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आईसेक्ट विश्वविद्यालय की शोध पत्रिका

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Perspectives of Goods and Service Tax on Indian Economy

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ABSTRACT

This Paper focuses on the various aspects of Goods and Services Tax (GST) and its implementation in India. The GST is the biggest indirect tax reform in India since 1947 and aims to transform India into a uniform market by subsuming all the indirect taxes and by breaking the current fiscal barrier between states. A uniform GST across the country will remove the cascading effect of various taxes and improve the ease of doing business by creating a seamless national market. It will result into less paperwork and hopefully will translate into a lower tax burden system by removing distortions. With the bill being discussed in the parliament since 2009, and with the great momentum built over the year now the bill has been passed. It is high time that all states arrive at a consensus to implement. Any further delay in GST's implementation may impact India's industrial growth and send wrong signals to global investors keen to invest in world's fastest growing major economy. According to a report by the National Council of Applied Economic Research, GST is expected to increase economic growth by between 0.9 per cent and 1.7 per cent. The spread of GST in different countries has been one of the most important developments in taxation over the last six decades. This paper will focus on, how the GST is important for the growth of India and will also contribute for the further study. The data are collected with using secondary data.

Key Points: Good and Service Tax, Indirect Taxes, GDP, Why India need GST, How does this help.

I INTRODUCTION

The goods and services tax (GST) is projected at creating a single, unified market that will benefit both corporate and the economy. It is an indirect tax that will lead to the abolition of all other taxes such as Octroi, central sales tax, state-level sales tax, excise duty, service tax, and value-added tax (VAT). Both the state and the central governments will impose GST on almost all goods and services produced in India or imported into the country. Direct taxes, such as income tax, corporate tax and capital gains tax will not be affected by GST. It will simplify India's tax structure, broaden the tax base, and create a common market across states. This will lead to increased compliance and increase India's tax-to-gross domestic product ratio. According to a report by the National Council of Applied Economic Research, GST is expected to increase economic growth by between 0.9 per cent and 1.7 per cent. Exports are expected to increase by between 3.2 per cent and 6.3 percent, while imports will likely raise 2.4-4.7 per cent, the study found.

II LITERATURE REVIEW

If we talk about Indian economy we find that Indian economy is highly affected by indirect tax. In Indian economy direct tax like income tax, corporate tax etc. directly affecting the economy with raising in tax slab of income tax but if we talk about the indirect tax like service tax, vat tax, duties, sales tax (state and central) they all affecting Indian economy in different area because most of indirect tax applied by state government in their particular state and that make differentiation in the form of rate of indirect taxes. The GST (Goods and Service Tax) is one tax system government thinks to apply in place on all indirect taxes to centralize all the taxes in different state in India. The concept came from the European countries where many of country adopted the concept of one tax policy in all sales and services and that make the system very transparent. Many of other country like Australia, Japan, Singapore and Pakistan preparing to adopt one tax policy. In India the government of Atal Bihari Vajpaye thinks to adopt one tax policy in place of all indirect tax with introducing GST in India in the year 2000 but with not support of other party it was not possible. The most prominent hurdle in introducing this new tax structure has been the struggle between the states and the Centre on the loss of revenue. It will be beneficial for India Inc. as the average tax burden on companies will fall. Reducing production costs will make exporters more competitive. "The most important reform for India, whether it is for our group, for India generally, or for most businesses, will be the goods and services tax. It will add about two percentage points to India's GDP growth," Rahul Bajaj, chairman of the Bajaj Group, told Reuters in November 2012. Some states fear that a uniform tax rate, if lower than their existing rates, will dent collections. However, the central government has said it will compensate states for the potential revenue loss. Mr Chidambaram (former finance minister) has set aside Rs. 9,000 Crore towards the first installment of the balance of central sales tax (CST) compensation. Also, instead of an earlier proposal for a uniform GST rates across the country, the Union Government has agreed to have a floor rate of taxation with a narrow band.

III OBJECTIVES OF THE STUDY

(a) How good and service tax is important for the growth in Indian economy.
(b) How GST will take place of all types of indirect tax.

IV HYPOTHESIS

H1 : Good and service tax has significant relationship with the economic condition of India.

H2 : Good and service tax has significant relationship with the all indirect taxes of India.

(a) **Research design-**There are many of variability found in-between the data collected from the year 2000 to 2015. There are direct variable and indirect variable affect the result of the study.
(b) **Direct variable-** The direct variables are basically the indirect taxes like sales tax, service tax, VAT tax, and excise duty are going to directly affected by the GST.
(c) **Indirect Variable-** In this study the constitution of India, GDP of India and planning commission are term as indirect variables. The constitutional amendment is required for the government to pass the GST bill in India. For the constitutional amendment it is necessary for the government to at least get the two thirst support from both of the houses.

V NEED FOR GST IN INDIA

The GST is being introduced not only to get rid of the current patchwork of indirect taxes that are partial and suffer from infirmities, mainly exemptions and multiple rates, but also to improve tax compliances. The spread of GST in different countries has been one of the most important developments in taxation over the last six decades, owing to its capacity to raise revenue in the most transparent and neutral manner, more than 150 countries have adopted the GST. With the increase of international trade in services, the GST has become a preferred global standard. All OECD countries, except the US, follow this taxation structure. The proposed framework In India, the unified tax will take the form of a "dual" GST, to be levied concurrently by both the Centre and states. The unified tax will comprise of a Central GST and a State GST, which will be legislated, levied and administered by the respective levels of government. The same taxable base will be subject to both GSTs. The words "legislate, levy and administer" are key, since the Centre and the state will legislate the respective GST Acts and both will have power to administer the taxes. The proposed tax system will subsume a variety of central and state levies such as Central Excise Duty, Service Tax and VAT, thereby simplifying the complicated tax structure and reducing compliance costs. The Bill was introduced in 2014 to the lower house of the Parliament of India by Finance Minster Arun Jaitley. It is defined as any tax on the supply of goods or services that will subsume CENVAT, service tax, central excise duty, additional excise duties, excise duties levied under the Medicinal and Toilet Preparations (Excise Duties) Act, 1955, service tax, additional customs duty (countervailing duty or CVD), special additional duty of customs (SAD), central surcharges and cesses, State VAT, State sales tax, entertainment tax not levied by local bodies, luxury tax, taxes on lottery, betting, and gambling, tax on advertisements, State cesses and surcharges related to supply of goods and services and entry tax not levied by local bodies. The primary reason for the bill is to pave the way for the Centre to tax sale of goods and the states to tax provision of services. The bill further proposes that the central government will have the exclusive power to levy GST on imports and inter-state trade. The bill has also recognized the need to have a GST council. The union finance minister, the union minister of state in charge of revenue or finance, and the minister in charge of finance or taxation or any other minister nominated by each state government would constitute the council to ensure that both the Centre and the states are on an equal footing.

In addition, the bill proposes to set up a Dispute Settlement Authority that would look into disputes between the states and the Centre. Appeals from the authority would directly lie with the Supreme Court. For the time being, the bill has kept certain goods out of the purview of GST, which have been a point of contention between state governments and the Centre.

These include:

(a) Petroleum crude
(b) High speed diesel
(c) Petrol
(d) Natural gas
(e) Aviation turbine fuel
(f) Alcohol for human consumption.

States shall have the power to levy taxes on these items, except in the case of imports and inter-state trade. Another important feature of the bill is a proposal to levy additional tax on supply of goods on inter-state trade. The additional tax will not exceed 1% and will be collected by the central government for a period of two years. Finally, the amount so collected will be assigned to the states from where the supply originates.

A unified GST is an economically efficient solution even for the multinationals, which have to compete with the companies in the unorganized sector, as it simplifies the indirect tax structure to one general rate that can be paid by all companies. Under the GST structure, every company gets a deduction on the taxes already paid by its suppliers. That results in every buyer ensuring that his supplier has paid his part to claim his deductions.

With the introduction of the bill, the signal that the Modi government seems keen to send is that all the key decisions could well be in the hands of the GST Council. With both representatives from the Centre and states in place, the latter would likely have a say in the implementation of tax laws in their territories. Moreover, full compensation for the first three years for any kind of revenue loss may work wonders to dilute the initial apprehensions of the states regarding losing income post the introduction of GST. With the Central government going that extra mile to take care of the interest of the states, one will have to wait and see if the states too return the favour by ratifying similar bills in their assemblies with the much needed two third majority.

VI GST IN OTHER COUNTRIES

While countries such as Singapore and New Zealand tax virtually everything at a single rate, Indonesia has five positive rates, a zero rate and over 30 categories of exemptions. In China, GST applies only to goods and the provision of repairs, replacement and processing services. It is only recoverable on goods used in the production process, and GST on fixed assets is not recoverable. There is a separate business tax in the form of VAT. For example, when the GST was introduced in New Zealand in 1986, it yielded revenues that were 45 per cent higher than anticipated, in large part due to improved compliance. It is more neutral and efficient structure could yield significant dividends to the economy in increased output and productivity. The GST in Canada replaced the federal manufacturers' sales tax which was then levied at the rate of 60 per cent and was similar in design and structure as the CENVAT in India. It is estimated that this replacement resulted in an increase in potential GDP by 24 per cent, consisting of 12.4 per cent increase in national income from higher factor productivity and 50 per cent increase from a larger capital stock (due to elimination of tax cascading). The Canadian experience is suggestive of the potential benefits to the Indian economy. This means gains of about US$15 billion annually. This is indeed a staggering sum and suggests the need for energetic action to usher the GST regime at an early date. GST rates of some countries are given below.

VII DATA COLLECTION, ANALYSIS & INTERPRETATION

The data are collected from many sources like government reports, news papers, magazines and websites. The data are secondary and collected on the basis of convenient types of research. The major argument put forth for heavy reliance on indirect taxes was that the India's majority of population was poor and thus widening base of direct taxes had inherent limitations. Another argument for reliance on indirect taxes was that agricultural income was not subjected to central income tax and there were administrative difficulties involved in collecting taxes. The ratio of indirect taxes to GDP in India increased from 3.99 per cent in 1950-51 to 13.32 per cent in 1985-86. It then decline to 10.95 per cent in 1999-2000 and increased thereafter to 12.7 per cent in 2008-09.

It was observed that the ratio for India is relatively high with only Russian Federation posting a higher rate within this select group of countries. In case of excise duty, attempts were made to curb the consumption of luxury and semi luxury items, mopping excess profits in the case of commodities in short supply and for encouraging exports. In 1975-76, a general levy of one per cent ad valorem covering all goods produced for sale or other commercial purposes not specified in the central excise tariff was imposed with exemptions for a few items. Around the same time, it became evident that indirect taxes lead to undesirable effects on prices and allocation of resources. The Government of India constituted Indirect Taxation Enquiry Committee in 1976 headed by Shri L. K. Jha to study the structure of indirect taxes, central, state and local level taxes and suggest policy reforms. Indirect Taxation Enquiry Committee submitted its report in 1978.

The Government of introduced the Long Term Fiscal Policy (LTFP) on 19 December 1985 for prudent fiscal management. LTFP was expected to provide a definite direction and coherence to annual budgets and to bring about a greater predictability and stability in the economic system. It would provide rule based fiscal and financial policies rather than discretionary approach. Further, it would also facilitate effective coordination of different Trend in Tax to GDP Ratio in India **Total taxes Source**: Indian Public Finance Statistics, Ministry of Finance, 2008-09

These reforms were considered for progressively moving from discretionary, quantitative restrictions and physical controls to non-discretionary fiscal methods. The major reforms announced under

Union excise taxation aimed at reducing the number of effective rates after harmonisation of the tariff classification with the custom nomenclature and implementing a modified system of value added taxation, i.e., MODVAT. Excise duty is collected as CENVAT introduced in 2000 through re-naming of MODVAT of 1986. However, fillip to tax policy reforms came in with the introduction of economic reforms in 1990s. It was realised that a complex tax structure involving both the centre and the states taxing production and sales of commodities was not fostering efficiency in the economic activities. The presence of central sales tax acted as constraint to inter-state trade movement and contradicted the idea of India being a common market.

Scope of service tax should be expanded. A system of VAT on services at the central government level was introduced in 2002. The states collect taxes through state sales tax VAT, introduced in 2005, levied on intrastate trade and the CST on interstate trade. The Government of India constituted a Task Force on implementation of Fiscal Responsibility and Budget Management Act, 2003 to chalk out a framework for fiscal policies to achieve FRBM targets. Task Force headed by Dr. Vijay L. Kelkar made a number of recommendations. Among others, it suggested an All India goods and services tax (GST) which would help achieve a common market and widen the tax base. It recommended that the multiplicity of tariffs should be reduced to three components viz., basic customs duty, additional duty and anti-dumping duties. All exemptions should be removed barring life saving drugs, security items, goods for relief and charitable purposes and international obligations.

The Joint Working Group of the Empowered Committee of the State Finance Ministers submitted its report on the proposed Goods and Services Tax (GST) to the Finance Minister in November 2007. A dual GST, one for the Centre and other for the states, would be implemented by 1 April 2010. The new system would replace the state VAT and the CENVAT. Most of the indirect taxes would be subsumed under GST except for stamp duty, toll tax, passenger tax and road tax. All goods and services would be taxed with some exceptions. There is a debate on the specific rate of the GST within a band varying from 12 to 20 per cent. Nevertheless the move to GST would be one of the most important indirect tax reforms in India. An "Empowered Committee of the State Finance Ministers" (EC), constituted by the Government of India in July 2000, submitted a White Paper on State-Level Value Added Tax in January 2005. It suggested state VAT to have two basic rates of 4 per cent and 12.5 per cent. There is an exempt category and a special rate of 1 per cent for a few selected items. 7 The items of basic necessities and goods of local importance are put under the exempted category. Special rate of 1 per cent is applicable for Gold, silver and precious stones. The 4 per cent rate applies to other essential items and industrial inputs. The 12.5 per cent rate is residual rate of VAT applicable to commodities not covered by other schedules. There is also a category with 20 per cent floor rate of tax, but the commodities listed in this schedule will not be subjected to VAT. "A well designed destination-based GST 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 mere tax pass-through, and the tax essentially `sticks' on final consumption within the taxing jurisdiction." (Kelkar, 2009a).

"What would be the design of the GST? The broad framework of GST is now clear. This is on the lines of the model approved by the Empowered Committee of the State Finance Ministers. The GST would be a dual tax with both central and the State GST component levied on the same base. Thus all goods and services barring a few exceptions will be brought into the GST base. Importantly, there would be no distinction between goods and services for the purpose tax with a common legislation applicable to both." (Kelkar, 2009b).

VIII CONCLUSION

India's biggest indirect tax reform since 1947 looks like it has finally arrived – the Goods and Service Tax. From its first official mention in 2009 when a discussion paper was introduced by the previous United Progressive Alliance government to the point when the current Modi government tabled the Constitution Amendment Bill in Parliament, building consensus on the GST hasn't been easy. The most prominent hurdle in introducing this new tax structure has been the struggle between the states and the Centre on the loss of revenue. It's taken years to resolve, but even now it is an issue that isn't completely fixed. Nonetheless, the introduction of the Constitution Amendment Bill in Parliament seems like the first key step towards bringing in the belated GST reform.

In India, the unified tax will take the form of a "dual" GST, to be levied concurrently by both the Centre and states. The unified tax will comprise of a Central GST and a State GST, which will be legislated, levied and administered by the respective levels of government. The same taxable base will be subject to both GSTs. Overall GST is helpful for the development of Indian economy as well it will be very much helpful in improving the gross domestic product of the country more than two percent. Now the government of India should take final step to implement provision of the GST bill by removing all hurdles as per need of the states.

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