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GOODS AND SERVICES TAX: A LEAP FORWARD ECONOMIC GROWTH AND DEVELOPMENT

MINAKSHI GUPTA
PROFESSOR
LOKMANYA COLLEGE OF COMMERCE
SHIVRANJANI


ABSTRACT

A good tax policy plays an important role in the growth and development of any economy. It mainly affects all the activities of economy viz- production, distribution and consumption. A uniform tax policy helps to bring equality and uniformity, efficient allocation of resources, equality of income, maximum utilization of resources, and to minimize the discrepancies into any of the economy. In the developing countries like India apart from other reforms tax policy also plays an important role for efficient utilization of resources and gaining the maximum welfare. In India the prevalent tax structure involves direct (Income tax, corporate tax and wealth tax) and indirect taxes (sales tax, octroi, VAT, custom duty, excise duty, etc.). In direct taxes Value Addition Tax (VAT) plays the major role. VAT was firstly introduced in France in 1954 by Maurice Laure, after that this concept is used by many of the countries. India has also adopted VAT; Goods and Services Tax (GST) is also a type of VAT. In India indirect taxes play a major role and the major part of the govt. revenue comes from indirect taxes only, so it is considered that some reforms in the indirect taxes can bring major benefits in the economy and GST is one among them. The main objective of this study is to find out the effects of (GST) on the growth and development of India, and this can be done with the help of analyzing the effects of GST on international trade viz- exports and imports, revenue, production, Gross Domestic Product (GDP), employment and efficiency of various sectors as industry, agriculture and services. This paper found that GST would prove very beneficial for the growth and development of the Indian economy.

KEYWORDS

goods and service tax (GST), VAT, growth and development.

INTRODUCTION

 Goods and Services Tax (GST) is one of the important concepts in the present scenario. It is the proposed Value Added Tax (VAT) in India. This is also known as **The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014**. It is replacement of all the indirect taxes prevailed in India, levied by the central and state government on the manufacturing, consumption and sale of goods and services in the entire India. GST will consolidate all state economies and will be consider as greatest tax reform (**Phukan, 2015**). This tax will be taxed at each stage of the purchase and sale on the basis of Input –tax method and will provide Tax Credit facility to all the registered GST business paid on the purchase of input for goods and services. With the approval of GST all the goods and services will be charged with uniform rate of tax by a single authority, India being a federal economy GST will be concurrently levied by State and central govt. This will help to reduce the double taxation, easy administration of taxes, and to reduce the tax burden on consumers that is currently 25-30%.it is considered as GST will help to promote the growth and development in the economy.

HISTORY

It was first recommended by Kelkar Task Force on implementation of Fiscal Reforms and Budget Management Act 2004 (**Ministry of Finance, 2004**), then the model of GST was proposed by the Vajpayee govt. by forming the committee headed by Wasim Das Gupta. During the central budget of 2006-07 Palaniappan Chidambaram (Union Finance Minister) announced the introduction of GST from April 1, 2010, and it was the duty of the state finance ministers and central government to create the roadmap for GST. After the announcement a joint working group was formed in May 2007 by the Empowered Committee of the state finance ministers, and after the intensive internal discussions and interaction with experts and representatives of CCI, a report was submitted to the Empowered Committee on November 19, 2007. Empowered Committee then discussed the report in its meeting and was sent to the GOI in April 2008 and got the comments of GOI in December 2008 and these comments were duly considered by the Empowered Committee (EC). In 2011 the previous UPA govt. also proposed the introduction of GST by introducing Constitution Amendment Bill in Lok Sabha but it was then rejected by many states. GST bill was passed in the Lok Sabha by 352 votes in its favour on 6th may 2015.

WHAT IS GST?

GST is mainly the upgraded version of VAT (value added Tax).It is basically the indirect tax levied on most of the goods and services except liquor, under a single domain at the country level. It will be concurrently levied by state and central government on all the goods and services uniformly, earlier the rate f tax on all the goods and services was different. It is not the origin based tax but the destination based tax viz- payable at the final consumption point but will be collected at each stage of value addition through a tax credit mechanism (Phukan, 2015). It is levied to provide revenue to the federal government.

DEFINITION OF GST

The term GST is defined in Article 366 (12A) to mean “any tax on supply of goods or services or both except taxes on supply of the alcoholic liquor for human consumption”. (Mahure, 2015)

MOTIVES OF GST

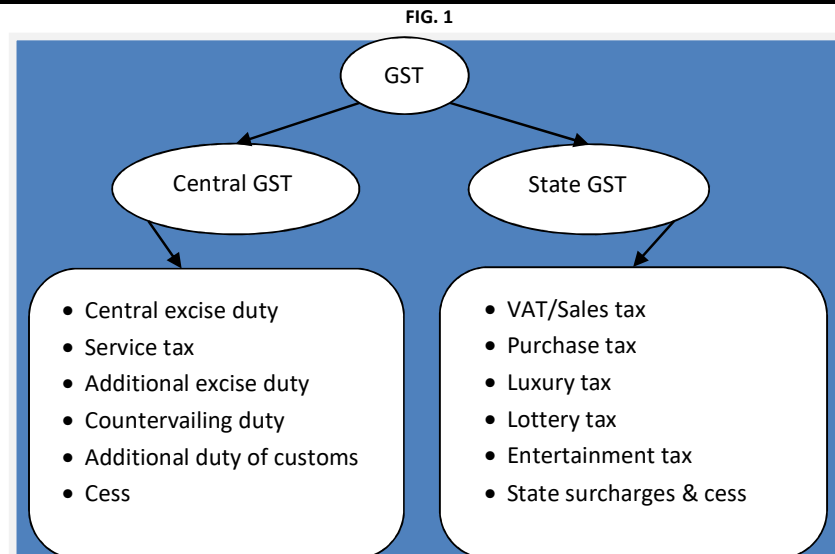
- To reduce the cascading effect of taxes on taxes
- One country-one tax
- Subsume all indirect taxes
- Reduction of tax evasion and corruption in the country
- Increase in productivity and transparency
- Increase in tax –GDP ratio (Ranjan, 2015)

PROPOSED MODEL OF GST

According to the Empowered Committee there will be two segments/ dual structure of the GST-

- State Goods and Services Tax (SGST)-collected and levied by State.
- Central Goods and Services Tax (CGST)-collected and levied by centre.

Both of these forms of GST will be levied on the taxable value of transaction of all the goods and services except few without any differentiation between goods and services, at a uniform rate of 14 -16%. GST will subsume these taxes.



EXCEPTIONS IN GST

Alcohol and petroleum products are exempted from GST; they will tax as per the existing rules. Tobacco will come under GST, but will be levied by extra duty than GST. Exports and supplies to the SEZs will be taxed at zero rates.

ADVANTAGES OF GST BILL

Introduction of a GST is very much essential in the emerging environment of the Indian economy.

- There is no doubt that in production and distribution of goods, services are increasingly used or consumed and vice versa. Separate taxes for goods and services, which is the present taxation system, requires division of transaction values into value of goods and services for taxation, leading to greater complications, administration, including compliances costs. In the GST system, when all the taxes are integrated, it would make possible the taxation burden to be split equitably between manufacturing and services.
- GST will be levied only at the final destination of consumption based on VAT principle and not at various points (from manufacturing to retail outlets). This will help in removing economic distortions and bring about development of a common national market.
- It will also help to build a transparent and corruption-free tax administration. Presently, a tax is levied on when a finished product moves out from a factory, which is paid by the manufacturer, and it is again levied at the retail outlet when sold.

LITERATURE REVIEW

GST is the upgraded version of VAT and VAT was adopted by almost 130 countries for the growth and development. This section studies the effects of VAT on various countries.

- **Kearney, Robinson, & Thierfelder, (2005)** in this paper analyzed the VAT in the South Africa and found that their regressive VAT prevails and is one of the important source of government revenue as compare to other instruments. In this paper distortions in the economy were measured by analyzing the change in marginal cost occurred to raise the revenue by changing the rate of VAT with the help of computable general equilibrium (CGE) model. This paper found that VAT will benefit the low-income households without placing extra burden on high-income households. They demonstrate that alternative tax structures can benefit low-income households without placing excess burdens on high-income households.
- **Keen & Lockwood, (2007)** in their paper found that VAT is having a significant impact on the revenue equation, VAT is having positive as well as negative impacts but positives are more than the negative ones. VAT positively affects the Per Capita Income, all the countries those have adopted the VAT for Goods and Services have gained a more effective tax instrument in bringing the development. But this is not true for Sahara Africa.
- **NCAER TEAM, (2009)** in their paper presented a report for the assistance of Finance Commission on the proposed effects of GST on the development of international trade in India and found that proposed GST would be very beneficial for the growth of all the exporting industries viz- textile, cotton and all. GST would help to promote the exports in India and would help to increase the government revenue for the welfare of the country.
- **Wawire, (2011)** in his paper found that the determinants of VAT are GDP, volume of trade, volume of imports, demographic, institutional, and structural features of the economy. The elasticity of VAT toward these factors is greater than one, and it is found that KENYA's economy is responsive to all these determinants especially the international trade. To increase the tax revenue to the government as economy grows there is the requirement of an effective tax system.
- **UNEGBU & IREFIN, (2011)** in this studied the impact of VAT on economic and human developments of emerging nations from 2001-2009 with special reference to Adamawa State of Nigeria with the help of both primary and secondary data. Regression, discriminant analysis and ANOVA were used in testing the hypotheses. This study found that secondary data shows the significant maximum impact of VAT on economic and human development but the primary data showed the minimum impact. VAT has significant impact on consumption pattern also.
- **Leslie, (2013)** in this paper studied the effects of VAT GST on Bahamian economy and found that VAT helped to equally distribute the fiscal burden to all the departments. VAT will help in widen the tax base for Bahamian economy, bring equality, will enhance the efficiency in collecting revenue for government, and will provide help to the economy in comply with the WTO and enjoy all its benefits.
- **Komal, (2013)** in her paper found that for the proper functioning of VAT transparency is required in all the states in India in VAT. There is equal channel for the distribution of VAT at all the levels. According to this paper VAT is beneficial for consumers and government. The single window system is required for the proper functioning of VAT and CST should be abolished.
- **Asogwa & Nkolika, (2013)** analyzed the impacts of VAT on the investment level in the Nigeria after the introduction of VAT in 1993 there. This paper concluded that VAT is one of the important sources of revenue and it helped to increase the investment level in the Nigeria.
- **Neha & sharma, (2014)** in their paper they explained that GST is a better approach of indirect taxes, GST would help to reduce the tax evasion and cascading effects of taxes and all the distortions that are the major problems in the current scenario. All these problems can be solved by adopting the GST model. Due to subsume of all state and centre taxes the tax base structure will be broaden, thereby increasing the revenue of the government and will increase exports and competitiveness of industry.
- **KUMAR, (2014)** in his paper found that GST will be a step forward the major reforms in indirect taxes in India. GST will be helpful in the development of common National Market and will remove all the distortions prevailed in the system.

RATIONALE/ OBJECTIVES

1. To understand the GST
2. To know the present scenario of GST in India
3. To check the effects of GST on Growth and Development in India

RESEARCH METHODOLOGY

This paper is mainly descriptive and exploratory in nature and mainly aims to study the available literature regarding the VAT and GST. The secondary data is collected after going through all the newspapers, websites, journals, articles, and reports and from all other sources related to GST.

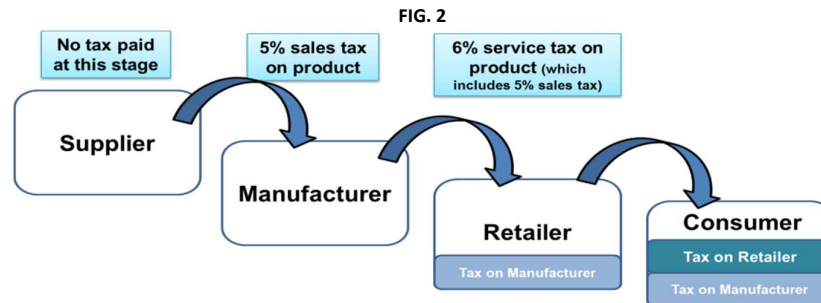
DESIRED OUTCOMES ON ECONOMIC GROWTH AND DEVELOPMENT

For all around development and growth it is required that all the sectors, industries, and departments should grow simultaneously. These are the certain desirable outcomes of GST on the economy. GST will be beneficial to each and every stakeholder in the economy viz-consumers, producers or corporate entities, Government, external sector as well as the complete economy. It is presented in the given diagram.

TABLE 1

<p>CORPORATE</p> <ul style="list-style-type: none"> ➤ Export competitiveness will improve ➤ Reduction in cost of production ➤ Increase in profitability ➤ Reduction in effective Tax burden, as full input tax credit is allowed 	<p>GOVERNMENT</p> <ul style="list-style-type: none"> ➤ Broaden tax base ➤ Increase in revenue ➤ Substantively common tax base for centre and state ➤ Uniformity in compliance and administration ➤ Simplified process will reduce cost
<p>CONSUMERS</p> <ul style="list-style-type: none"> ➤ Chances of decline in prices in long run ➤ Increase in consumption 	<p>ECONOMY</p> <ul style="list-style-type: none"> ➤ GDP will improve ➤ Increase in export earnings ➤ Increase in FDI and FII

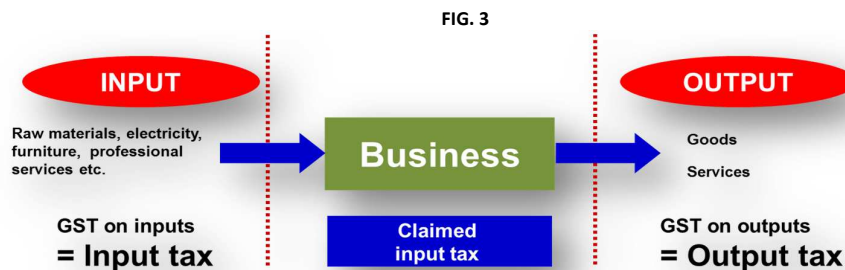
1. **MANUFACTURING GROWTH**- Under the “Make in India” project of India’s PM Sh. Narendra Modi, they are inviting global firms for establishing manufacturing firms in India. According to the Denis Medvedev, senior country economist of the World Bank-India, GST will be the critical reform for the growth of manufacturing segment in India, as GST will help to remove the inefficiency in the Tax regime prevailed in India, converting India to a common market, transform India into a common market, and boosting the manufacturing segment (ET Bureau , 2014).
2. **REDUCTION IN CASCADING EFFECT IN GST**-It will help to reduce the cascading effect of the present tax structure. This will bring the complete change in the present indirect tax structure by changing in tax incidence, reporting, tax computation and credit utilization. At present following system is followed as shown in the following diagram:



Source-Royal Malaysia customs Department Site

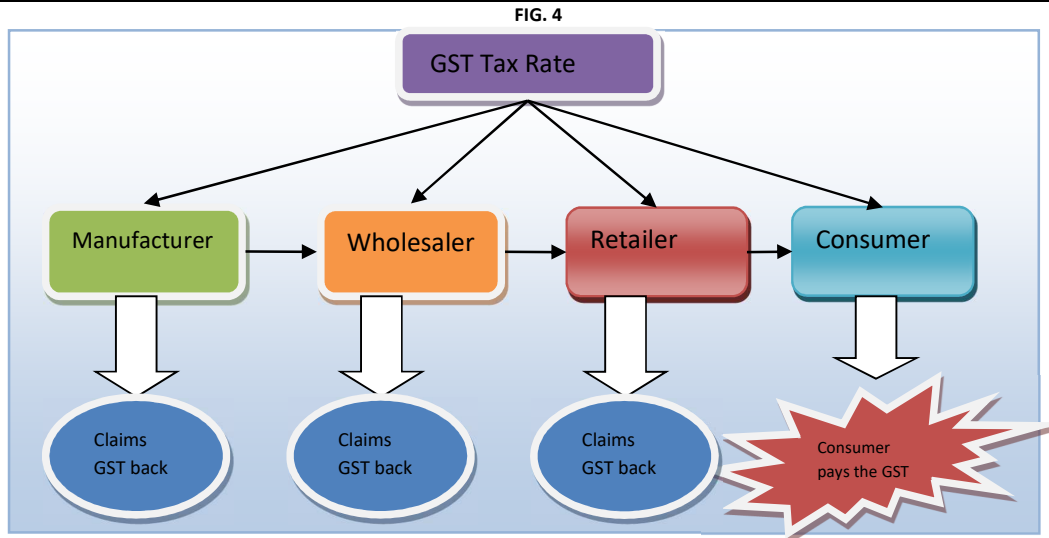
This diagram shows that there is a cascading effect of tax on consumer. Consumer has to bear all the burden of taxes levied at each stage.

3. **REDUCE THE TAX BURDEN OF THE CONSUMERS**-GST helps to make the tax system smooth and transparent, and avoids the double taxation. The diagram shows that how all the input taxes are claimed and not transferred to end customer, thus reduce the burden on consumers.

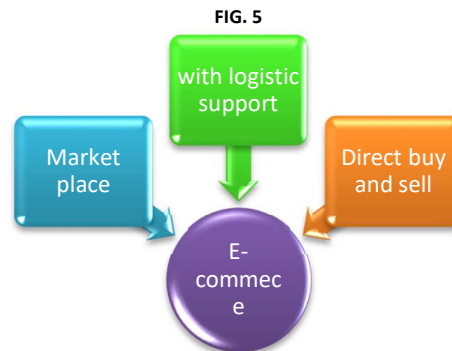


GST to Consumer = Output Tax- Input Tax

4. **TAX ON CONSUMPTION NOT ON PRODUCTION**- GST will be levied on destination not on the origin, so it is tax on the consumption not on production. Only the final consumer will bear the burden of the GST. It will be levied on each stage of production but will be reimbursed back to all the intermediaries. (Ranjan, 2015)



5. **UNDIVIDED MARKET-** The basic idea of GST is to create an enlarged single, developed, cooperative and undivided Indian market to make the Indian economy united stronger and powerful (Phukan, 2015).
6. **SIMPLIFIED TAX STRUCTURE-** GST will replace all the indirect taxes like sales tax VAT, CST, service tax and excise duty prevailed in the country levied by central and state government. GST will be having the uniform rate for all the goods and services that will reduce the hassle in the tax regime. In the new scenario there will be one Central GST or C-GST and State GST or S-GST. Currently, states levy VAT or sales tax within the state transactions and CST (Central Sales Tax) on sale outside the state territories. All CST will be removed and an additional 1% tax will be levied to benefit the manufacturing states like Gujarat and Tamil Nadu. (PTI, 2015). At present the highest tax rate of 20% on goods and 12% on services can be replaced with 14 % to 16% range of GST. **According to Ambareesh Murthy**, founder of Pepperfry.com , GST will bring transparency and will simplify the tax.GST will pave the way to single and common tax system and will make easy the transportation of goods and making life easy for those who in interstate trading (Pathak & Kamath, 2014).
7. **BENEFICIAL FOR DEVELOPMENT OF E-COMMERCE** -GST will prove very beneficial for the e-commerce, one of the very emerging and penetrating industries. E-commerce works on these three models as mentioned in the figure below.
 - (i) **Market place-** Only providing platform to sellers, not indulging in direct or indirect selling. For e.g. Flipkart, Amazon, Snapdeal etc.
 - (ii) **With Logistic facility-** it provides not only platform but transport facilities also. But in the second model of logistic support it was considered as the sector to provide goods and services both, so huge taxes were imposed.
 - (iii) **Direct buy and sell-** E- commerce industries directly indulge themselves into the buy and sell business with the consumers.



- The GST will provide the relief to the E-commerce industry providing the logistic facility also. GST will also help in reducing the chances of minimizing the tax liabilities by utilizing the loopholes of the current distribution, warehousing, and sourcing strategies by inculcating the changes among them.
8. **COST EFFECTIVE SUPPLY CHAIN-** As with the introduction of GST the uniform rate of tax will be levied by avoiding the double taxation, so it will reduce the cost involved in the supply chain. With the help of GST supply chain will become most cost effective and can serve to the customers better. **According to Ashish Jhalani**, Founder of e-Tailing India "GST will resolve many supply chain issues surroundings e-commerce. The shipment and returns across the country will be done more efficiently and with lesser paperwork. The efficiency in the supply chain will also mean quicker deliveries. Companies will also be able to execute more efficient supply chain strategies, with warehousing based on strategy rather than tax requirements (like Octroi). More importantly, with a uniform tax structure across India, goods can be priced and margins calculated properly without worrying about where the product is finally shipping." (Pathak & Kamath, 2014)
 9. **ECONOMIC INTEGRATION-** With the introduction of GST, India will convert into single uniform market for the flawless transfer of goods and services. According to the Finance Minister **Arun Jaitly** GST will lead to more revenues for states, increase in economic activities and will bring economic integration and growth in India. This will help to establish social and financial security in the people of nation and each state will be able to get fare funds for their development (Bureau, 2015).
 10. **INCREASE IN REVENUE OF CENTER AND STATE GOVT. -** GST will help to promote the revenue of the center and state govt. by approximately \$15 billion a year. This increase in revenue will be possible due to increase in exports increased due to the simplified tax structure. GST will segregate the burden of taxes among the various players like manufacturing and service segment in the economy. GST will help to diversify the income sources for govt. other than income tax and petroleum tax. (team , 2015)
 11. **INCREASE IN EMPLOYMENT-** GST will provide immense help in creating new employment opportunities, as GST will help to promote growth in manufacturing segment by alluring the more industries in India under the PM Narendra Modi's "Make in India" campaign and can boost the growth. (Phukan, 2015)
 12. **INCREASE IN CONSUMPTION-** As it is mentioned earlier that the simplified tax structure will help to promote the manufacturing of more goods thereby reducing the cost and price of the goods and will lead to the more consumption of goods.

13. **REDUCTION IN TRANSPORTATION AND PRODUCTION COST**- Introduction of GST will facilitate the smooth movement of trucks across various states thereby decreasing the cost included such as octroi and other charges. This will help to reduce the production cost. Moreover due to the free movement of trucks and removal of CST there will not be any need to establish various warehouses in various states, and will help to reduce the production cost to 10%-15% (aggarwal, 2015). The transmit time of cargo vehicles can be reduced by combining the various check posts with immediate neighbors, and by issuing passes for transmit traffic States.
14. **COMPETITIVENESS**- GST will also help to enhance the competitiveness of exporting units and producing unit's earlier working under the distorted indirect tax structure, which were not able to face the competition posed by relatively efficient exporting and manufacturing units working under distortion-free indirect tax regime.
15. **INCREASE IN GDP**- Increased competitiveness in exports, returns to the factor of production and efficient allocation of productive resources and providing full tax offsets is expected to result in gains for GDP.
16. **BENEFIT TO THE PRODUCERS**- Producers now have to bear the less cost in terms of production cost and taxes and can claim back all the taxes paid earlier. This will help the producers in reducing cost, maximizing profits, penetrating market, increasing volume of sale and other economies of scale.
17. **BREAKING OF VICIOUS CIRCLE OF POVERTY**- Due to the growth of all the sectors and increased employment opportunities, GST will help to impact both the demand and supply aspect of Vicious Circle of Poverty propounded by Prof. Nurkse, Thereby reducing the poverty.
18. **INCREASE IN STANDARD OF LIVING**- GST will help to improve the standard of living by impacting growth and development of the economy.
19. **INCREASE IN PER CAPITA INCOME**- Various new source of income will evolve, and there will establish the equality in terms of tax structure, equal distribution of income will be possible and per capita income will increase.
20. **FAVORABLE IMPACTS ON BALANCE OF PAYMENT**- Exports and all the supplies to the SEZs will be charged at zero percent tax rate under GST and imports will be charged by uniform rates of CGST and SGST. This will help to promote the exports and reduce the import level and improving the Balance of Trade (BOT) and Balance of Payment (BOP).

PROBLEMS IN GST

- GST can negatively impact the real estate market, as due to GST the cost of new houses will be increased to 8 % and the demand will reduce by 12% (admin, 2015).
- GST will not include alcohol and petroleum thereby incurring heavy losses to exchequer.
- GST's proposed rate of 16% is very high as compare to the present 12.5%VAT.
- According to some economists CGST and SGST are nothing but 'Old Wine in New Bottle'. These are the new names of excise duty, service tax, VAT and CST, hence nothing new.
- Strong need of development of infrastructure, without that no benefits can be ripened.
- GST would be required strong Information Technology (IT) at the very initial level, So IT should be developed to get the desired results.
- It is tough for a common man to fill the tax return
- Tax sharing between centre and state government can be a matter of concern (Ranjan, 2015).
- As uniform GST rate will prevail in the economy across all the states, no fiscal autonomy will be there for states. For the states to use this GST model for their economic and social objectives autonomy should be given to states (commission, T. f., 2009).

CONCLUSION

GST was introduced by the France in 1954, followed by acceptance of 140 countries. GST would be considered as a major breakthrough and the next biggest tax reform and logical step in the Indirect Tax regime after the introduction of VAT. But GST will be a long continuous process that requires major policy reforms; a number of legal and administrative reforms are required for the exact implementation of GST. These include amendments in the rules and regulations, constitution of India, conducting of various training programmes for staff, flagging of consumer awareness programmes, stakeholders' consent and consultation, assessment and audit manual. All these reforms require substantial time. GST can be seen more with the positive aspects as compare to the negative ones that may arise due to the structural problems of the country. Government is taking initiatives to create an atmosphere where easy execution of the GST would be possible. So it is recommended that priority should be given to the operational framework and excellent design for the GST (Srivastava, Kumar, Rao, Purohit, & Sengupta, march 2010). After implementing all these policy frameworks, it is expected that GST will help to establish equality of income, remove distortions, increase govt. revenue, facilitate the growth of all the sectors and promoting the exports and FDI and FII level, thereby improving the BOP and BOT of the country. All these will help to promote the Growth and Development in the country.

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