Abstract

GST would play a transformative role and bring about revolution in the Indian economy. The increase in service tax from 12.36% to 14% would ideally be a precursor to introduction of GST. Introduction of a GST to replace the existing multiple tax structures of Centre and State taxes is not only desirable but imperative in the emerging economic environment. GST, being a destination-based consumption tax based on VAT principle, would also greatly help in removing economic distortions and will help in development of a common national market. Over the past several years, significant progress has been made to improve the tax structure, broaden the base and rationalize the rates. GST would be very advantageous for the government as well as the public if properly administered.

1. Introduction

Goods and Service Tax (GST) is a comprehensive tax to be collected on goods and services by amalgamating a large number of Central and Sales taxes. It is step towards elimination of double taxation that will reduce the prices of the goods and services. In India, there are a large number of taxes levied on the consumer i.e. Sales Tax, Service Tax, Central Excise Duty, Entry Tax etc. These taxes increase the prices of the goods and services 25-30%. These taxes are a burden on the consumers as they are the final link in the supply chain. Thus, GST is the taxes which simplify the procedures and widen the tax base. There is no need of differentiating complicated goods and services while collecting GST which was a difficulty in the previous taxation system.

2. Objective of the Study

The objectives of the study are:

- To understand the need and importance of GST.
- To know about its meaning, applicability, rate and components.
- To evaluate its strengths and weaknesses.
- To study the steps taken by government for implementing GST.
3. Need for GST

Presently, taxation system in India is multistage and sector specific. The globe is having around 195 countries and out of that, around 140 countries are working on the GST model. Few developed countries like Australia, Canada, New Zealand, Singapore etc. are among the first runners who adopted the efficient tax model. France was the first country to introduce GST system in 1954.

From other point of view, separate taxation of goods and services often requires splitting of transaction values into value of goods and services for taxation, which leads to greater complexities, administration and compliances costs. Integration of various taxes into a GST system would also make it possible to give full credit for inputs taxes collected.

4. Rate of GST

In India, the proposed nationwide GST is intended to usher in a uniform market for goods and services, cut business costs and boost government revenue. The indirect tax would replace existing levies such as excise duty, service tax and value-added tax (VAT). The rates of GST adopted by different countries are shown in table no 4.1

Table 4.1: The rates of GST adopted by different countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Australia</th>
<th>France</th>
<th>Germany</th>
<th>Japan</th>
<th>Singapore</th>
<th>Sweden</th>
<th>New Zealand</th>
<th>Pakistan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate of GST</td>
<td>10%</td>
<td>19.6%</td>
<td>5%</td>
<td>19%</td>
<td>5%</td>
<td>25%</td>
<td>15%</td>
<td>18%</td>
</tr>
</tbody>
</table>

For this purpose, the government is proposing to introduce the constitutional amendment Bill and a sub-committee comprising central and state government officials. The committee has recommended a revenue-neutral rate (RNR) — a rate at which where will be no revenue loss to the states after the adoption of GST—of almost 27% under the proposed GST regime. While the state GST (SGST) component is proposed to be 13.91%, the central GST component is proposed at 12.77%. The combined rate of almost 27% is not politically or economically feasible. The government should look to broaden the tax base and lower the tax rate.

GST on export would be zero rated. Both CGST and SGST will be levied on import of goods and services into the country. The incidence of tax will follow the destination principle and the tax revenue in case of SGST will accrue to the State where the imported goods and services are consumed. Full and complete set-off will be available on the GST paid on import on goods and services.

5. Components of GST

Most of the countries have a unified GST system. Brazil and Canada follow a dual system where GST is levied by both the Union and the State governments. There will be two parallel statutes – one at the Centre and other under the respective State GST Act. All the traders will be paying both the types of taxes i.e. CGST and SGST. IGST will be paid in the case of inter-State supply of goods.

CGST - Central GST will primarily subsume Central Excise Duty, Additional Excise Duties, Service Tax, CVD, SAD and Central Sales Tax.
SGST - State Goods and Service Tax will primarily subsume Value Added Tax, Octroi and Entry Tax.

IGST - Integrated Goods and Service Tax would be CGST and SGST and applicable on all inter-State transactions of taxable goods and services.

6. Benefits from the introduction of GST

It is estimated that India will gain $15 billion a year by implementing the Goods and Services Tax as it would promote exports, raise employment and boost growth. It will divide the tax burden equitably between manufacturing and services. Some of the benefits of GST are explained below:

**One tax** - The common base for charging GST for Centre and the state will consist of an amalgamation (subsuming) of several central taxes and state taxes which will enable them to give one tax rather than giving about 16 taxes.

**Common National Market** - GST will create a single, unified Indian market to make the economy stronger. Good quality products being manufactured in one part of the country will find more market in the farthest part of the country because there will be no CST and no entry tax.

**Transparent and Corruption free tax administration** - Goods and Service Tax (GST) is an efficient, effective and modern mode of taxation which facilitates effective tax administration with minimum tax collection cost.

**Products becoming competitive in national and international markets** - GST will lower the prices of goods and services and make them competitive in national and international markets.

**Boost economic growth** - Experts say that GST is likely to improve tax collections and boost India's economic development by breaking tax barriers between States and integrating India through a uniform tax rate.
Invoicing will be simpler- At present, the invoices are more detailed since taxes on goods and services are written separately for one transaction. With the introduction of GST only one rate will be written.

Fast Movement- Due to abolition of entry tax, delivery of goods will not be delayed and movement will be fast.

7. Arguments against GST

The best GST systems across the world use a single GST, while India has opted for a dual-GST model. Critics claim that CGST, SGST and IGST are nothing but new names for Central Excise/Service Tax, VAT and CST, and hence GST brings nothing new to the table.

Some States fear that if the uniform tax rate is lower than their existing rates, it will hit their tax revenue. The government believes that dual GST will lead to better revenue collection for States. The implementation of GST will lead to the abolition of other taxes such as Octroi, Central Sales Tax, State-level sales tax, entry tax, stamp duty, telecom licence fees, turnover tax, tax on consumption or sale of electricity, taxes on transportation of goods and services, et c., thus avoiding multiple layers of taxation that currently exist in India.

8. Steps taken by Government

The discussion on GST was started in 2000 by the Vajpayee Government. An empowered committee was setup headed by Asim Dasgupta, (Finance Minister) for designing the GST model. During the central budget of 2007-08, an announcement was made that GST would be introduced from April 1, 2010 and the empowered committee of State Finance Ministers, would work with the Central Government to prepare a roadmap for the introduction of GST in India.

The governments of Madhya Pradesh, Chhattisgarh and Tamil Nadu say that the information technology systems and the administrative infrastructure will not be ready by April 2010 to implement GST. States have sought assurances that their existing revenues will be protected. The central government has offered to compensate States in case of a loss in revenues.

A broad agreement has been achieved with the states on most of the issues concerning the implementation of Goods and Services Tax (GST) which is scheduled to be rolled out from April 1, 2016. The GST rollout has missed several deadlines because of lack of consensus among states over certain crucial issues on the proposed new tax regime. The government has assured states of compensation for any revenue losses incurred by them from the date of introduction of GST, for a period of three years.

9. Conclusion

The taxation of goods and services in India has been characterized as a cascading and distortionary tax on production resulting in misallocation of resources and lower productivity. It is well recognized that this problem can be effectively addressed by shifting the tax burden from production and trade to final consumption. A well designed destination-based value added tax on all goods and services is the most elegant method of eliminating distortions and taxing consumption. Under this structure, all different stages of production and distribution can be interpreted as a mere tax pass-through, and the tax essentially ‘sticks’ on final consumption within the taxing jurisdiction.

The announcement by the FM to introduce Goods & Services tax (GST) on 1st April 2016 will definitely rejuvenate the retail industry. This initiative would play an important role by
increasing buoyancy and reducing the cascading effect of tax. This definitely is a step towards promoting production facilities in India thereby supporting 'Make in India' campaign. Experts say that GST is likely to improve tax collections and boost India's economic development by breaking tax barriers between States and integrating India through a uniform tax rate, suitable administrative arrangements and centre-state agreements.

**References**

[2] GST Reforms and Intergovernmental Considerations in India by Satya Podder and Ehtisham Ahmad, Department of Economic Affairs, 2009
[3] A Primer on Goods and Services Tax in India, Centre for Budget and Governance Accountability, Sankhanath Bandyopadhyay

**Web References**