International Journal of Science and Research (IJSR)
ISSN (Online): 2319-7064
Index Copernicus Value (2013): 6.14 | Impact Factor (2013): 4.438

The Role of the Goods and Service Tax (GST) in Development of Indian Economy

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Abstract: ***GST is betterment for taxation of goods and services as compared to VAT + Excise + Service Tax regime. After implementation of GST in India, there will be uniformity of taxation throughout the Country. This will result in reduction in prices of goods and services and hence this will increase the GDP (Gross Domestic Production) as demand will also increase due to reduction in prices. In brief it will be helpful in attaining Rapid Economic Growth of the Country.***

Keywords: GST & development of Indian Economy

1. Introduction

One of the biggest taxation reforms in India -- the GST is all set to integrate State economies and boost overall growth. GST will create a single, unified Indian market to make the economy stronger. The implementation of GST will lead to the abolition of other taxes such as octroi, Central Sales Tax (CST), State-level sales tax / Value Added Tax, entry tax, stamp duty, telecom licence fees, turnover tax, tax on consumption or sale of electricity, taxes on transportation of goods and services, et cetera. Thus avoiding multiple layers of taxation that currently exist in India, GST is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level. Through a tax credit mechanism, this tax is collected on value-addition on goods and services at each stage of sale or purchase in the supply chain. The system allows the set-off of GST paid on the procurement of goods and services against the GST which is payable on the supply of goods or services. However, the end consumer bears this tax as he/she is the last person in the supply chain.

Experts say that GST is likely to improve tax collections and boost India's economic development by breaking tax barriers between States and integrating India through a uniform tax rate. Under GST, the burden of tax collection will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions.

It is expected to help build a transparent and corruption-free tax administration. Final impact of total GST will be only at the destination point, presently it is at various points (from manufacturing to retail outlets) i.e. a manufacturer needs to pay tax when a finished product moves out from a factory, and it is again taxed at the retail outlet when sold. At present excise duty paid on the raw material consumed is being allowed as input credit only on manufactured goods. For other taxes and duties paid for post-manufacturing expenses, there is no mechanism for input credit under the Central Excise Duty Act. GST will divide the tax burden equitably between manufacturing and services. It will be replacement of Excise Duty and other taxes.

GST aims to remove barriers among states and unify the country into a common national market. Presently credit for service tax paid is being allowed as input service tax to manufacturer/ service provider to a limited extent. In order to give the credit of service tax paid in respect of services consumed, it is necessary that there should be a comprehensive system under which both the goods and services are covered.

A major defect under the State VAT is that the State is charging VAT on the excise duty paid to the Central Government, which goes against the principle of not levying tax on taxes. In the present State level VAT scheme, input vat is allowed on the goods remains included in the value of goods to be taxed which is a cascading effect on account of vat element.

Presently CST is being levied on inter-state transfer of goods, as there is no provision for taking input tax credit (ITC) on such CST, this leads to additional burden on the dealers. The existing CST will be discontinued. Instead, a new statute known as IGST will come into place. It will empower the Central Government to levy and collect the tax on the inter-state transfer of the Goods and Services.

Many of the States are still continuing with various types of indirect taxes, such as luxury tax, entertainment tax, etc.

In India a dual GST system is being implemented. Under dual GST, a Central Goods and Services Tax (CGST) and a State Goods and Services Tax (SGST) is being levied on the taxable value of a transaction. All goods and services, barring a few exceptions, are to be brought into the GST base. As a measure of support for the states, petroleum products, alcohol for human consumption and tobacco have been kept out of the purview of the GST. There is no distinction between goods and services. In the GST system, both Central and State taxes are to be collected at the point of sale. Both components (the Central and State GST) are to be charged on the manufacturing cost or value of services rendered. This will benefit individuals as prices are likely to come down. Lower prices will lead to more consumption, thereby helping companies. The prices are expected to fall in the long run as dealers might pass on the benefits of the reduced tax to consumers.

The inter-State seller will pay IGST on value addition after adjusting available credit of IGST, CGST and SGST on their purchases. The Exporting State will transfer to the Centre the credit of SGST used in payment of IGST.

However, only the Centre may levy and collect GST on supplies in the course of inter-state trade or commerce. The tax collected would be divided between the Centre and the states in a manner to be provided by parliament, on the recommendations of the GST Council. Cross utilization of ITC between the CGST and the SGST would not be allowed except in the case of inter-State supply of goods & Services.

The scope of IGST Model is that Centre would levy IGST which would be CGST plus SGST on all inter-State transactions of taxable goods and services with appropriate provision for consignment or stock transfer of goods and services.

The inter-State seller will pay IGST on value addition after adjusting available credit of IGST, CGST, and SGST on his purchases. The Exporting State will transfer to the Centre the credit of SGST used in payment of IGST. The Importing dealer will claim credit of IGST while discharging his output tax liability in his own State. The Centre will transfer to the importing State the credit of IGST used in payment of SGST. The relevant information will also be submitted to the Central Agency which will act as a clearing house mechanism, verify the claims and inform the respective governments to transfer the funds thereby it will maintain uninterrupted ITC chain on inter-State transactions.

As all inter-State dealers will be e-registered and correspondence with them will be by software-generated automated e-mail, the compliance level will improve substantially. Model can take 'Business to Business' as well as 'Business to Consumer' transactions into account.

GST will not be an additional tax. CGST will include central excise duty (Cenvat), service tax, and additional duties of customs at the central level; and value-added tax, central sales tax, entertainment tax, luxury tax, octroi, lottery taxes, electricity duty, state surcharges related to supply of goods and services and purchase tax at the State level.

The Centre and the States would have concurrent jurisdiction for the entire value chain and for all taxpayers on the basis of thresholds for goods and services prescribed for the States and the Centre.

Each taxpayer would be allotted a PAN-linked taxpayer identification number with a total of 13/15 digits.

There will be a two-rate structure –a lower rate for necessary items and items of basic importance and a standard rate for goods in general. There will also be a special rate for precious metals and a list of exempted items. For CGST relating to goods, the States considered that the Government of India might also have a two-rate structure, with conformity in the levels of rate with the SGST. For taxation of services, there may be a single rate for both CGST and SGST. GST on export would be zero rated

Both CGST and SGST will be levied on import of goods and services into the country. The incidence of tax will follow the destination principle and the tax revenue in case of SGST will accrue to the State where the imported goods and services are consumed. Full and complete set-off will be available on the GST paid on import on goods and services.

As existing law provides that the levy of service tax / excise is centre's domain in union list and sales tax on goods is state's domain except in case of interstate transactions. It is proposed to amend the legislature and hence Constitutional Amendments is proposed vide The Constitution (122nd Amendment) (GST) Bill, 2014. The Bill proposes to amend the Constitution to introduce the goods and services tax (GST). Parliament and state legislatures will have concurrent powers to make laws on GST. Article 246 of Constitution of India establishes the law making jurisdiction of Central and State governments over Union List, State List and the concurrent list of Schedule VII to the Constitution.Only the centre may levy an integrated GST (IGST) on the interstate supply of goods and services, and imports. The GST Council will recommend rates of tax, period of levy of additional tax, principles of supply, special provisions to certain states etc. The GST Council will consist of the Union Finance Minister, Union Minister of State for Revenue, and state Finance Ministers. The Bill empowers the centre to impose an additional tax of up to 1%, on the inter-state supply of goods for two years or more. This tax will accrue to states from where the supply originates. Parliament may, by law, provide compensation to states for any loss of revenue from the introduction of GST, up to a five year period. Article 254 establishes that the law enacted by Central government shall prevail over the state government where the laws are conflicting on subject matter of concurrent list (except that the state law may prevail in that state subject to Hon'ble President Assent. The article 246A(1) shall empower goods and service tax law framing with both the central and state government unlike in the current case. Article 246(2) re-establishes the centre's exclusive control on interstate supply of goods & services. Importantly interstate supply of services will mark its separate significance in the proposed GST regime

Thus it can be construed that the after GST is implemented, there will be likely to improve tax collections and boost India's economic development. The prices are expected to fall in the long run as dealers might pass on the benefits of the reduced tax to consumers. Lower prices will lead to more consumption, thereby helping companies.

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