Goods and Services Tax (GST): An Economic Overview

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Abstract
Goods and Services Tax (GST) is an important tax reform in India which has a long journey. Indeed GST is one of the biggest tax revolutions which put together State and National economy to make trade and business effortless which will boost overall growth of the country.

GST is a comprehensive tax, which levy on manufacturing, sales and also on the consumption of goods and services. Many taxes such as Central Excise Duty, Service Tax, Central Surcharge and Cess etc levied by Central Government and VAT/ Sales Tax, Entertainment Tax, Octroi and Entry Tax, Purchase Tax, Luxury Tax, Taxes on lottery etc levied by State Governments have been subsumed under GST. This paper presents an economic overview of GST which includes four parts. In the first part of the paper it provides introduction of GST in India through concepts and literature review. In the second part, paper discusses present form of GST which is passed by the Parliament of India through the Constitutional amendment, 101st amendment Act, 2016. The next part tries to analyze advantages and positive aspects of GST on Indian economy. This paper also focuses on the challenges and roadblocks after implementation of GST in India in the fourth part and then some concluding remarks.

Keywords: Goods and Services Tax, GST, Indirect Tax, Indian Economy

1. Introduction

Goods and Service Tax (GST) is indeed India's one of the vital Indirect tax reforms which has a long journey. It took many years to come into effect as the debate on GST has started long before. The then-Union Finance Minister first brought up the notion of implementing GST in his Budget Speech for 2006–2007. At first, it was planned to implement GST on April 1st, 2010. But eventually, with the adoption of the 122nd Amendment to the Constitution Bill, it was submitted as the Constitution (One Hundred and First Amendment) Act 2016. Government successfully edging together a political consensus on the GST Bill, to pave the way for much-awaited roll out of the landmark tax reform that will create a common market of 1.25 billion people. The GST is governed by GST council and its chairman is the Finance Minister of India. GST reform is believed to be biggest ever tax reform since independence. In India, the Indirect tax is being imposed both by Central as well as State government. Both the Central and State government have multiple kinds of taxes. Many of the Taxes have in existence from pre-independence days. Central Exercise duty is being imposed since more than 75 years. Sales tax is being levied by some States prior to the independence. The majority of the taxes system has been in place for years. Other taxes like Octroi, Central Sales Tax (CST), State-Level Sales Tax/Value Added Tax, Entry Tax, Stamp Duty, Telecom License Fees, Turnover Tax, Tax on Consumption or Sale of Electricity, Taxes on Transportation of Goods and Services, etc. will be eliminated as a result of the implementation of GST. GST is a comprehensive tax imposed on the manufacture, sale, and consumption of goods and services at the national level, eliminating the various layers of taxation that are now present in India. When GST is implemented, it would replace a number of taxes imposed by municipal, state, and federal governments as well as central government, creating "One Nation, One Tax".

GST is all set to integrate State economies and boost overall growth. It will create a single, unified Indian market to make the economy stronger and 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.

2. Concepts of GST

GST is essentially an indirect tax that unifies the majority of national taxes levied on the production, sale, and consumption of most goods and services. Taxes on goods and services are collected separately under the pre-GST system. The GST is a combined tax that is due at the point of final consumption and is based on a consistent rate of tax imposed for both goods and services. Through a tax credit method, this tax is collected on value-added goods and services at each point of sale or purchase along the supply chain.

The main goal of tax reform is to fix the issues with the current system that were previously mentioned. It should provide a tax structure that is straightforward to manage, economically effective and impartial in how it is applied. According to Ahmad and Stern (1991), the excessive differentiation of the Indian tax system has been motivated by distributional or sectoral concerns; however, the objectives are defeated by the cascading impacts of the levies. The required structure can be obtained by combining taxes and transfers, even if an ideal design of the consumption tax system, taking into consideration both production efficiency and distributional issues, would not necessitate uniformity of the total tax structure.

3. Literature Review

As stated above GST has a long journey to be implemented and it has gone through many debates and discussions among the experts as well as in Public domain. In this part this paper presents some literature review of the topic.

In their Empowered Committee Report titled "Goods and Service Tax Reform and Intergovernmental Consideration in India", Ahmed et al. (2009) stated that the GST is "a further significant improvement-the next logical step - towards a comprehensive indirect tax reforms in the country" and came to the conclusion that its implementation will result in a more straightforward and transparent tax system, which will boost the output and productivity of the Indian economy. However, the GST's benefits heavily depend on its thoughtful design. It also implied that such a design would face a lot of difficulties.

These are not simple or technical problems. For a comprehensive change of the system, they would necessitate extensive study and analysis, skillful juggling of competing interests of diverse stakeholders, and total political commitment.

Dr. R. Vasanthagopal (2011) in his paper “GST in India: A Big Leap in Indirect Taxation System” explained how switching to seamless GST from current complicated tax system in India will be beneficial step in booming Indian Economy.

According to him it is noted that more than 140 countries have introduced GST in some form to other due to the success GST, hence it is becoming the preferred form of indirect tax in the Asia Pacific region.

Mawuli (May 2014) in his paper “Goods and Service Tax-An appraisal” found that GST is not good for low-income Countries and does not provide broad based growth to poor countries. If still these countries want to implement GST then rate of GST should be less than 10% for growth.

Pinki et. al. (July 2014) studied “Goods and Service tax- Panacea for Indirect Tax system in India” and accomplished that new NDA government is positive towards implementation of GST and its beneficial for Central Government, State Government as well as for consumers in the long run if its implementation is backed by strong IT infrastructure.

A comprehensive tax system is required due to the existing many tax systems' rising administrative costs and compliance costs brought on by the trend of increased production and consumption of goods and services. According to Monika Sehrawat and Upasana Dhanda's essay “GST in India: A Key Tax Reform” from December 2015, GST is currently in great demand.

They came to the conclusion that GST will give India a world-class tax system by giving different treatment to the manufacturing and service sectors. But everything will depend on how well it is planned and when it is put into action.

When studying the "Impact of GST on Indian Economy" in April 2017, Dr. P. Vijayaraghavan and Mr. Muhammad Unais came to the conclusion that lower tax burdens for manufacturers will result from the adoption of GST, which will in turn stimulate higher production. The strategy will increase India's exports and GNP as a whole. By preventing the cascading effect, producers can operate at maximum capacity while restricting growth.

Ahmad and Stern (1991) examine the ideal distribution of tax rates that results from a specific level of anti-poverty and pro-poor sentiment. If one cared deeply about helping the poor, they would lower the tax on cereals (but not dairy products) and raise it on non-food items (durables). Therefore, it seems ideal for a nation where the government continually expresses care for the poor to have a differentiated overall structure. However, there shouldn't be too much variation in individual taxes, as this makes administration more difficult and makes it difficult to evaluate the overall effects of the tax policy. Value-added taxes are strongly justified. The case for value-added taxes is very strong. Theoretically, a single rate (or at most two-rate) VAT combined with excises and spending controls may generate the required distributional effects under realistic levels of politicians' aversion to inequality.

4. Present form of GST

The introduction of 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.

The One Hundred and Twenty Second Amendment Bill of the constitution of India, officially known as The Constitution (One Hundred and First Amendment) Act, 2016, introduced a national Goods and Services Tax in India from July 1, 2017. The Constitution (122nd Amendment) Bill, 2014 was introduced in the 16th Lok Sabha by Finance Minister Arun Jaitley on 19.12.2014.

The Bill establishes a GST duty on all supplies of goods and services, with the exception of alcohol intended for human use. The Union (Central tax - CGST) and the States (including Union Territories with legislatures) (State tax - SGST) / Union territories without legislatures shall levy the tax as Dual GST separately but concurrently (Union Territory tax - UTGST). Only the Parliament would have the authority to levy the GST (Integrated tax, or IGST), which would apply to all interstate trade and commerce, including imports of goods and services. The Central Government would have the power to impose an excise duty on tobacco and tobacco-related products in addition to the GST. A tax on the supply of five specific petroleum products - crude, high-speed diesel, gasoline, ATF, and natural gas - has been proposed by the GST Council and would go into effect at a later date.

The CGST, IGST, UTGST and GST compensation law was passed by the Lok Sabha on March 29, 2017. In accordance with the GST Council's recommendations, the law should pay 100% compensation to States for any revenue losses brought on by the GST, up to a maximum of five years. Every tax payer will receive a 15-digit PAN-based "Goods & Service Tax Identity Number" (GSTIN), also known as a common identification number, in this situation.

5. Salient Features of GST in India

- The GST is a newer version of tax regime that will be used on the supply of goods and services, in contrast to the current concept that tax on the manufacture and sale of commodities or services. Using the same tax base, the provincial and federal governments simultaneously implement a dual GST. Then, both the state GST (SGST) and the central GST (CGST) would be in effect.
- All goods might be subject to GST under the statute governing the Goods and Services Tax, with the exception of alcoholic beverages, human-use liquor, and five oil products, including natural gas, high-speed diesel, and motor spirit (petrol), and aviation turbine fuel. GST will apply to tobacco and tobacco-related goods. The Center also may impose a central excise charge on specific commodities.
- A GST council will be established and provide advice on taxes, cesses, and surcharges to the federal government, the states, and local governments. You are exempt from paying taxes if their yearly gross income is less than Rs. 20 lakh. Sikkim and the northeastern states would be free from the Rs. 10 lakh tax. On the supply of goods and services over state lines, the Center would impose and collect an integrated GST (IGST).
- The average taxpayer may use an input tax credit to offset the expense of paying output tax. If imported goods and services are deemed to be interstate supplies, the IGST in addition to any applicable customs fees must be paid. To the greatest extent possible, the laws, regulations, and processes for CGST and SGST imposition and collection would be integrated.

6. Advantages of GST in India

Introduction of a GST is very much essential in the emerging environment of the Indian economy.

- It is undeniable that both throughout the production and distribution of commodities, services are used or consumed more frequently than they ever were. Due to the current tax system's distinct taxes for goods and services, it is necessary to divide transaction values into the value of products and services for taxation. This further complicates things and raises the expense of administration and compliance. It will be able to fairly distribute the tax burden between manufacturing and services once all taxes are merged under the GST system.

- GST shall only be evaluated at the point of ultimate consumption and not at several places, in accordance with the VAT idea (from manufacturing to retail outlets). This will make it easier to do rid of economic distortions and expand the size of the domestic market. Additionally, it will promote the growth of a transparent and ethical tax system. The manufacturer is currently responsible for paying the tax that is levied when a finished product leaves a facility. When the item is purchased at a retail store, a second tax is levied.

7. Benefits of GST

India will benefit from the implementation of the GST, according to experts, in the amount of $15 billion every year. This is because it will promote growth, create employment opportunities, and encourage more exports. Making up the tax load will be services and manufacturing.

Under the GST system, state and federal taxes will both be collected at the point of sale. Both will be evaluated in relation to the production cost. People will benefit from this since costs are likely to drop, and dropping prices encourage more consumption, which boosts output and helps firms grow.

Contributing in Nation Building through:

(A) Make in India

By contributing in the development of an integrated common national market for India, this tariff will support both foreign investment and the "Make in India" initiative. Another benefit is that input tax credits are available for all goods and services at every stage of supply, which will stop taxes from cascading. Laws, procedures, and tax rates will all be standardized in addition to this. More jobs will be created, manufacturing and export activity will increase, the GDP will rise, and gainful employment will lead to significant economic growth. Uniform SGST and IGST rates will minimize the incentive for evasion by decreasing rate arbitrage between neighboring States and that between intra- and interstate sales.

(B) Ease of Doing Business

There are fewer exemptions under this simpler tax structure, which reduces the number of taxes that currently control our indirect tax system and promotes uniformity and simplicity. Additionally, the cost of compliance will go down. There will reportedly be less of a public contact between the taxpayer and the tax authority under this tax scheme because all interactions will allegedly take place through a single GSTN portal.

(C) Benefit to Consumers

Another positive feature of this tax structure is that it will largely favor consumers. Due to the smooth transfer of input tax credits between the manufacturer, retailer, and service provider, the final price of the goods is anticipated to be cheaper. It is anticipated that a sizable portion of small retailers will either be free from taxation or will experience very low tax rates under a compounding structure, resulting in less expensive purchases for customers.

8. Challenges and Roadblocks for GST in India

The goods and services tax is a temporary tax framework that combines many different taxes into one. Through the free flow of products and services, it is believed to be a reformative tax structure that unifies the market and will significantly boost the country's total productivity.

- However, until it is finally implemented, the transitional phase encounters obstacles and a lack of clarity. In order for the advantages to spread to every area of the economy, a few blind spots must be revealed. The dual structure is one example. To track the tax collected from the origin state all the way to the destination, a reliable mechanism is required. It is crucial that the tax payer doesn't feel as though his cash flow is being disrupted by excessive taxes.
- Because central excise is a manufacturing tax under the current tax system, it does not appear on invoices given to consumers. The total tax due under the GST regime will be represented on the invoices, which could give the impression that additional taxes or further taxes must be paid by the ultimate consumers.
- The exemptions of important industries like power, diesel, gasoline, crude oil, and real estate are the most obvious problem. It's possible that these exemptions won't be able to lessen indirect taxes' cascading effect as much as anticipated.
- The Indian parliament's lower house recently approved four GST laws. The Bill suggests setting the Integrated GST rate at 40% and the Central GST rate at 20%. The state GST rate is anticipated to be capped at 20% by the states. These rates might prove to be ineffective.

9. Conclusion

Most economists see India's historically significant and audacious transition to an integrated tax system as a remedy for its regressive indirect tax system. GST is thought to be beneficial for all sectors and would bring India's indirect tax system into line with more than 140 other nations. Although there are obstacles to overcome, the benefits of such reforms are anticipated to include increased GDP and greater tax system transparency. Since the GST would be applied to value addition, there would be less opportunity for tax avoidance. However, the success of these benefits heavily depends on the GST's impartial and logical design. The consideration of a few specific topics in this paper leads one to believe that there are numerous obstacles in the way of such a design. These are not simple or technical problems. For a comprehensive change of the system, they would necessitate extensive study and analysis, skillful juggling of competing interests of diverse stakeholders, and total political commitment.

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