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Implementation of GST in India: A Significant Economic Reform after Independence

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Abstract

Subsuming a plethora of Central and State indirect taxes, the implementation of GST in India is considered to be a major reform in its indirect tax system after independence. GST is a destination based tax on consumption of goods and services. It is levied at all stages right from the manufacturer up to the final consumption with input-tax-credit set off facility. In short only value addition at each stage of production and distribution chain is taxed and the final brunt of tax is faced by the ultimate consumer. With the passage of time, GST will remove all the weaknesses of the erstwhile indirect tax system and will contribute significantly to the economic growth of the country. This paper provides an over-view of the features and benefits of the new tax system for its stakeholders and also suggests some measures to make it more friendly to the stakeholders.

Keywords: Goods and Services, Indirect tax, input tax credit, Set off, CGST, IGST, SGST, GSTN.

Introduction

India's big indirect tax reform has ultimately seen the light of the day. A comprehensive dual goods and services tax (GST) has replaced the previous complex multiple indirect tax structure from July 1st 2017. The concept of GST was visualised for the first time in 1999. In August 2016, the Constitution Amendment Bill for the roll out of GST was passed by the Parliament, followed by ratification of the Bill by all the States and enactment of the Bill in early September. An Empowered Committee of State Finance Ministers headed by Union Finance Minister Mr Arun Jaitley (Popularly known as GST Council) met on 18 occasions and finally succeeded in clearing GST rules, Tax rate structure including compensation cess, classification of goods and services into different rate slabs, exemptions, tax administration etc. On April 12, 2017, the Central Government enacted Central GST, Integrated GST, Union Territory GST, bill to compensate states. In a short span of time, all the States (Jammu and Kashmir being the last State to join) approved their State GST laws. The second phase of enrolment process for migrating existing tax payers to the proposed tax regime through GST common portal has already commenced from June 1st 2017. GST Network- an IT backbone of GST has also carried out the test run of its portal. GST has released offline utility GSTR-1. GST is a consumption based tax. Destination principle is applicable in normal course. In an ideal GST, all the credit of tax paid on purchase of inputs, input services and capital goods are allowed for set off against the tax payable on subsequent sale of goods and services. Since independence and more precisely since economic reforms of 90's, the implementation of GST in India is considered as a big reform in its indirect tax system. The present paper provides a conceptual outline of working of GST, its features, benefits and impact on the stakeholders.

Review of Literature

GST implementation in India is in its infancy. Not enough literature is available at present. However, the following studies may be presented to develop insight into this new system of tax. If the low income countries want to implement GST, then the rate of GST should be less than 10% to ensure their smooth and continuous growth, otherwise it is not good for these countries. Agog Mawuli (2014). In his study 'GST in India; A Big Leap in the Indirect Taxation System', Vasanthagopal, R (2011)

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favours the implementation of seamless GST in India to replace the erstwhile complicated indirect tax system. In another study titled “Goods and Services Tax. Reforms and Inter-government Consideration in India,” A Ehtisham and Poddar Satya (2009) concluded that the introduction of GST will prove to be a simple and transparent tax system that will increase the output and productivity in India. But for this, a rational design of GST is a must. Kumar Nitin (2014) in his study “Goods and Service Tax- A way forward” concluded that the implementation of GST will remove the economic distortions caused by the previous indirect tax system. Another study titled “Good and Services Tax-Panacea For Indirect Tax System in India” conducted jointly by Pinki, Kumar Supriya and Verma Richa (2017) opined that the implementation of GST will be beneficial for Central Government, State Governments as well as for consumers in the long run if it is technologically driven. Sehrawat et.al (2015) in their study conclude that despite many challenges, implementation of GST in India in the long run will lead to higher output, more employment opportunities and increase in GDP by 1-1.5%

Objectives of the Study

The study has been undertaken with an eye on the following objectives

- To examine the features and benefits of the new tax system.
- To examine as to how it is beneficial to its stakeholders.
- To suggest the measures to make GST more friendly to the stake holders.

Materials and Methods

To achieve the set objectives, both the primary and secondary sources of data have been made use of. The primary data mostly constitutes personal interviews of field experts, academicians, tax authorities, big business tycoons etc. The secondary data comprises newspapers, Government Publications, Publications of National Tax Institutions and Bureaus and Internet.

Analysis and discussion

India’s economy got its biggest tax reform since the Country became independent. The launch of GST – an overhaul 10 years in the making, will turn the Country of 1.3 Billion people into one market for goods and services for the first time. GST replaces more than a dozen Central and State tariffs, duties and fees levied often at different rates across India’s 29 States on nearly everything sold in the Country. All goods and services have been placed in one of five different tax brackets from 0% for most agricultural and food products to 28% for items like Jewelry and large electronic appliances. Each product will now attract a single tax rate across the Country. Introduction of GST will boost trade among different states which will help lift domestic demand. It will eventually lift India’s gross domestic product growth above 8% (International Monetary Fund). It will also go a long way in reviving investor’s Confidence in a series of “big bang’ reforms.

Key features of GST

The following are the key features of GST model:

1. **Dual goods and Services Tax**
GST is a dual goods and services tax comprising CGST and SGST.
2. **Inter-State transactions and IGST Mechanism**
The center would levy and collect the integrated Goods and

Services Tax (IGST) on all inter-State supply of goods and Services. IGST mechanism has been designed to ensure seamless flow of input-tax-credit from one state to another. The inter-state seller would pay IGST on the sale of his goods to the Central Government after adjusting credit of IGST, CGST and SGST on his purchases. The exporting State will transfer to the center the credit of SGST used in payment of IGST. The importing dealer will claim his output tax liability (both CGST and SGST) in his own state. The center will transfer to the importing State the credit of IGST used in payment of SGST.

3. **Destination based consumption tax**
GST is a destination based tax. This implies that all SGST collected will ordinarily accrue to the State where the consumer of goods or services sold resides.
4. **Computation of GST on the basis of invoice credit method**
The liability under GST will be calculated according to Invoice credit method.
5. **Payment of GST**
The CGST and SGST are to be paid to the accounts of Central and States respectively.
6. **Goods and Services Tax Network (GSTN)**
A not-for-profit, Non-government Company called Goods and Services Network (GSTN), jointly set up by the Central and the State Governments, will be shared IT infrastructure services to the Central and State Governments, tax payers and other Stake holders.
7. **Input- tax- credit Set-Off**
Input-tax- credit for CGST and SGST will be taken for taxes against Centre and States respectively.
8. **GST on imports**
Centre will levy IGST on inter-State supply of goods and services. Import of goods will be subjected to basic custom duty and IGST.
9. **Maintenance of records**
A tax payer or exporter would have to maintain separate details in books of accounts for availment, utilization or refund of input-tax-credit of CGST, SGST and IGST.
10. **Administration of GST**
Administration of GST is the responsibility of GST Council- the apex policy making body of GST. The Council will make recommendations to the union and the states on important issues like tax rates, exemption list threshold limits, etc.
11. **Subsuming all taxes**
GST subsumes all major indirect taxes levied by the Central government, i.e. Central excise, customs and service tax. Majority of the taxes levied by the State Governments i.e. VAT, Luxury tax, entertainment tax, entry tax, State excise duty etc. Taxes on petroleum products and alcohol have been kept outside.
12. **Rate structure under GST**
There are five rates under GST. These are:
Nil,
5%
12%
18%
28%

Benefits of GST

GST Will Bring Numerous Benefits To All Stake Holders Viz Industries, Government And Citizens. Some Of The Benefits Of

GST Are As Under:

1. **Seam less flow of credit**
GST will facilitate seamless credit across the entire supply chain and across all States under a common tax base.
2. **Elimination of cascading effect**
GST will eliminate the cascading effect of taxes on product and distribution cost of goods and services which will significantly improve the competitiveness of goods and services in the market, leading to beneficial impact on GDP growth of the Country.
3. **Revenue gain**
Revenue will increase under GST regime because of widening of dealer base by increased compliance.
4. **Enhanced transparency**
GST regime shall enhance transparency in the indirect tax framework and is expected to bring down the rate of inflation.
5. **Zero rated exports**
Under GST regime exports will be Zero rated. All taxes paid on goods or services exported shall be refunded. This will help boost the exports thereby improving the balance of payments.
6. **Increased uniformity**
Uniform GST rates will reduce the incentive for evasion by eliminating rate arbitrage between neighboring states and between intra and inter-state sales. Harmonization of laws, procedures and rates of tax will make compliance easier and simple. There would be common definitions, common forms/formats and common interface across the board. This will also remove multiple taxation of same transaction.
7. **Increased certainty**
Common procedures for registration of tax payers, refund of tax base, common system of classification of goods and services will lend greater certainty to taxation system.
8. **Increased digitalization**
GST is largely technology driven. The interface of tax payers with tax authorities will be through the Common Portal (GSTN). There will be simplified and automated procedures for various processes such as registration, returns, refunds, tax payments etc. All processes would be done online through GSTN. The input tax credit will be verified online. This will reduce human interface leading to speedy decisions.

Conclusion and Suggestions

The Success of any tax system depends on effective and sincere administration and better compliance. Sincere administration and compliance demands better co-operation and co-ordination among all the stake holders. Implementation of GST is a win-win situation if there is sincerity on the part of administration and co-ordination among the stake holders. It is undoubtedly a biggest reform in indirect taxes in view of its general features and specific benefits. It has an inbuilt basket of melodies for the stakeholders. Usually the stakeholders evaluate a tax system according to their tastes and priorities e.g; the consumers want quality goods at reasonable prices, the traders are interested in maximization of profits and retention of customers and the administration wants to mobilize sufficient revenue for the socio-economic development of the society. All these features are imbibed in GST and hence can rightly be called as an apt tax. It stands to safeguard the interests of all those affected. Consumers are benefitted because there is no tax on tax. Traders gain because there is an inbuilt provision for credit on taxes paid at earlier stages (In put-tax-credit) in the production and distribution chain. The nation

benefits because of one common tax, one common law and one market across all states. The Government benefits because GST has the capability to garner more revenue and leave very little hka

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