ABSTRACT

It is a comprehensive tax system that will subsume all indirect taxes of states and central governments and unified economy into a seamless national market. It is expected to iron out wrinkles of existing indirect tax system and play a vital role in growth of India. It will not be an additional tax; it will include central excise duty, service tax additional duties of customers at the central level, VAT, central sales tax, entertainment tax, octroi, state surcharge, luxury tax, lottery tax and other surcharge on supply of goods and services. GST is the only indirect tax that directly affects all the sections and sectors of our economy. India is a federal democratic, therefore the GST will be implemented parallel by the Central and State governments as CGST and SGST respectively. The purpose of GST is to replace all indirect taxes with single comprehensive tax, bringing it all under single umbrella, to eliminating tax on tax. It is expected to iron out wrinkles of existing indirect tax system to improve the productivity in the country as well as will be benefited to the consumers and play a vital role in growth of Indian economy.

INTRODUCTION

Indian Taxation System India has got a well-structured and simplified taxation system, wherein an authoritative segregation has been done among the Central Government, the different State Governments as well as the Local Bodies. The Department of Revenue under the Government of India’s Ministry of Finance is solely responsible for the computation of tax. This department levy taxes on individuals or organizations for income, customs duties, service tax and central excise. However, the agriculture based income taxes are levied by the respective State Governments. Local bodies have got the power to compute and levy taxes on properties and other utility services like drainage, water supply and many others. The past 15 years have witnessed tremendous reformations of the taxation system in India. Apart from the rationalization of the rates of tax, simplification of the different laws of taxation has even been done during this period. However, the process of tax rationalization is still in progress in the Republic of India. (Courtesy New Business Maps of India).

Objectives of Study:

- To highlight the working of GST model in India.
- To assess the relevance of GST model in India.
- To analyze the impacts of GST model on Indian economy.
- To explore the benefits and challenges of GST model in context of economy of India.

Research Methodology of Study

The present paper is descriptive in nature with the involvement of secondary data which has been compiled from newspapers, reports, research papers and websites as well as this is a conceptual study so no statistical tools/techniques has been used in the study.

Features of GST Model:

- The GST shall have two components: one levied by the Centre (hereinafter referred to as Central GST), and the other levied by the States (hereinafter referred to as State GST). Rates for Central GST and State GST would be prescribed appropriately, reflecting revenue considerations and acceptability.
- The Central GST and the State GST are to be paid to the accounts of the Centre and the States separately.
- The Central GST and the State GST would be applicable to all transactions of goods and services made for a consideration except exempted goods and services, goods which are outside the purview of GST.
Since the Central GST and the State GST are to be treated separately; taxes paid against the Central GST shall be allowed to be taken as input tax credit (ITC) for the Central GST and could be utilized only against the payment of Central GST. The same principle will be applicable for the State GST.

The administration of Central GST to the Centre and for State GST to the States would be given.

To the extent feasible, uniform procedure for collection of both central GST and the State GST would be prescribed in the respective legislation for the Central GST and the State GST.

The tax payer would need to submit periodical returns, in common format as far as possible to both the Central GST authority and to the concerned State GST authorities.

Each tax payer would be allotted a PAN-Linked taxpayer Identification number with a total of 13/15 digits. This would bring the GST PAN-Linked system in line with the prevailing PAN-Based system for Income Tax, facilitating exchange and taxpayer compliance.

WORKING OF GST

As today some taxes are levied by the state Govt. and some are levied by central Govt. How nice will it be if there is only one unified tax rate instead of all these taxes, GST is applied on goods and services at the place where actual consumption happens. It is based on the Destination Principle. GST would be levied and collected at each stage of sale or purchase of goods and services. Goods and services are not distinguished and are taxed at single rate in supply chain till the goods and services reach consumer. It is the consumer of goods and services who bears the tax. The manufacture or wholesaler or retailer will pay the applicable GST rate but will claim back through tax credit mechanism.

Let us understand the working of GST of a manufactured commodity from point of view of a Manufacturer, wholesaler, retailer and final consumer:

(Assume GST Rate@10%)

Manufacturer makes a value addition of Rs. 30 on his purchase worth Rs. 100 of input of goods and services used in manufacturing process. The manufacturer will then pay net GST of Rs. 3 (13-10) after setting-off Rs. 10 as GST paid on his inputs (i.e. Input Tax Credit) from gross GST of Rs. 13. The manufacturer sells the goods to the wholesaler. When
Goods & Service Tax (GST): A Sweet Pill for Indian Economy

The wholesaler sells the same goods after making value addition of Rs. 20, he pays net GST of only Rs. 2(15-13), after setting-off of Input Tax Credit of Rs. 13 from the gross GST of Rs. 15 to the manufacturer. The wholesaler sells the goods to retailer. When the retailer sells the same goods after value addition of Rs. 10, he has to pay net GST of only Rs. 1 (16-15), after setting-off Input Tax Credit of Rs. 15 from his gross GST of Rs. 16 to the wholesaler. The retailer sells the goods to consumer.

Thus, the manufacturer, wholesaler and retailer have to pay only Rs. 6 (i.e. Rs. 3+ Rs. 2 +Rs. 1) as GST on the value addition along the entire value chain from producer to the retailer after setting-off GST paid at the earlier stages. So finally consumer has to pay 160+160*10% = 176 Rs. For goods he bought or services he has hired/enjoyed.

The Effect of the GST on Various Sectors in India

GST will turn India into one common market, leading to greater ease of doing business and big savings in logistics costs from companies across all sectors. Some companies will gain more as the GST rate will be lower than the current tax rates they pay; others will lose as the rate will be higher than the present effective rate. While the rate of GST is yet to be decided, industry observers have assumed an 18% rate recommended by a government panel in making their impact calculations. It looks at the likely impact across all sectors.

- **Cement industry:** Cement industry is the one of oldest manufacturing industry the industry has the greatest historical background. Where the civilization is there role of the cement, make in India concept applicable for this industry. The industry has some indirect taxes. By the GST effect the cement industry has indirect tax which might be subsume as 16% to 20% .currently tax burden of indirect taxes from 27% to 32% decrease of tax rate as 16 % to 20% it my create /facilitate as operating expenses such as transportation expenses benefits that the subsume of expenses the industry can claim the above benefits in future.

- **Automobile Industry:** At presently automobile industry payment of the tax sum of 30% to 47% the effect of GST the tax rate decrease from 20% to 22% so at least the consumer may get the benefits.

- **Consumer and Durable Sector:** Currently the consumer and durable claiming revenue net tax total tax percent is 7 to30, the sector had been exempted from such taxes so the effect of GST, the industry would have to get the benefits. The difference between organized and unorganized Sectors is that the rates gap may sub sum. Warehousing and logistics expenses may reduce C.G.C.E Havel, Voltas, Blue star Bajaj electrical, Hitachi, and etc. companies are benefited by the effect of GST.

- **IT Sector:** In the India IT sector 50 percent to 70 percent of the graduates depend on the only IT sector. The net tax rate is 14 %. By the implementation of GST the tax may be 18% to20% to increase. In IT sector the revenue is mainly depending on only export of IT products and services revenue of IT export exempted from the GST. So the GST effect is to be Negative.

- **Telecom sector:** The telecom sectors presently the tax rate is 14%.By the causes of GST the tax rate on telecom sector would have to increase as 18%. So the result of GST on telecom sector will be negative. The public sector is to be critical. In future the concept of “one tax and one nation” caption is not suitable for Telecom sector.

- **Banking and Financial services:** Banking is heart of financial India (wealth). In India public and

<table>
<thead>
<tr>
<th>Stage</th>
<th>Purchase Value of Input</th>
<th>Value Addition</th>
<th>Value of Supply</th>
<th>Rate of GST</th>
<th>GST on Input</th>
<th>ITC</th>
<th>Net GST= GST on Output-ITC</th>
</tr>
</thead>
<tbody>
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<td>100</td>
<td>30</td>
<td>130</td>
<td>10%</td>
<td>13</td>
<td>10</td>
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<td>Whole seller</td>
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<td>20</td>
<td>150</td>
<td>10%</td>
<td>15</td>
<td>13</td>
<td>15-13=2</td>
</tr>
<tr>
<td>Retailer</td>
<td>150</td>
<td>10</td>
<td>160</td>
<td>10%</td>
<td>16</td>
<td>15</td>
<td>16-15=1</td>
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private banking industry is the reflection of mixed economy. The banking sector’s net tax rate is 14% by the effect of GST the rate will be increased from 18% to 20. That the differential tax rate causes as Loan fees, debt and credit charges, insurance premium, etc the financial services charges burden on customers will increase. So the GST will also influence on customer purchasing power. In the banking business transactions will have also effect on share market.

- **Pharmacy industry:** The pharmacy sectors are getting exemptions regional wise. The excise tax rate is 6%. Till the end of the duration the subsidies will have to continue, then after that they will not available. The new tax pattern the industry could not remain constant it is considerable because the encouragement of pharmacy sector.

- **Textile and garment industry:** Emerging industry has playing key role in textile and garments. That the industry has recipient of tax rate is currently from 6% to 7% that tax rate may or may not be continued it is clear in that process the output of tax rate may hick by the effect of GST which is negative. the textile sector enjoy some of few companies like page industry, Aravind, Raymond etc.

- **DTH/Media company:** DTH and media sector’s average tax payment rate presently 19% to 21% apart from that service tax is 14%, entertainment tax is 5% to 7%. Brad costing companies are paying tax rate is 14% to 15% these two departmental taxes are effect by the GST 18% to 20%. Currently news and print media has been exempted from that taxes, the GST prove to DTH and some Negative to print media and broadcasting. Dish TV may get benefits ZEE sun HT media prakesh jagaran to negative.

- **Automobile and Batteries industry:** The field of Batteries would have faces the throat cut competition by the effect of GST Jumbo feasibilities it has the effect on “the transported vehicles may get the benefits by the GST.

### GST and Centre - State Financial Relations

At present, monetary powers amongst the Centre and the States are clearly distinguished in the Constitution, with no overlap between the two domains. The power to impose tax on the manufacture of goods (except alcohol for human consumption, narcotics, etc.) has been given to the Centre while the States are provided with the powers to impose tax on the sale of goods. However, in case of inter-State sales, the Centre has power to impose a Central Sales Tax, but the tax is collected entirely by the States.

Until now, the states are not empowered to impose any tax on the sale or purchase of goods in course of their export or import into the country, these taxes are collected by Centre as additional duties of customs, which counterbalances the sales tax, excise duties, State VAT and others. With the introduction of GST, some amendments are required to be made in the constitution in order to simultaneously empower the Centre and the States to levy and collect the GST. To address these issues, the Constitution (115th Amendment) Bill was introduced in the Lok Sabha on 22nd March, 2011. This Bill lapsed with suspension of 15th Lok Sabha. Thereafter, on 19th December 2014, the Constitution (122nd Amendment) Bill was introduced in the 16th Lok Sabha, which stated imposition of GST on supply of all goods or services except for the listed goods.
IMPOSITION OF GST MODEL

Introduction of the Value Added Tax (VAT) at the Central and the State level has been considered to be a major step – an important step forward – in the globe of indirect tax reforms in India. If the VAT is a major improvement over the pre-existing Central excise duty at the national level and the sales tax system at the State level, then the Goods and Services Tax (GST) will indeed be an additional important perfection – the next logical step – towards a widespread indirect tax reforms in the country.

Initially, it was conceptualized that there would be a national level goods and services tax, however, with the release of First Discussion Paper by the Empowered Committee of the State Finance Ministers on 10.11.2009, it has been made clear that there would be a “Dual GST” in India, taxation power – both by the Centre and the State to levy the taxes on the Goods and Services.

Impact of GST on the Products of Consumer Price Index (CPI) Basket

Chart 1. Sector wise weightage under the Current CPI
Source: Edel Invest Research
Note: GST will have a significant impact on only 20-25 percent items in the CPI Basket
With respect to Tax Threshold: The threshold limit for turnover above which GST would be levied will be one area which would have to be strictly looked at. First of all, the threshold limit should not be so low to bother small scale traders and service providers. It also increases the allocation of government resources for such a petty amount of revenue which may be much more costly than the amount of revenue collected. The first impact of setting higher tax threshold would naturally lead to less revenue to the government as the margin of tax base shrinks; second it may have on such small and not so developed states which have set low threshold limit under current VAT regime.

With respect to nature of taxes: The taxes that are generally included in GST would be excise duty, countervailing duty, cess, service tax, and state level VATs among others. Interestingly, there are numerous other states and union taxes that would be still out of GST.

With respect to number of enactments of Statutes: There will two types of GST laws, one at a centre level called ‘Central GST (CGST)’ and the other one at the state level - ‘State GST (SGST)’. As there seems to have different tax rates for goods and services at the Central Level and at the State Level, and further division based on necessary and other property based on the need, location, geography and resources of each state.

With respect to Rates of taxation: It is true that a tax rate should be devised in accordance with the state’s necessity of funds. Whenever states feel that they need to raise greater revenues to fund the increased expenditure, then, ideally, they should have power to decide how to increase the revenue.

With respect to tax management and Infrastructure: It depends on the states and the union how they are going to make GST a simple one. Success of any tax reform policy or managerial measures depends on the inherent simplifications of the system, which leads to the high conformity with the administrative measures and policies.

OPPORTUNITIES OF GST MODEL

An end to cascading effects: This will be the major contribution of GST for the business and commerce. At present, there are different state level and centre level indirect tax levies that are compulsory one after another on the supply chain till the time of its utilization.

Growth of Revenue in States and Union: It is expected that the introduction of GST will increase the tax base but lowers down the tax rates and also removes the multiple point. This, will lead to higher amount of revenue to both the states and the union.

Reduces transaction costs and unnecessary Wastages: If government works in an efficient mode, it may be also possible that a single registration and single compliance will suffice for both SGST and CGST; provided government produces effective IT infrastructure and integration of such infrastructure of states level with the union.

Eliminates the multiplicity of taxation: One of the great advantages that a taxpayer can expect from GST is elimination of multiplicity of taxation. The reduction in the number of taxation applicable...
in a chain of transaction will help to clean up the current mess that is brought by existing indirect tax laws.

- **One Point Single Tax:** Another feature that GST must hold is it should be ‘one point single taxation’. This also gives a lot of comforts and confidence to business community that they would focus on business rather than worrying about other taxation that may crop at later stage. This will help the business community to decide their supply chain, pricing modalities and in the long run helps the consumers being goods competitive as price will no longer be the function of tax components but function of sheer business intelligence and innovation.

- **Reduces average tax burdens:** Under GST mechanism, the cost of tax that consumers have to bear will be certain, and GST would reduce the average tax burdens on the consumers.

- **Reduces the corruption:** It is one of the major problems that India is overwhelmed with. We cannot expect anything substantial unless there is a political will to root it out. This will be a step towards corruption free Indian Revenue Service.

**CONCLUSION**

GST will create a single, unified Indian market to make the economy stronger. GST is the most logical steps towards the comprehensive indirect tax reform in India since independence. The concept of GST was proposed in India few years back. It is one of the biggest taxation reforms in India – the Goods and Service Tax (GST) — is all set to integrate State economies and boost overall growth of economy. GST is leviable on all supply of goods and provision of services as well combination thereof. All sectors of economy whether the industry, business including Govt. departments and service sector shall have to bear impact of GST. All sections of economy viz., big, medium, small scale units, intermediaries, importers, exporters, traders, professionals and consumers shall be directly affected by GST. At the end we can say no doubt it is the biggest ever change in tax structure of India. There will be fall in prices of some commodities but on the other hand price of some other goods and services will rise. There is threat of inflation too and states may face reduction in their financial resources. But overall it will be a great change in indirect tax structure of Indian economy would help to maintain the simplicity and transparency by treating all goods in a single taxation system.

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