

Volume - 5 , Issue - 7, Feb - 2018

ISSN 2347-2723

# Reviews of Literature

*An International Multidisciplinary Peer Reviewed & Refereed Journal*

**Impact Factor: 3.3754**

**UGC Approved Journal No. 48385**

**Chief Editor**

Dr. Chandravadan Naik

**Publisher**

Dr. Ashok Yakkaldevi

**Associate Editors**

Dr. T. Manichander  
Sanjeev Kumar Mishra



## GOODS AND SERVICES TAX: HISTORICAL ECONOMIC REFORM IN INDIA

**Danish Khan**

Assistant Professor , CBS College of Management, Agra.

### 1.0 ABSTRACT:-

**T**here have been a number of economic reforms in India from time to time, since independence in 1947. Some of them include the New Industrial Policy, 1991, MRTP Act, FERA, FEMA, EXIM, etc. One of the biggest and historical economic reform was introduced on the midnight of 1st July, 2017 named GST (Goods and Services Tax), which was also called Good and Simple Tax by our Honourable Prime Minister, Shri Narendra Modi. This study discusses the history, need, implementation and impact of GST in India in its simplest form. It will be useful for future researchers as well as people who are keen to understand GST.

**KEYWORDS:** Rates of GST, Taxation system, Business, Consumers.

### 2.0 HISTORY OF GST

Goods and Services Tax has a 13 year old history. The proposal of GST was first introduced as a form of indirect tax based on the concept of Value Added Tax (VAT), in the report of Kelkar Tax Force in 2003. In Budget speech for financial year 2006-07, it was proposed to introduce national GST by April 1, 2010. After this, the Empowered Committee of State Finance Ministers were made responsible for preparing a design and a road map for implementation of GST. The empowered Committee released its First Discussion Paper on GST in India in November 2009, by considering all the inputs from Central as well State Governments.

The 115th Bill was introduced in Lok Sabha in March 2011. This Bill referred to Standing Committee on Finance of Parliament for examination and report. After a detailed discussion, the report was submitted in January 2013. Later, Empowered Committee in Bhubaneshwar meeting decided to further constitute 3 committees of officers to discuss and report on various aspects of GST. These 3 committees included Committee on Place of Supply rules and revenue neutral rates, Committee on dual control, threshold and exemptions, Committee on IGST and GST on imports.

The Parliamentary Standing Committee submitted its report in August 2013 to Lok Sabha. In September 2013, the final draft of Constitutional Amendment Bill with changes were sent to Empowered Committee. The Empowered Committee held its meeting in November 2013 for preparing a revised draft. The 115th Constitutional (Amendment) Bill, 2011 was introduced in Lok Sabha after which Lok Sabha dissolved for 15th time in March 2014.

In June 2014, the new Government approved the Constitutional Amendment Bill and sent to Empowered Committee. Based on consensus with Empowered Committee, the Cabinet approved proposal for introduction of Bill in Parliament on 17th December 2014. The Bill was introduced in Lok Sabha on 19th December 2014 and passed on 6th May 2015.



After many amendments and approval, finally GST was introduced on 1st July 2017.

### 3.0 NEED OF GST

Initially, the taxation system was divided into direct taxes and indirect taxes. Both these were further classified into a number of taxes levied both by Central and State Governments.

Direct taxes refer to taxes imposed upon a person or property. It may be used in economic and political analysis, but in individuality, it doesn't have any legal implications. It is directly paid to the government. Examples of direct taxes include income tax, gift tax, wealth tax, property tax, etc. Indirect taxes refer to taxes imposed on goods and services resulting in their higher prices. Examples of indirect taxes include service tax, central excise and customs duty and value-added tax.

These indirect taxes included cascading taxes putting a great burden on consumers. These cascading taxes were the effect of a long chain starting from supplier to manufacturer, to wholesaler to retailer, and then finally to consumers. At every stage, value addition and further VAT added to the rise in original price.

Goods and Services Tax, introduced on midnight of 1st July 2017, is a great reform in taxation system. It is one of the most comprehensive tax in which there is multi-stage taxation, being a destination-based tax. It is levied on every value addition, thus a multi-stage tax.

GST, being an indirect tax, has subsumed many indirect taxes prevailing previously. These taxes include central excise duty, service tax, countervailing duty, value added tax, central sales tax, octroi, entertainment tax, entry tax, purchase tax, luxury tax, advertisement tax, lotteries tax, State surcharges and cess.

Thus, GST is having a two-pronged benefit. One, it is going to reduce the cascading effect of taxes, and second, by allowing input tax credit, it will be able to reduce the burden of taxes and, hopefully, prices.

### 4.0 GST IMPLEMENTED IN INDIA

From 1st July 2017, GST implemented as one indirect tax that would be imposed in the whole nation, making India a common unified market. It is levied on the supply of goods and services, right from manufacturer to consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain.

#### There are three prime models of GST:

1. GST at Central (Union) Government level only (CGST)
2. GST at State Government level only (SGST)
3. GST at both Central and State Governments (IGST)

Keeping these models in mind, India opted for "dual-GST" that is same tax levied at both Central and State Government level. As per the proposed GST regime, the input of Central GST can be utilized only for payment of CGST and the input of State GST can be utilized only for the payment of SGST and vice-a-versa, will not be allowed.

There are basically 5 slabs: 0%, 5%, 12%, 18%, 28%.

Under 0% GST, products and services that fall include milk, eggs, curd, lassi, unpacked foodgrains, unpacked paneer, gur, unbranded natural honey, fresh vegetables, salt, kajal, education services, health services, children's drawing and colouring books, unbranded atta, unbranded maida, besan, prasad, Palmyra jaggery, phoolbharihaado.

Under 5% GST, products and services that fall include sugar, tea, packed paneer, edible oils, domestic LPG, PDS kerosene, cashewnuts, milk food for babies, fabric, spices, coal, life-saving drugs, raisin, roasted coffee beans, skimmed milk powder, footwear (<Rs.500), apparels(<Rs.1000), coir mats, matting, floor covering, agarbatti, Indian sweets, coffee (except instant).

Under 12% GST, products and services that are included are butter, ghee, almonds, computer, fruit juice, packed coconut water, processed food, mobiles, umbrella, preparations of vegetables, fruits, nuts or other parts

of plants including pickle, murabba, chutney, jam, jelly.

Under 18% GST, products and services include hair oil, toothpaste, soap, pasta, cornflakes, soups, printers, capital goods, industry intermediaries, ice cream, toiletries, computers.

Under 28% GST, products and services include small cars (+1% or 3% cess), consumer durables such as AC and fridges, high-end motorcycles (+15% cess), luxury and sin items like BMW, cigarettes and aerated drinks (+15% cess).

## 5.0 GST IN INDIA VS GST IN OTHER NATIONS

France was the first country which implemented GST to reduce tax-evasion. Since then, more than 140 countries have implemented GST with some countries having Dual-GST, for example Brazil and Canada. European countries have one rate of GST as they do not have much poverty, unlike in India.

Thus, India has chosen the Canadian model of dual GST as it has a federal structure where the Centre and states have the powers to levy and collect taxes.

All around the world, GST has the same concept. In some countries, VAT is the substitute for GST, but conceptually, it is a destination based tax on consumption of goods and services. That still needs to be resolved among the different governance in the world is the GST rate.

Some are still struggling to rationalise an adopted rate structure. While there were strong differences at the time of introduction of GST due to political divisions in Canada, GST sustained despite the opposition. The Government of Canada has reduced the GST rate a couple of times since it was introduced.

However, some others countries which started with very low rates have been forced to increase the rates very soon after introduction to raise more resources.

### GST rates in different nations:

- Canada 13 to 15%
- France 20%
- UK 20%
- New Zealand 15%
- Malaysia 6%
- Singapore 7%

## 6.0 FAVOURABLE IMPACT OF GST IN INDIA

Goods and Services Tax have some favourable impact in India. It is due to GST that Indian products have become competitive in both domestic and international markets. Moreover, being transparent reform in taxation system, it is easy to administer any loopholes. GST brought in "One nation one tax" to unite indirect taxes under one umbrella and facilitate Indian businesses to be globally competitive. The Indian GST case is structured for efficient tax collection, reduction in corruption, easy inter-state movement of goods etc.

### 6.1 IMPACT ON BUSINESS AND INDUSTRY

- i) GST has easy compliance for business and industry sector. There is easy online access to registration, returns and payments.
- ii) GST has uniformity of tax rates and structures. There are basically 5 slabs on which all products and services are categorised.
- iii) GST has abolished the system of cascading taxes due to which there is no hidden cost.
- iv) Due to GST, tendency and nature of competitiveness has become fair.
- v) GST has a lot of benefits for manufacturers and exporters.

### 6.2 IMPACT ON CENTRAL AND STATE GOVERNMENTS

- i) GST is simple and easy to administer because it has minimized the scope of any loopholes present.
- ii) GST has higher revenue efficiency because of abolishment of cascading taxes at different levels from suppliers

to customers.

iii) Since there is only one tax in the whole country, Government can set higher control on any leakages.

### 6.3 IMPACT ON CONSUMERS

i) GST is simple and transparent tax.

ii) Due to a single taxation system, GST has brought a relief in overall tax burden on customer.

### 7.0 ADVERSE EFFECTS OF GST IN INDIA

Goods and Service Tax had adverse effects on different fields including a sharp decline in real estate business where addition of 8 percent to the cost of new homes has decreased the demand by 12 percent. Also manufacturing sector has seen a decline and is currently facing many problems due to the implementation of GST. Economists are giving their opinion on GST and mostly, it's being criticised on the fact that CGST and SGST are the enhanced names of Central Excise Duty, VAT and CST. Also, they state that the rates under GST are higher than the rate of VAT. Due to the share of tax revenue, some states are falling short of the tax revenue they used to get.

### 8.0 REFERENCES

Nitin Arora, Impact of GST on A Common Man, Retrieved from <https://in.investing.com/analysis/impact-of-gst-for-a-common-man-200191286>

GST – What is GST in India? Goods & Services Tax Law Explained, Retrieved from <https://cleartax.in/s/gst-law-goods-and-services-tax>

Vishal Raheja, What is GST (Goods and Service Tax) in India?, Retrieved from <https://www.taxmann.com/blogpost/2000000031/what-is-gst-goods-and-services-tax-in-india.aspx>

About GST in India, Retrieved from [http://www.gstindia.com/about/Understanding GST](http://www.gstindia.com/about/Understanding%20GST), Retrieved from <https://www.profitbooks.net/gst-india-overview/>

Mr. A. Dash, Positive and Negative impact of GST in Indian economy A Dash, Retrieved from [https://www.researchgate.net/publication/318421150\\_POSITIVE\\_AND\\_NEGATIVE\\_IMPACT\\_OF\\_GST\\_ON\\_INDIAN\\_ECONOMY\\_A\\_DASH](https://www.researchgate.net/publication/318421150_POSITIVE_AND_NEGATIVE_IMPACT_OF_GST_ON_INDIAN_ECONOMY_A_DASH)

<http://www.cbec.gov.in/htdocs-cbec/gst>



**Danish Khan**

Assistant Professor , CBS College of Management, Agra.