
Goods and Service Tax: A new frontier in Indirect Taxation

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Abstract

Sound Tax policies of a country are a sign of Strong governance and sustainable development. Apart from the source of revenue and growth, taxation also plays a key role in making the government accountable to its taxpayers. Effective taxation ensures that public finances are sustainable in the longer term to support social objectives and promote economic development. Present taxation system in India comprise of centre, state and local bodies having the power to levy a number of taxes. Taxes were collected at various level of from the place of origin to the final destination. Goods or services were taxed multiple times. Goods which had to move across states were often stopped at borders for hours together to pay various taxes resulting in huge losses in terms of damaged goods and high transportation cost.

The new system of taxation aims to transform the tax scenario of country by implementing the system of single tax for supply of all goods and services across the country. Goods and services Tax is a tax on goods and services which will be paid at the point of receiving/ single tax system will thus benefit the consumer by easing out the multiple layers of taxation and reducing the prices. Due to transparency it would be easy to administer and will help in ease of doing business. GST would be a game changer as it will make Indian products and services more competitive in the domestic and international market leading to an increase in exports.

Successfully implementation of GST will ensure sustainable growth for Indian economy and will help in creating a uniform national market making the concept of one nation, one tax and one market

Keywords: Tax, Indirect tax, Goods and Service Tax (GST), India

Introduction

In India central government levies taxes on manufacture, provision of services, Inter State sale of goods levied by the centre and the state governments levy tax on retail sales(VAT) entry tax, luxury tax purchase tax etc. This plethora of taxes not only creating problem to business man as well as compliance mechanism for all these taxes are very cumbersome and lengthy. Another difficulty with the existing taxation system is there is no credit chain between the taxes paid to central government or the state government. As a result there was cascading of taxes, tax arbitrage between the interstate and intra state sales generate a vortex of unscrupulous elements who took advantage of these artificial barriers. Along with the cumbersome and lengthy regulation with inefficient compliance mechanism made conduct a business in India a tribulation for the most of the trade and industry.

To overcome the problem of multi stage taxation, difficulty of multi tax system and to ease the compliance of the present tax system, GST which will be levied on supply of goods and services or both at each stage of supply chain starting from manufacture or import and till the last retail level. GST in India would be levied at central level as well as state level. Central government will levy CGST while state government will levy SGST. Central government would also levy Integrated GST on interstate supply of goods and services. Central government will also pay compensation to the state governments on account of any loss that might occur due to the introduction of GST.

Objective of the Paper:

- (1) To Understand the Key Features of Goods and Service Tax and point of difference with existing structure of Indirect in India
- (2) To Study the probable benefits of implementation of GST on various areas of Economy
- (3) To Study the problems associated with the implementation of GST

Key Features of Goods and Service Tax:

GST would be applicable to whole of India and will be levied on supply of goods and services rather than the manufacture of goods or on sale of goods or provisions of services.

GST is based on the concept of destination based taxation rather than origin based taxation system.

In GST imports would be treated as interstate supplies and would be subject to integrated GST

Import of services will be treated as interstate supplies and would be subject to Integrated GST on reverse charge basis.

Rates of Centre GST, State GST and integrated GST would be agreed mutually by centre and state government under the headship of GST council

Four rates slabs of GST has been finalized, 5%, 12%, 18% and 28% for all goods and services. Some specified goods and services are kept outside the purview of GST.

GST covers the entire gamut of goods and services except the petroleum products

A common threshold exemption of 20 lakh for CGST and SGST has been provided for.

Electronic filling of return has to be done by different class of persons at different cut off.

Payment of GST can be made by various method of payment like internet banking, NEFT, RTGS and by debit and credit cards.

Refund of tax will have to be made to taxpayer who has borne the incidence of tax within two years from the relevant date.

System of self assessment of the taxes payable by the registered person has been provided for.

Audit of registered person to be conducted in order to verify compliance with the provision of the Act.

An anti profiteering clause has been provided in order to ensure that business passes on the benefit of reduced tax incidence on goods and services or both to the consumer

How GST is different from the Previous Taxation System:

Before the passing of goods and services to final consumer, it passes through a number of stages of production and supply chain and that is used to attract one or many indirect taxes at different level by state government or centre government. For example if a Car is manufactured in India, had to pay excise duty on factory, custom duty on imported goods, sales tax from manufacturer to whole seller and VAT at whole seller to retailer.

This Multiplicity of taxes and complex incidence on multiple stages created problems of tax evasion and of complexity of tax system and another problem of paying taxes on tax paid.

To overcome the problem of previous taxation system, the new tax system of one tax rate of all over the country i.e. GST is implemented and this will also provide the benefit of Input Tax credit to manufacture/seller and business entity. GST will make indirect tax simpler and uniform all over the country and the input Tax credit mechanism will reduce the overall tax incidence and overall cost for business.

Probable Benefits of Goods and Service Tax to Economy

GST will benefit the government and consumers in the long time period by offering single rate of tax all over the country and will provide the dual side benefits. Some of the benefits of GST are as follows:

- (1) **Abolition of multiple layer of taxes-** Implementation of GST will remove the multiple taxation system like excise duty, custom, VAT and service tax which are levied on products and services at various level of business so one tax will reduce the tax incidence and complexity of the existing tax structure.
- (2) **Mitigation of cascading Taxation** – GST will remove the cascading effect i.e. tax on taxes paid and there would be a system of input tax credit to ensure the end of cascading effect. GST would be implemented at the stage of value added not on the present scenario of tax on tax paid.
- (3) **Development of Uniform Market all over the country** – Single tax rate all over the country will create an uniform taxation system which will ensure the hassle free across the nation. This will help to boost tax to GDP ratio and will help in promoting economy efficiency and long term economic growth.

- (4) **Increase in voluntary compliance-** Under GST filling of return and compliance would be easy as the process will be simple with very less chances of errors. All the information will flow through the common GST network . This will make tax payment and compliance a regular routine work and lesser scope for mistakes.
- (5) **Reduced Litigation and Frauds-** GST will reduce the litigation on the account of clarity of jurisdiction of taxation as against the present structure of area of jurisdiction between the state and centre. In GST regime with a single tax law in place, there would be smooth assessment as compared to the present multiple assessments in different tax laws.
- (6) **Efficient administration by Government-** Under the present system it is very difficult to administer the tax system without any integrated network. Under GST regime with single tax rate, and simple input tax credit mechanism and integrated network, information would readily available and administration of resources would be easy and efficient for the government. There would be single tax, reduced errors and litigations thus resulting in reduced administration cost too.

Probable Challenges and Issues under Implementation of Goods and Service tax

GST has been called a potential game changer for its far reaching impact on businesses, manufacturers, traders and service providers across the country by replacing the multiple taxation system by single taxation system across the country. So effective implementation of GST is one of the key issue in front of government, so some of key challenges are as follows:

- (1) **Information technology preparedness and infrastructure-** GST is an IT driven law and effectively implementation of this requires strong IT infrastructure and skilled manpower. It can not be assured that required infrastructure and manpower is available with the states or not for the implementation of GST. At present many of states are having manual working in their tax department.
- (2) **Training of Employees and officers-** All centre and State government employees in various taxation departments would have to learn the GST provisions and possible implications. GST law is entirely based on information technology and proper training has to be give to officers for effective implementation.
- (3) **New Registrants-** No of registration will increase because many who were out of the purview of taxes due to exemptions and also wide coverage of GST. Transition of existing registered assesses and registration of new assesses and resolving of migration issues is a big challenge.
- (4) **Transitional issues-** There are various issues which are related to transition to GST like registration, carry forward of credits, pending refunds and refund claims, change in taxable event for incomplete transactions, pending assessment, treatment of stock in hand etc. The need of smooth transition is imperative for success of GST. Despite the rules of transition, practitioner and advisors would have their hands full in resolving the issues which are sure to arise.
- (5) **Pending cases / past disputes-** There are various cases related to present indirect tax laws are pending at courts and tribunals. Government should find ways and means to resolve the disputes because if the present disputes are allowed to continue then the court or tribunals would be pre occupied with old cases and would not have time to resolve any issues and disputes related to GST.
- (6) **Tax Administration-** GST will work both at centre and state level and both level officers will work under one roof and in tandem by giving up their differences and non alignment in the old regime. Cadre differences may arise as departments are headed by officers from IAS, IRS and state administrative boards. These issues and differences would be addressed in the GST regime remains to be seen

Conclusion

In spite of all the challenges and problems and problems, GST ushers a transparency to measure taxes levied on a product, bringing an end to the host of hidden and embedded taxes. GST is expected to facilitate free flow of goods and services across the nation and expected to increase India's GDP by 1% to 1.8%. Reduction in multiplicity of taxes will lead to confidence building of foreign investors, thus giving a boost to foreign direct investment in the country. So conclude Implementation of GST is a good Move towards the Tax

reforms, initial problems may arise due to operational difficulties but as people and system will more accustomed with the practices such issue would be resolved.

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