
Goods and Service Tax: A Source of Reform in Taxation Environment in Case of Ease of Doing Business

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Abstract

The ‘ease of doing business’ criteria is a key measure of an economy openness and amenability to business. Unfortunately India has continued to lag behind in the global economy on this count. India’s overall rank in Doing Business 2017 was 130 out of 190, which is bad enough. Among the indicators based on which the report evaluates nations, ease of paying taxes is one of the indicator and this indicator tracks, “payments, time and total tax rate for a firm to comply with all tax regulations as well as post-filing processes.” Ranked 172 out of 190 countries in 2017, India stands in the bottom deciles. The objective of GST is not to just simplify the compliance but also to make the process of paying taxes simple and convenient. By reforming in the tax structure and ease of paying taxes India can improve its ranking on global ranking of ease of doing business. With a successful implementation of GST, India can expect to major gain in the ease of doing business criteria and implementation of this will boost businesses and propel the economy growth.

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:

The ‘ease of doing business’ criteria is a key measure of an economy openness and amenability to business. Unfortunately India has continued to lag behind in the global economy on this count. India’s overall rank in Doing Business 2017 was 130 out of 190, which is bad enough. Among the indicators based on which the report evaluates nations, ease of paying taxes is one of the indicator and this indicator tracks, “payments, time and total tax rate for a firm to comply with all tax regulations as well as post-filing processes.” Ranked 172 out of 190 countries in 2017, India stands in the bottom deciles. The objective of GST is not to just simplify the compliance but also to make the process of paying taxes simple and convenient. By reforming in the tax structure and ease of paying taxes India can improve its ranking on global ranking of ease of doing business. With a successful implementation of GST, India can expect to major gain in the ease of doing business criteria and implementation of this will boost businesses and propel the economy growth.

With the implementation of GST India Joins the League of over 160 countries including various developed countries LIKE USA, Japan, Russia, Singapore and many other which have implemented GST regime. The Implementation of GST is a big reform in the direction of improving the country’s rank in the ease of doing business . currently India’s position is 130 out of 190 countries list in the World bank report of doing business report 2017.

GST is expected to improve the ease of doing business in the issues of tax compliance , reduction in tax burden, improving the tax administration, mitigate tax evasion, and broadens the organized segment of the economy and boost tax revenues for the exchequers and also will reduce the taxes paid on industrial products from average rate of 25-28 per cent to 18 percent.

GST is transformative reform and will change the way businesses are done in India. The new GST regime will bring more and more business into the formal economy and will ease of doing business in the country by making taxation environment more business friendly and implementing the GST provisions more efficiently. This reform will increase the new business startups and will bring more foreign investment as well as improve the ranking of India in the list of ease of doing business destination.

Objective of the Paper:

- (1) To Understand the Key Features of Goods and Service Tax and point of difference with existing structure of Indirect taxes in ease of doing business in India.
- (2) To Study the Provisions of GST on environment of Ease of doing business in India with reference to tax environment.
- (3) To Study the benefits of GST Provision on various government business program and ease of doing business in India.

Main features of GST for Ease of doing Business:

Various features of GST which will help in ease of doing business are as follows-

- (1) GST is based on the principle of value added tax and input tax method or subtraction method, with emphasis on voluntary compliance and account based system.
- (2) It is a comprehensive levy and collection on both goods and services at the same time with benefits of input tax credit or subtraction of value of penultimate transaction value.
- (3) Minimum number of floor rates of tax
- (4) No scope for levy of Cess, resale tax, additional tax, special tax, turnover tax
- (5) No scope for multiple levy of tax on goods and services such as sales tax, entry tax, Octroi, entertainment tax, luxury tax etc.
- (6) Taxing of capital goods and inputs whether goods or services relatable to manufacture at lower rates, so as to reduce the inventory carrying cost and cost of production
- (7) A common law and procedures throughout the country under a single administration
- (8) GST is a destination based tax and levied at single point at the same time of consumption of goods and services by the ultimate consumers.

Impact on GST on Ease of doing business

Cases of indirect taxes which affects the ease of doing business in India are registration of VAT, excise, custom and service tax, movement of goods, dealing with different tax authorities, settlement of tax disputes under different tax authorities, availing tax benefits under different schemes and obtaining and filling of timely returns and refunds.

In the previous tax system states were imposing different tax rates which results in higher tax payment and difficulty in working in states with higher tax rates. Transfer of goods across the states involved payment of taxes in many states resulting in compliance cost. Multiplicity of tax rates at different states created uncertainty and confusion in business decisions. There were no provision for rebates on taxes paid in the previous stages of value chain and lead to cascading effect.

Implementation of GST will result in redressal of all these issues by simplifying the tax compliance, reducing the restriction on inter state movement, mitigating the tax burden, facilitating the timely realization of tax refunds and so on. This will help in improving the country global ranking in ease of doing business.

Effect of GST Provisions on tax environment and in ease of doing business:

(1) **Easier compliance:** In the previous tax system businesses had to file several returns for multiple taxes to multiple authorities for assessment of different indirect taxes which results in delay. GST by merging all indirect taxes into one single tax has made the compliance much easier for business. Under the GST, use of GST network provide a reliable and efficient IT platform for the smooth functioning of GST which will result in easy filing, claim settlement. This will make the compliance process easier, transparent, faster and paperless and will enhance the efficiency of businesses going forward.

(2) **Easier inter state movement of Goods:** In the Previous tax regime, there was undue delays in the inter state movement of goods due to tax clearances at check points of different states. GST has amalgamated all the indirect taxes into one single tax which will result in reduction in logistics cost(in terms of time and money) and prices for consumers. Check post across the country has abolished and this will result in travel time of vehicles.

(3) **Single interface for all:** GST provides a single interface of tax payers with tax authorities and a single platform for resolving differences with suppliers, buyers and tax authorities having access to all the relevant information. It would be easier to collate and match invoices. Besides the input tax credit requires all invoices to be matched in order to avail credit, which automatically places the onus on buyers to ensure that suppliers file returns and pay taxes on time.

(4) **Reduction in tax burden:** Under GST availing credit on taxes on raw material and inputs levied in the previous stages of the value chain which reduces the cascading effect. Now a manufacturer pay tax only on the value added in a given stage of the process, rather than on the total cost of product and tax burden would be reduced.

(5) **Creates common market:** Manufacturers would be able to take more rational decisions regarding sourcing of raw material, location of manufacturing and warehousing facilities and sale of output. Uniformity in the process and centralized registration will make expansion of businesses across states much simpler.

(6) **Enhancing export competitiveness:** In the previous tax system we exported a port of taxes owing to double taxation, which combined with higher transaction cost related to tax compliance, lowered India's competitiveness in the global market. GST by avoiding cascading taxes and reducing the tax burden of tax compliance, should helps in boosting exports, as happened in several economies

(7) **Reducing Bias:** Businesses have tendency to allocate resources in a state and sector offering favorable tax compliance and rates, disregarding other indirect factors/ advantages. This leads to distortions I allocation of sources as well as supply chain, eroding the overall competitiveness of a firm. GST by helping doing business in the country tax neutral, irrespective of the location of the business, addresses this issue by minimizing the sector and state variation in compliance as well as rates.

(8) **Improves ease of doing business for MSMEs:** In the previous tax system, MSMEs with an annual turnover of rupee five lakh, were required to register for VAT. In case of multi state operations businesses had to comply with varied tax rates, rules and procedures, across states. This not only had high compliance burden on MSMEs but also forced many of them to hire professional to assist in tax compliance. GST brings a uniform, online fast and transparent tax administration across states, making compliance much easier and saving money cost as well. MSMEs also stand to benefit from the provision of input credit on taxes under GST, which would help them become more competitive.

Benefits of GST Provisions on Government Business programs and environment of ease of doing Business:

- (a) **Make in India-** Implementation of GST will provide a new dimension to the Make in India program by its unique features related to promotion of trade and business.
- (1) GST will help to develop a unified common market for India and will give a boost to foreign investment and to Make in India program.
 - (2) GST will mitigate the cascading of taxes as input tax credit will be provided across goods and services at every stage of supply.
 - (3) This will harmonize of laws and procedures and rates of taxes all over the country, which will increase more investment in make in India program
 - (4) GST will lead to neutralization of taxes especially for exports will make our products more competitive in international market in and give boost to Indian exports
 - (5) Low rate of taxes will result in reduced prices and lower price will lead to more consumption which in turn means more consumption and increased production and thereby helping in the growth of industries. This will create India as a “ Manufacturing Hub”

Benefits of Ease of doing business:

GST will promote ease of doing business in the country by following ways:

- (1) Simple tax regimes with fewer exemptions will offer less tax complexities which will promote easy taxation policies and environment in the economy
- (2) GST will help in reduction in the multiplicity of taxes which will lead to simplification and uniformity of taxes which will create same tax structure all over the country and reduces the regional economic imbalances.
- (3) GST will results in no multiple record keeping and reduction in compliance cost and as a result lesser investment of resources and manpower in maintain records, this will reduce the paperwork and red tapism in the society.
- (4) A simple and automated procedure for various kind of registration, return, refunds and tax payments.
- (5) All the interaction to be through the common GSTN portal , this will result in minimal public interface between the taxpayer and the tax administration.
- (6) Common procedure for registration for taxpayers, refunds of taxes, uniform formats of tax returns, common tax base, common system of classification of goods and services will lend greater certainty to taxation system.

Benefits to consumers:

- (1) final price of goods is expected to be lower due to seamless flow of input tax credit between the manufacturer, retailer and suppliers of services.
- (2) Average tax burden on companies is likely to come down which in expected to reduce prices and lower prices means more consumption.

Conclusion:

GST promises to improve the ease of doing business, reduce the tax burden for both producers and consumers and will also increase the government tax revenue. There is no doubt of the positive side of GST on ease of doing business. The direct benefit which the businesses will get are reduced compliance cost, reduction in tax burden and easier movement of goods across states among the several others. After implementation of GST efforts should be made to regular feedback from

industry and other stakeholders so that changes can be incorporated as to make it more easy to use and administer. Simultaneously state government and local bodies should be convinced to resist from levy of additional duties in the form of various indirect taxation in the interest of realizing greater benefits out of GST. Broadening the base of GST net and encouraging the unorganized sector to join the platform should continue to be another important goal.

India should move towards the single rate of GST which is also low with minimum exemption possible. This is also important to going forward, the model must do away with separate registration and tax filings in all states of operations for businesses that work in different states. Such kind of measures will be vital for further unshackling the potential for improvement in the ease of doing business in India and enhancing the overall competitiveness in the global scenario which is essential for the success of various programs of Government like Make in India and we should start a journey to ensure the effective implementation of GST at par so make it more convenient and business friendly.

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