

# GST- Present and Future

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**Abstract:** - This paper is an analysis of the impact of GST (Goods and Services Tax) on Indian Taxation System. Here, we will study with a brief description of the historical scenario of Indian Taxation and its tax structure. Here, we are going to study about the present tax system and the impact of implementing GST in Indian Economy. The changed indirect tax system GST- Goods and Service Tax is planned to execute in India. Govt does not yet declare the GST implementation. And the implementation of GST law is under process. It is going to be implemented on 1<sup>st</sup> July 2017. The objective will be to maintain a common point between the basic structure and design of CGST, SGST, and IGST between states. In this article, I have started with the history of taxation in India after that I have included various opportunities and challenges, proposed work and various impacts of GST on Economy that GST brings before us to strengthen our free market economy.

**Keywords:** - GST (Goods and Service Tax), VAT (Value Added Tax), CGST (Central Goods and Service Tax), SGST (State Goods and Service Tax), I-GST (Integrated Goods and Service Tax)

## History of Taxation:-

GST- Goods and Service Tax, a multi-stage, destination-based tax that will be levied on every value addition.

### What is Tax?

The word Tax derived from the Latin word 'taxare' meaning to estimate. It is a financial charge or some forced levy imposed upon a taxpayer (an individual or a legal entity) by a State or the Central Govt. to fund various public expenditures. Taxation in India is arrived/ rooted from the period of Manusmriti and Arthashastra. Our present Indian tax system is based on this ancient tax system which was based on the theory of maximum social welfare. In India, the system of direct taxation is in one form or another even from ancient times.

According to Manusmriti, "The king should arrange the collection of taxes in such a manner that the tax payer did not feel the burden of paying tax."

Our present tax system is in many ways similar to the system of taxation in vogue about 2300 years ago. In 1922, the country witnessed a paradigm shift in the overall Indian taxation system. Taxes in India are of two types.

- Direct
- Indirect

The Central Govt levies taxes in India. Moreover, the State Govt. Some minor taxes are also levied by the local authorities such as Municipality or Local Council.

## Introduction of GST

The introduction of Value Added Tax (VAT) at the Central and the State level has been considered to be a major step. It is an improved step over the existing Excise Duty, Customs duty, sales tax and service tax (Indirect taxes). Now, GST is a major step taken by the Govt. to remove unnecessary barriers in the way of tax collection. Initially, it was mentioned that there would be national level goods and service tax. However, with the release of

a first discussion paper by the Empowered Committee of State Finance Minister on 10.11.2009, it has been made clear that there would be a "Dual GST" in the die. Almost 150 Countries have introduced GST in some form. Some Countries like Singapore and New Zealand have a Single rate for everything, Indonesia has five actual rates, Single rate and over 30 categories of Exemption.

Under GST Scheme, no distinction is made between goods and services for levying of the tax. GST is a multi-tier tax where the ultimate burden of the tax falls on the consumer of goods/service.

Under the GST scheme, a person who was liable to pay tax on his output whether for provisions of service or sale of goods is entitled to get input tax credit (ITC) on the tax paid on its inputs. GST is an indirect tax throughout India to replace Existing taxes levied by Central and State Govt. It was introduced as the Constitution (One Hundred and Twenty-Second Amendment) Act 2017. GST Council governs GST, and its chairman is Union Finance Minister of India – Arun Jaitley.

## Effects

The tax rates under GST may be nominal or zero for the time its charged. The central govt. Has assured states of compensation for any revenue losses incurred by them from the date of GST for 5 years.

## Impact of GST on some basic expenses in Household consumption

### Durables

Refrigerators and washing machines

There could not be much difference in price as new rates will be close to existing rates.

Base Price : Rs.20,000

Total taxes now : Rs.5,300

Under GST : Rs.5,600

### Life Insurance

While premium of term plans and non-life policies are taxed, only charges (mortality and AMC charges, etc.) in other life policies attract GST.

Base Price: Rs.15000

Total taxes now: Rs.2,250

Under GST: Rs.2,700

### Gold Ornaments

Making charges: Rs.10,000

The gold will become more dearer as there will be 3% GST on gold and 5% on making charges.

Base price : Rs.60,000

Total Taxes now : Rs.1,800

Under GST : Rs.2,000

### Hotel Stay

If you settle for a room that costs less than Rs.1,000, there will be no GST to pay. Anything above Rs.5,000 will attract 28%.

Base Price: Rs.7,000

Total taxes now : Rs.1,400

Under GST : Rs.1,960

### Refined Cooking Oil

Hair oil will stay high due to 18% GST. However, Coconut oil being refined cooking oil, will be taxed at 5%.

Base Price: Rs.200

Total Tax now: Rs.23

Under GST: Rs.10

### Air Travel

Base Price : Rs.5,000

Total taxes now: Rs.300

Under GST: Rs.250

## Train Travel

Those traveling by local trains or in sleeper class are not affected. First class and AC Compartment travelers will pay more.

Base Price: Rs.3,000

Total taxes now: Rs.131

Under GST: Rs.150

## Eating out for a family of 4

A non-AC eatery will only charge 12% GST. Eating in 5 Star restaurant hotel will charge 28% GST.

Base price : Rs.2,000

Total taxes now: Rs.130

Under GST: Rs.240

## Exemptions from GST

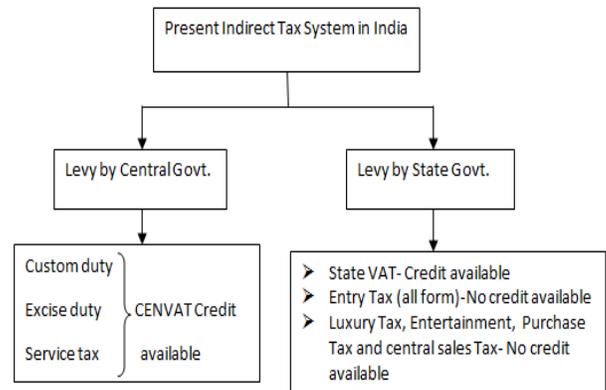
- All unprocessed cereals like rice, wheat, etc.
- All unprocessed milk, vegetables, meat, fish, etc.
- Train travel by local and sleeper class
- Education
- Healthcare (but not medicines)
- Hotels, lodges with room rent less than Rs.1,000
- Kid's coloring/ drawing books
- Bindis, sindoor, bangles, etc.

## Consumer: - GST Impact Analysis

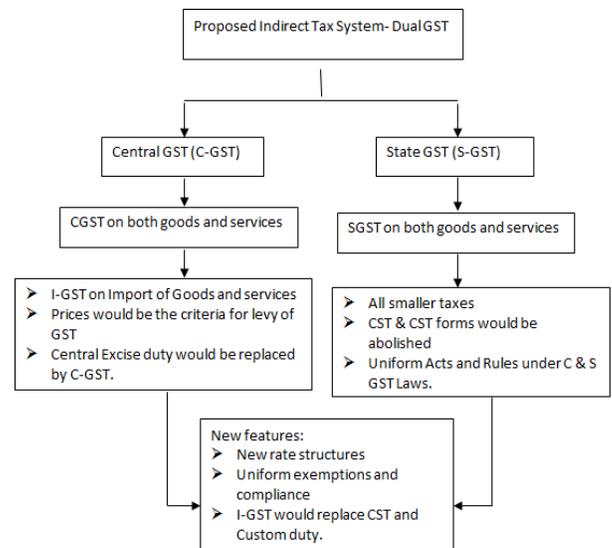
Implementation of GST will be positive for the consumer sector because doing business improves.

### Key Points

- Under GST, a common tax rate will be applied.
- Shifts from unorganized to organized would take its course.
- GST is likely to increase working capital requirements.

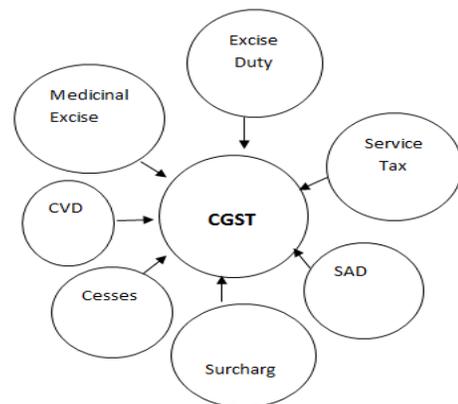


**Fig. 1** Present Indirect Tax System in India

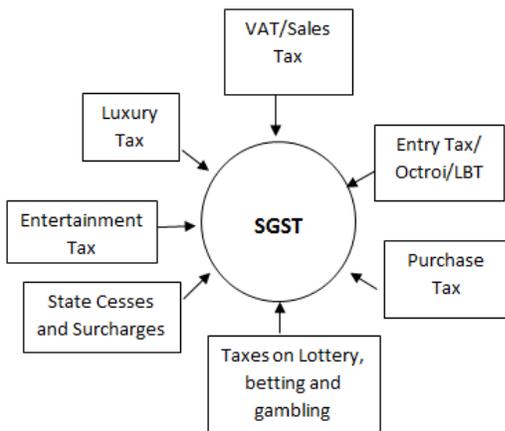


**Fig. 2** Proposed Indirect Tax System- Dual GST

## Taxes to be subsumed into CGST



## Taxes to be subsumed into SGST



## Benefits of GST

The implementation of GST will help to create a common market in India and reduce cascading effects of the tax on the cost of Goods and services. Multiple taxes like Octroi, Central and state sales taxes and the entry fee will no longer be present, and all will be brought under GST.

## Opportunities

### 1. Growth of Revenue in State and Union

The introduction of GST will increase the tax base but lower the tax rates and also removes the multiple points.

This will lead to high revenue to both Central and State Govt.

### 2. Reduces transactions costs and unnecessary wastage

CGST provided Govt. produces effective IT infrastructure and integration of such infrastructures of state level with Union.

### 3. Eliminates multiplicity of taxation

The reduction in the number of taxation applicable in a chain of the transaction will help to clean up the existing indirect tax laws.

### 4. Single Taxation

GST gives a lot of comforts and confidence to business community they would focus on business. It helps in avoiding multiple taxations. Now total burden will be levied only on the customer.

### 5. Reduces Corruption

GST will be a step towards corruption as everything is transparent in the whole tax system.

## Challenges/ Hurdles

GST is implementing to avoid corruption, the overburden of taxes as well as for transparency also. However, there are challenges for success in India.

- There are various issues related to manufacturing, sale, service, valuation, etc. They need to be rationalized.
- The mechanism of imposing taxes, exemptions, abatements, other benefits are different in state and center.
- GST will ensure competitive pricing. Tax paid by the final consumer will come down in many cases. The lower process will help in raising consumption.

## Consent of States

For implementing it, it is critical that respective state govt pass GST bill.

### RNR (Revenue Neutral Rate)

In GST regime, the govt. Revenue would not be same as compared to current system. Thus, through RNR govt. Must ensure that its revenue remains same despite giving tax credits.

### Extensive Training to Tax Administration Staff

GST is different from the existing system. It, therefore, requires that tax administration staff at both center and state must be trained properly regarding concepts, legislation, and procedure.

### Proposed Tax Slabs

- Exempted Category : 0
- Commonly used Goods and Services: 5%
- Standard Goods and Services fall under 1st Slab: 12%
- Standard Goods and Services fall under 2nd Slab: 18%
- Special Category of Goods and Services including luxury: 28%

management of inventory and warehouses. GST will help to save upon logistic costs.

### Textile

In India, large no. of skilled and unskilled people are working in textile Industry. It contributes about 10% of total annual export and GST would affect the cotton value chain of the textile industry.

### Real Estate

The impact of GST on real Estate cannot be fully assessed as it largely depends on the tax rates. However, GST will bring necessary transparency and accountability.

### Agriculture

It covers 16% of Indian GDP. GST will resolve the issue of transportation. GST may provide India with its first National Market for the agricultural goods.

## Sector wise Impact Analysis

### Logistic

The Logistics Sectors form the backbone of the economy. GST will have a potential to leapfrog India.

### Telecommunication

In this sector, prices are expected to come down after GST. Manufacturers will save on cost through efficient

## Literature Review

India's Economy has been among the fastest-growing economies in recent years. This growth has been supported by various factors like high FDI, raising foreign exchange, technological enhancement, etc. In recent years, India has been viewed as an investment center. In this backdrop, the present research study makes an attempt to evaluate taxation system in the present era.

Before embarking upon the research study, the researcher made an attempt to review the literature on the subject. Doctoral works studied I the field of taxation and contribution of the tax experts by way of books and research articles.

John Mathai Committee (1953)	<p>The taxation inquiry commission was appointed by the Government of India in April 1953 under the chairmanship of John Mathai.</p> <p>The terms to examine the incidence and suitability of Central, State and local taxation on various classes of people about a fresh avenue of taxation.</p>
L.K. Jha Committee (1976)	<p>The Indirect Taxation Enquiry Committee was setup by the Government of India on July 19, 1976, under the chairmanship of Sri L.K. Jha.</p> <p>The main focus of the committee was the structure of incidence of Indirect Taxes, the problem of multi-taxation, etc. Thus the introduction of value Added Tax (VAT) at manufacturing stage called MANVAT to tackle the</p>

	problem of cascading effect of excise taxation.
Vanita Rani (2010)	<p>She had undertaken research on 'Taxation of Income in India' – A study of the post-liberalization period in Punjabi University, Patiala. She examined the Taxation of Income in India during the post-liberalization period.</p> <p>Studies find that</p> <ul style="list-style-type: none"> <li>(a) Govt. has tried to achieve the objective of social welfare by providing various incentives for education, health, savings, etc.</li> <li>(b) Measures were taken for widening tax base such as the introduction of PAN, e-filing of income tax returns, online tax accounting system, etc.</li> </ul>

## Proposed work

The implementation of GST involves three steps, from manufacturing of wholesale and finally retail. GST (Goods and Service Tax) is a much-talk-about economic reform that the parliament's upper house is ready to clear. It works in avoiding overburden of taxes. Here, after implementing GST, consumer needs not to pay heavy taxes. It will be explained with an example.

Let's assume that a manufacturer of clothes buys raw material like cloth, thread, buttons and other equipment required to stitch clothes. This raw material costs the manufacturer Rs.200. This Rs.200 includes a 10% tax of Rs.20. Once the dress is ready, the manufacturer has added his value to the input material.

Assume value added Rs.60, then the total cost of the dress is now Rs.260 (Rs.200 + Rs.60). With a 10% tax rate, the tax on this dress would be Rs.26. However, since the manufacturer has already paid Rs.20 as tax while purchasing raw material. Under GST, the tax incidence will now be only Rs.6 (Rs.26-Rs.20).

Now, let's see the second stage, i.e. wholesaler. Now, the wholesaler will purchase a dress at Rs.260 and would keep a margin on it to make a profit. Assuming that the margin is kept at Rs.40, the cost of dress now becomes Rs.300. As the same principle applies, 10% tax, tax amount to Rs.30. However, as Rs.26 have already accounted for from stage one. So the effective tax

incidence for the wholesaler would be Rs.4 (Rs.30-Rs.26).

The final stage is that of the retailer. Now the retailer has bought the trousers at Rs.300; he would also keep a profit margin. Suppose, the retailer's margin is Rs.20. Now, the total cost becomes Rs.320. Using the 10% tax rule, the amount of tax is 32. However, with Rs.30 already accounted for in the earlier two stages; the tax incidence would be Rs.2 (Rs.32-Rs.30).

Here, total GST for the entire chain is **Rs.(20+6+4+2=32)**.

The suppliers of inputs would be able to claim no tax credit; given the fact that they have themselves not purchased any item.

## Conclusion:-

This paper proposed on improved taxation system in Indian Economy. The objective of this work is to make people aware about GST and its optimism. This new tax system will prove a boon for our economy as well as for consumer also. In depth studies and diagram clarifies the fact of GST and its impacts on economy's various sectors. Overall it will be a great change.

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