpler slab structure. In a bid to simplify the entire structure the products have been shifted to distinctive slabs. Many products will become cheaper because they attract smaller tax while a lot of day to day appliances and products will be moved to a higher tax bracket. The Goods and Services Tax can avoid the harassment of the business by streamlining the tax administration and thereby improving the revenue collection for the centre and state governments. Now it can be viewed as a win-win situation to everyone i.e. Consumers, Taxpayers and Government.

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