

# An Extensive Analysis of Goods and Services Tax (GST) in India

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## ABSTRACT

The goods and services tax (GST) implemented on July 1, 2017, is regarded as the most significant tax reform in India. It is levied on manufacture, sale, and consumption of goods, services, or both at a national level. Previous taxes like- excise duty, VAT, Service tax, Central sales tax, import duty, etc., is replaced by GST. The GST based taxation system brings more transparency and also reduces tax evasion and tax avoidance in the country. This paper highlighted the background of the previous taxation system, the GST concept along with its working, comparison of previous tax structure v/s GST and also highlighted the advantages of GST to the Indian economy and other sectors.

**Keywords:** Goods and Services Tax (GST), Indian Economy, Indian Taxation System, Indirect Tax, Tax, Taxation Reforms.

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## INTRODUCTION

A tax is not a voluntary donation or payment, but it is a contribution by society so that the government ensures the development of a country. It is imposed by the government, whether under the name of toll, custom, excise, wealth, or any other name.

Taxes collected from society are a fund for the government, which he utilizes to develop the economy. It is highly important that the taxation system is designed in such a way that it doesn't lead to any sort of market distortions and failure in the economy. Revenue can be collected in an efficient and effective manner.

In India, the taxation system was started in ancient times, which can be seen in Arthsastra. During the British Empire, the entire system was changed due to modern and scientific changes in taxation laws. Another remarkable transformation came in the year 1992, in which Britishers established entirely new reforms by categorized the taxation system in two categories:- Direct taxes and Indirect Taxes. A direct tax is imposed directly on the taxpayer or paid directly to the government, while Indirect tax is a tax that can be shifted to another person. Taxes are the prominent and most significant source of revenue of the government. The government needs money to ensure proper law and order; to safeguard the country from foreign powers and to promote the welfare of people in the country.

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## THE INDIAN TAXATION SYSTEM SCENARIO BEFORE GST

Tax policies play a significant role in any country's economy. A good taxation policy is that which ensures proper distribution of income and also generates revenue for the government, which can lead to overall benefit in the nation's infrastructure, social security, public facilities, etc.

Taxes were being levied and collected exclusively by the government under constitutional provisions of India- Article 246, 7 Schedule. The Figure 1 shows tabulates the classification of taxes imposed by Central and State government of India-

But there were several issues with this taxation system. Below are the points which highlight the issues related to Indirect tax structure before GST in India:-

- Existence of Multiple taxes like- Excise duty, Customs duty, Service tax, State VAT, etc., resulted in

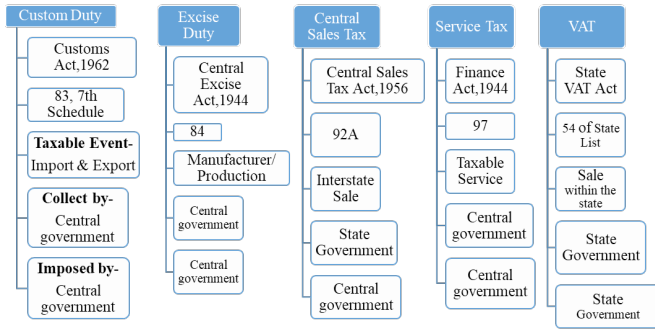


Figure 1: Indirect tax structure before GST

Source: Author's own

complexity for both business (trade and industry) as well as the government in terms of administration and costs.

- When taxes paid on Input are not allowed to be set off against taxes payable on Output, then it will be added to cost. This leads to a Cascading effect, i.e., tax on tax system. Since several taxes were levied by the central government (excise, service tax, etc.) and VAT dealers were not allowed for such duties. Therefore all such taxes subsumed into costs and prices of goods and services got inflated because of tax on the tax system.
- In some cases, there was a problem with the classification between goods and services. Therefore, both goods and services were levied by both governments on such transactions. Example- Restaurant service\Food.
- Value Added Tax (VAT) where different states were charging VAT at different rates, which were resulting in an imbalance of trade between the states.
- Various states had their own compliances, procedures, which required multiple registrations, return, due date, tax payment, different assessment, etc. Therefore, high costs were included.
- Lack of cross-utilization system between goods and services, i.e., taxes paid on the purchase of goods, were not allowed to be set off against output tax payable on services and vice versa.

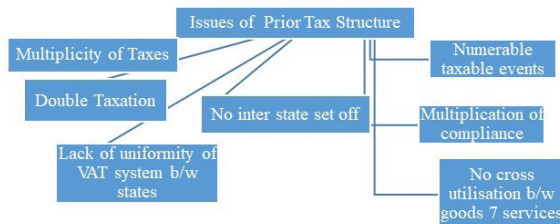


Figure 2

Source: Author's own

## RESEARCH METHODOLOGY

This paper is based on an exploratory research technique, and the study is based on secondary data. Secondary data are collected from books, journals, newspaper, magazines, and various publications from websites which is relevant to GST.

### Objectives Of Research Undertaken

The research has been undertaken after considering the following objectives-

- To gain an in-depth understanding of a new taxation system introduced-goods and services tax (GST) in India.
- To know the concept and structure of Goods and Services Tax (GST).
- Understanding the features, working and differentiating the earlier taxation system v/s GST.
- To evaluate the advantages and challenges surrounding GST.
- To analyze the effect of Goods and Services Tax (GST) on the Indian economy.

## REVIEW OF LITERATURE

Girish Garg, (2014) studied "Basic concepts and features of Goods and Services Tax in India," GST is the most significant steps towards indirect tax reform in our country. GST would make a unified Indian market to make the economy stronger. GST is likely to increase tax collections and boost the economic growth of a country by discontinuing tax barriers between states and integrating India through an identical tax rate. The taxation burden will be divided equally between manufacturing and services under GST.

Dr. Ravi Kulkarni and MS.Joyline Clara (2017) studied "A Comparative study of GST and VAT Tax systems" concluded in their study that GST is implemented to reduce the burdens of consumers, to remove the tax on the tax system. GST would make the taxation system of India a more straightforward taxation system and will help both the consumers and the economy.

Dr. R. Vasanthagopal (2011) studied "GST in India: A Big Leap in the Indirect Taxation System" and got concluded that the positive effects are dependent on the impartial and rational design of the GST. The GST would be a big jump in the indirect taxation system and also give stimulus to India's economic growth.

## GST-CURRENT SCENARIO

### Need for GST- Goods and Services Tax

As per the reports of Task Force on Goods and Services Tax (2009), the Indian taxation system led to misallocation of resources and low productivity in terms of economic growth. Therefore, there is a need for such a taxation system which can achieve the following objectives:

- To bring the Indian economy under a single umbrella.
- To reduce the multiplicity of taxes.
- To remove the cascading effect.
- To boost export and manufacturing activity.
- To increase digitalization.
- To removing multiple compliance procedures.

### Goods and Services Tax in brief

Goods and service tax means a tax on supply of goods or services, or both, except taxes on supply of alcoholic liquor for human consumption[ Article 366(12A)] of Constitution of India inserted, w.e.f 16-9-2016.(V.S.Datey, GST 2018,p-4). It is levied on the supply of goods or services or both in India. It is applicable to the whole of India (state of Jammu and Kashmir is covered with effect from July 8, 2017). Area up to 200 nautical miles inside the sea is "India" for levy of GST.

As per the government, the Goods and Services Tax (GST) is regarded as a "Reform" rather than an amendment in the existing Indian taxation system to sort out all backdoors and loopholes of the indirect taxation system. The GST implementation is "dual" in nature- one component is implemented by Centre (CGST) and another component by State (SGST). The

**Table 1:** The current status of GST laws passed in India is as under

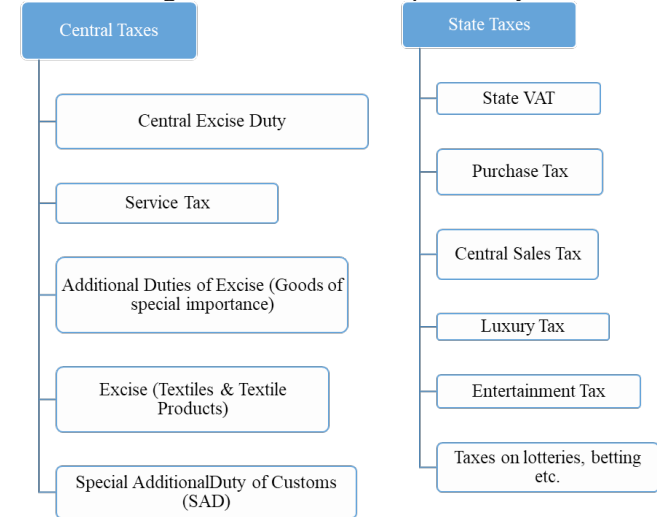
The Law	Purpose
The Central Goods and Services Tax,2017 (CGST Act)	To levy and collect tax on intra-state supplies by the central government.
The States Goods and Services Tax, 2017 (SGST Act)	To levy and collect tax on intra-state supplies by the state government.
The Integrated Goods and Services Tax, 2017 (IGST Act)	To levy and collect tax on inter-state supplies by the central government.
The Union Territory Goods and Services Tax,2017 (UTGST Act)	To levy and collect tax on in case of Union Territories, which do not have a legislature.
GST (Compensation to States) Tax, 2017	To compensate states for the loss of revenue, if any, due to the introduction of GST.

central government and state government will levy GST simultaneously on a common base. Four legislations were given assent by President on April 12, 2017, which include:

- The Central GST Act,2017
- The Integrated GST Act,2017
- The GST (Compensation to States) Act,2017
- The Union Territory GST Act,2017

### Taxes Abolished and Items Exempted from GST

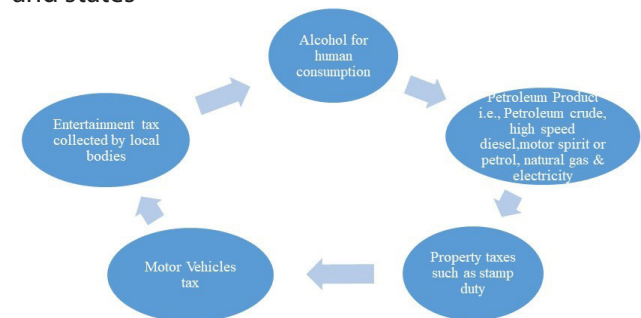
The following taxes have been replaced by GST:



**Figure 3**

Source: Author's own

The following items are kept aside under GST. As such these are taxed under the existing laws of Centre and states-



**Figure 4**

Source: Author's own

### Statistical Analysis and Comparison of Indian GST Rate with Other Foreign Nations

The table given below enlists the comparison of Indian GST rates with other economies of the world. In comparison with other economies, India has the highest rate of GST with 28%, while some of the developed countries like Russia, Australia, and Singapore have GST between 10 to 18%.



**Table 2:** List of GST rates applicable in various countries

Name of country	GST Rates (in %)
Denmark/Sweden	25%
Netherlands	21%
United Kingdom	20%
France	19.6%
Germany	19%
India	0%,5%,12%,18% and 28%
Russia	18%
China	17%
Mexico	16%
New-Zealand	15%
Australia, Brazil, Indonesia, Korea	10%
Japan, Switzerland	8%
Thailand, Singapore	7%
Malaysia	6%

Source: Central Board of Excise and Customs (2017)

**Working of Goods and Services Tax (GST): (Imaginary figures)**

Table 3

(INR)	Previous Taxation System	GST
<i>Manufacturer</i>		
Cost of goods	10000	10000
Add- Value addition	2000	2000
Basic Price	12000	12000
Add- CENVAT@12.5%	1500	0
Add- GST@18%	0	2160
Total Prize	13500	14160
<i>Wholesaler/Distributor</i>		
Cost of goods	13500	14160
Less- Input GST credit	0	(2160)
Add- Value addition	5000	5000
Basic Price	18500	17000
Add- VAT@ 12.5%	2312	0
Add- GST@18%	0	3060
Total Prize	20812	20060
<i>Retailer</i>		
Cost of goods	20812	20060
Less- Input VAT credit	(2312)	0
Less- Input GST credit	0	(3060)
Add- Value addition	2000	2000
Basic Price	20500	19000
Add- VAT@ 12.5%	2562	0
Add- GST@18%	0	3420
Total Price paid by consumer	23062	22420
Total Taxes Paid	4062	3420

**Impact of GST on Indian Economy**

GST was implemented on 1 July 2017. In this analysis, we had compared below indirect tax revenue and total tax revenue of the union government before the Previous taxation system and Goods and Services Tax (GST). As per Table 4, Indirect tax revenue had reached 941119.15 crores in 2017-18, and after that, it was reduced to 743000 crores in 2018-19. And also, as per Table 4, the share of indirect tax to GDP ratio is decreasing from 5.65% to 5.43% and after that to 5.03% in 2017-18 and 2018-19, respectively.

As per Table 5, after the implementation of GST, the total tax revenue of the union government is reduced from 1946119.15 to 1649582 crores in the financial year 2018-19. And also, the total tax to GDP ratio is reduced from 11.41 to 10.90% in the financial year 2018-19.

**Impact of GST on Various Sectors**

In this heading, the impact of GST on various sectors are discussed:

*IT Companies*

GST had allowed more implementation of digital systems and services. GST had increased the rate of tax from 14 -15% to 18%, which had also increased the cost of electronic products like mobile phones, laptops, etc.

*FMCG Industry*

Some food items are exempted under GST like grains and cereals, milt, meat, fish, fruits and vegetables, candy, etc. FMCG companies paid a 24–25% tax before GST. With the introduction of GST, the rate of return would be 17–19% leading to a strong impact in Production and consumption.

*Online Shopping*

With the introduction of GST, various Ecommerce companies have to face much burden of work in the rate of filling taxes.

*Telecom Sector*

With the previous VAT charges of 15% being replaced by an 18% GST rate, the price of mobile calls, SMS, and broadband services had impacted. This had a negative impact on big telecom giants like Airtel, Vodafone, Idea, etc.

*Automobiles*

GST had provided a reduction on the on-road price of vehicles to the max by 8% as per the latest report. So the automobile companies can boost up their sales and have tremendous opportunities for expansion.

**Table 4:** Share of Indirect tax to GDP (%)

Financial Year	Indirect Tax (Revenue in cr.)	Indirect tax as % of GDP
2015-16	713703.4	5.16%
2016-17	866109.02	5.65%
2017-18	941119.15	5.43%
2018-19	743000.00	5.03%

**Table 5:** Share of total tax to GDP (%)

Financial Year	Total Tax (Revenue in cr.)	Total Tax as % of GDP
2015-16	1455648.11	10.63%
2016-17	1715822.40	11.22%
2017-18	1946119.15	11.41%
2018-19	1649582	10.90%

Source: Union Budget of India

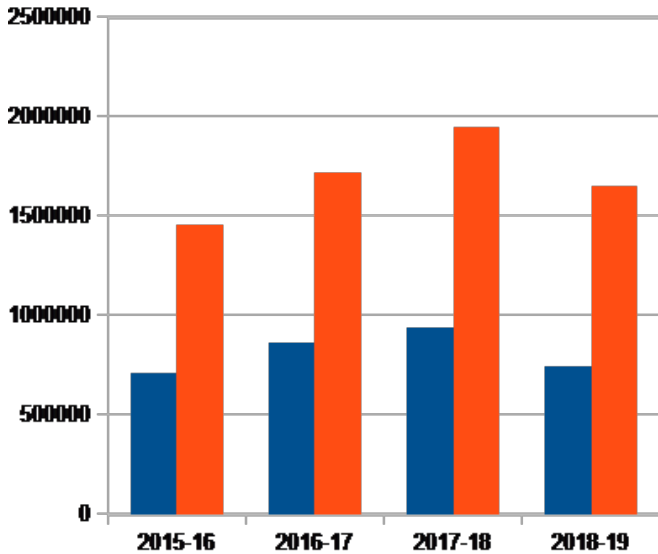


Figure 5

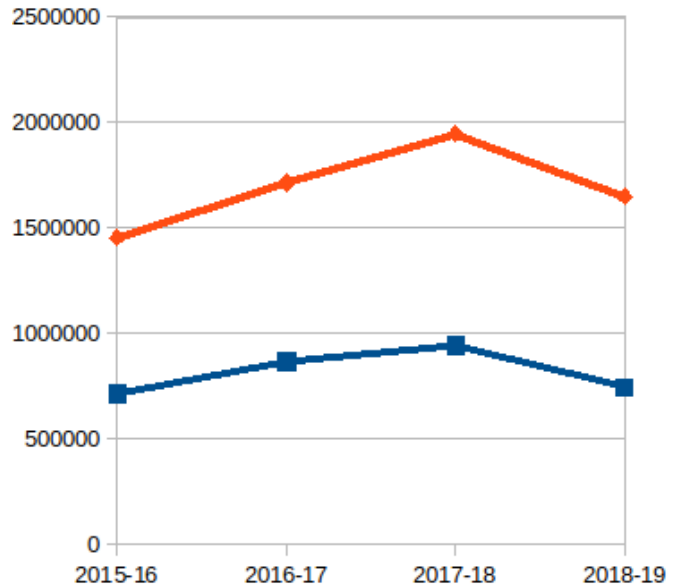


Figure 6

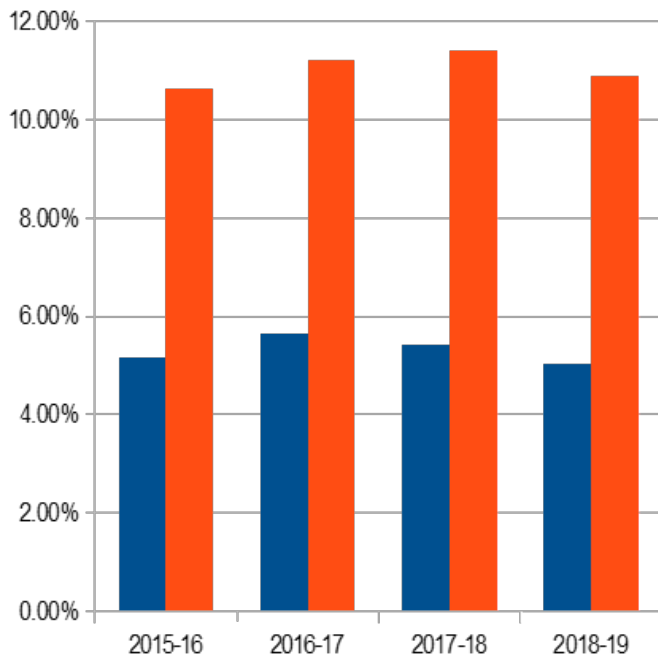


Figure 7

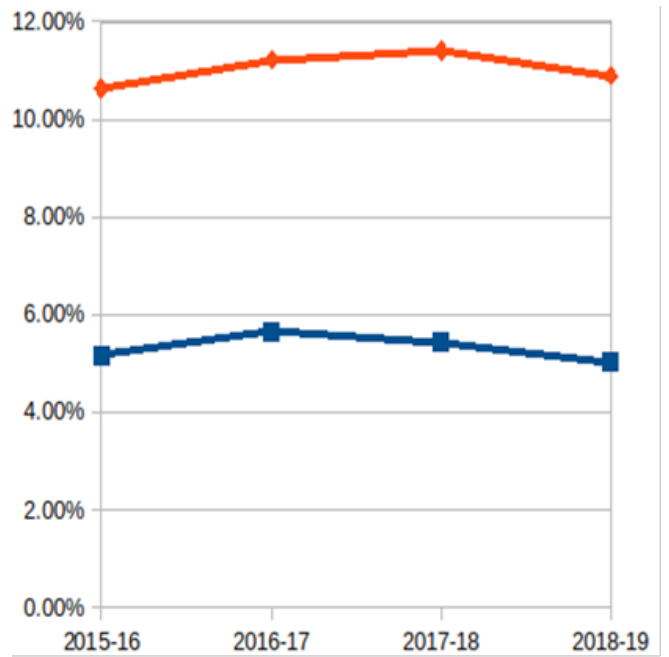


Figure 8





### *Small Scale Industries*

Manufacturers and traders are paying less tax after GST Implementation.

## **CONCLUSION**

Goods and services tax(GST) is an indirect tax levied on manufacture, sale and consumption of goods and services at a national level. It is the most significant tax reform in India. It is implemented parallel by the central and state governments at CGST and SGST, respectively. It will improve India's position in "Ease of doing business index" at a global level. It will increase tax compliance, which in turn had reduced tax evasion that leads to increment in tax revenue. One of the biggest advantages of GST is to bind the entire nation under a single taxation system. The implementation of GST ends the biasness between the manufacturing and service sectors. GST has assisted in removing inefficiencies created by the previous indirect taxation system in India. It had also put its impact on various sectors together with the Indian economy. More specifically, there is a need to do the following:

- Create awareness to go for tax compliance.
- Much more simplification of tax rates.
- Handling grievances and managing resistance of traders and tax professionals.
- Meeting implementation challenges.
- Strengthening of IT framework.
- Effective coordination between centre and tax administrators.

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