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Goods and Services Tax in India -Paradigm Shift in Taxation

Dr. Gurudutta Pradeep Japee[1], Dr Bhavesh A Lakhani[2]
[1]*Associate professor, SD School of Commerce, Gujarat University, Ahmedabad, Gujarat, India*
[2]*Associate Professor, Shri K. Ka Shastri Government Commerce College, Ahmedabad, Gujarat, India*

In this world nothing can be said to be certain, except death &taxes Mr. Benjamin Franklin
Goods & Services Tax (GST) has been a much awaited tax reform in India, though India joined very late. France was the first nation to introduce GST in 1954. The OECD has reported the most important development of taxation in more than 162 countries having this form of indirect taxation. However, Looking to the Federal structure of India, its size and scale, GST will be regarded as a major financial reform in the country. GST is an Indirect Tax which has replaced many Indirect Taxes in India. The Goods and Service Tax Act was passed in the Parliament on 29th March 2017. The Act came into effect on 1st July 2017.
In this article, we take a closer look at what is GST and the reason why it is making business and taxes simpler and easier, How GST is evolve in India and in foreign countries, and what will be the future direction of the GST in India.
Keywords: Pre & Post GST, Constitution amendment, International perspective, Impact on sectors, economy

I. INTRODUCTION

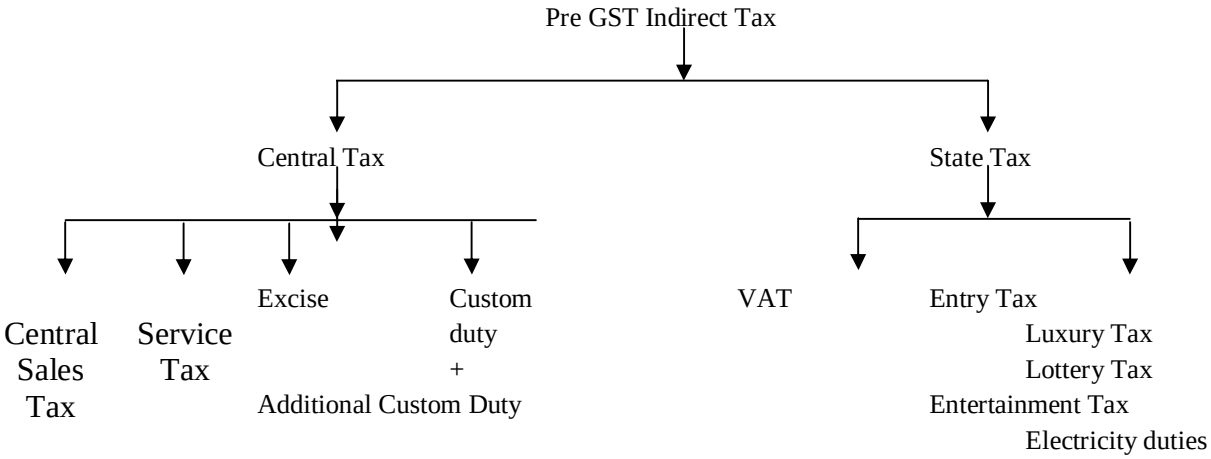
As we know, the Indian tax structure has two wings;.

A. Direct taxes
B. Indirect taxes

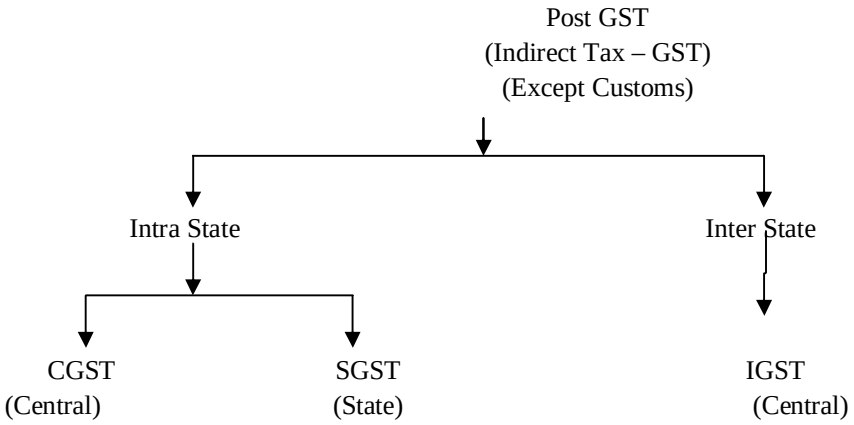
Direct taxes are the one that directly affects the pocket of the tax prayer, such as Income tax. In the case of Income tax the tax Prayer is supposed to make the payment of tax out of his own pocket. Indirecttaxon the other hand is one that does not affect the pocket of the tax Payer. The tax payer is simply made responsible for the collection of tax on behalf of the government which may be the central government or state government, and then this amount collected by the tax payer on behalf of the government is to paid to the respective government as per prescribed procedure and provision.The best known types of indirecttakes are central Excise, Service tax and Value Added Tax (VAT).Following figures represents tax structure before implementation of GST and after implementation of GST. GST was designed to conquer the problems with the current taxation in India facing. Despite discussing about GST and framing roadmap in previous years, GST was never passed by the Parliament. On 3rd August 2016, when GST bill (122nd Amendment Bill) was passed by RajyaSabha,it is an achievement for not the Government, but to businessman, common man and to whole economy. GST will flatten economic barriers that slow down the growth while benefiting government, across states, which included local taxes, multiple tariffs, limitation of transportation which is a waste of time.
Post GST, it will be easier for small entrepreneurs' to set up business in India and they need not to think for dozen of taxes to pay for their resources, which in return will be benefited to economy. Most important element of GST model is that: there should be single low rate; there will be seamless flow of tax through the stages of distribution channel, no paperwork as all the things will be done computerized which will benefit to administrative system,

II. PRE & POST GST TAX CLASSIFICATION

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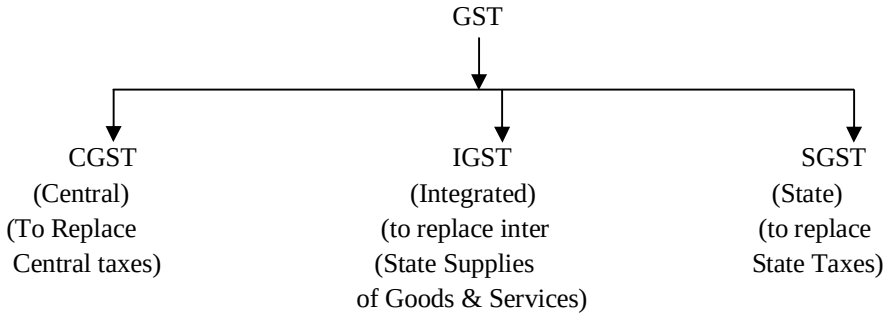


(Figure 2.1: Pre GST Indirect tax classification)



(Figure 2.2: Post GST Indirect tax classification)

Thus, as represented in diagram no 1, multithreaded structure is now ended up in three heads.



(Figure 2.3: GST classification)

III. WHY GST

Multiplicities of takes on Goods & Services are not good, and therefore, It was suggested that take should be only one tax, namely Goods and Services tax.

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Why GST

First Due to multiplicity of taxes there are chances that. Even an honest tax payer, who is always inclined to comply with all the requirements of law can make some mistake in compliances. Hence, he gets trouble and become liable for payment of interest and penalty on the same without malaise intentions.

Second because of having too many taxes and also a complex tax structure, the investors or the business houses from abroad are hesitant to come and invest. This is because they fear the non compliance could be dangerous and will affect the goodwill.

IV. GST FROM INTERNATIONAL PERSPECTIVE

At Present, more than 162 countries across the globe have implemented GST/VAT system of taxation. Developed countries are mostly adopting either of the two broad categories of GST/VAT. The first group of countries adopting GST/VAT based on the French and the European model has several reduced rates of taxes. The second group of countries has adopted GST/VAT with a broader tax base at the standard rate. Comparative Analysis of GST/VAT rates prevalent in these countries have been depicted as below.

Countries	Rate & GST
Switzerland	15 %
Australia	10 %
Malaysia	6 %
Canada	5 %
China	17 %
European Union	21 %
Austria	20%
Denmark	25%
Finland	22%
France	19.6%
Germany	16%
Indonesia	10%
Italy	20%
Japan	5%
Mexico	15%
Russia	18%
New Zealand	12.5%
Philippines	10%
Singapore	7%
South Africa	14%
Sweden	25%
Taiwan	5%
UK	17.5%

(Table 4.1: GST rates in various countries)

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Most of these countries exempt supplies for following:

A. Financial Services
B. Healthcare and Medicine
C. Education
D. Sale/Rental of residential Accommodation

At Present, more than 162 countries across the globe have implemented GST/VAT system of taxation. Numbers of countries based on region are shown in following table no 2 of which 8 countries are not in united nation states.

No	Region	No of Country	Following countries are not United Nations Member states
1	ASEAN	7	Azores
2	Asia	19	Taiwan
3	Europe	53	Faroe Islands
4	Oceania	7	Jersey
5	Africa	46	Kosovo
6	South America	11	Madeira
7	Caribbean, Central and North America	19	Niue

(Table 4.2: GST Region wise breakup)

V. DEVELOPMENT OF GST IN INDIA

GST in India Implemented from 1st July 2017 but to wheels for the same was started in 2005. Following table shows the development of GST from 2005 to 2017.

Year	Development
2005	The Kelkar Committee recommended the implementation of nationwide dual GST.
2006	Finance Minister announced in the budget of 2006 and also announced 1/4/2010 as the date on which GST will be implemented.
2007	An Empowered committee comprising state finance minister was constituted with the responsibility to prepare a design and read map for implementation of GST.
2008	The Empowered Committee Submitted report titled “A Model and Roadmap for Goods and Service Tax in India”
2009	The Task force on GST constituted under the 13th finance commission to implement from 1/4/2010.
2010	The finance Minister in his budget speech announced that GST will be introduced in April 2011.
2011	The constitution bill, 2011 seeking to amend the constitution of India to enable introduction of GST on supply of goods and services both by center and state.
2012	Drafting of Model legislation for center and state GST was under Progress in March, 2012.
2013	GSTN (Goods and Services Tax Network) was incorporated in March, 2013 to develop, operate and maintain a common GST portal.
2014	The Constitution bill, 2011 lapsed with the dissolution of loksabha and new government come in force.
2015	The Loksabha approved the constitutional bill, 2014 on May 6, 2015 which was then referred to Rajysabha for examination.
2016	Rajyasabha approved the bill on 3/8/2016.
2017	1/7/2017 was the historical date on which GST was introduced.

(Table 5.1:Development of GST in India)

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VI. CONSTITUTION AMENDMENT FOR GST

As per schedule VII of the constitution, i.e. Union list state list and concurrent list taxes were specified. Since the implementation of GST needs to be backed up by the constitution, the amendment to the same became very crucial finally after a decade of struggle 101st constitution Amendment Act 2016 was amended. Following two Articles was inserted in the constitution.

Article 246 A	Article 269 A
In case of interstate supplies both central & state govt./UT are empowered to levy and collect the tax called the goods and service tax. The following statuses areenacted by the Govt. for the purpose of same. • CGST by Central Govt. • SGST by State Govt. • UTGT by UT	Another situation is where goods and services are supplied interstate. i.e from one state to another state. In this situation the tax applicable will be integrated Goods and service tax. Therefore the concept of destination based consumption and the GST 2017 have emerged as Article 269 A.

(Table 6.1: Constitution amendment of GST in India)

VII. IMPACT OF GST ON FAMOUS SECTORS OF ECONOMY

A. Individual Practioners

Health care services are exempt from the levy of GST. If the turnover is more than 20 lac he/she still does not need to get himself registered and does not have to undertake compliances under GST law. Following table shows which individual Practioners are covered and not covered under GST as well which other income from the professions are covered under GST

Covered	Not Covered
Ophthalmologists, Orthopedic Surgeons Dentist Physiotherapist, are not considered under health care services	(Not to Registered) Allopathic, Ayurveda, Homeopathy, Unani, Siddha

(Table 7.1.1 Individual Practioners covered and not covered)

Employment	GST would not applicable on salary received by doctors
Lecturer	If the doctors teach education and receipts exceeds 20 lacs, it would be subject to GST @18 %
Royalties	Medical books written by doctors are subject to GST @18%
Non-Compete fee	Subject to GST @ 18%
Ambulances	Exempted
Pathology Lab	Exempted

(Table7.1.2. Income from other sources for individual Practioners)

B. Health Care Commodities

Following table shows that contraceptive and human blood are exempted from GST but other health care commodities are subjected to GST. The rates for it are given in following table.

Tax Rates	Commodity
0 %	Contraceptive, Human blood
5 %	Medicine, Human, Animal Blood Vaccine
12 %	Ayurveda, Homeopathy, Unani Medicine
18 %	Tampons, Disinfectants
12 %	Dialysis Needles / Machines
12 to 18 %	Pacemakers
12 to 18 %	Eye Lens

(Table 7.2.1 GST rates for Health care commodity)

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C. Other Sectors

Following table shows the comparison between the earlier rates of GST and reduced rates by the Government of India which are presently charged on various sectors.

Other Rates	Earlier Rate	Present Rate
Food Items	12.5 %	5 %
Entertainment	30 %	28 %
Transportation	15 %	15 %
Personal Care	28 %	18 %
Communication	15 %	18 %
Automobiles : Cars Tractors	28% 28%	28 % 12 %
Real Estate	18%	06%
Airlines : Economy Class Business Class	06% 09%	05 % 12 %
Gold and Silver	02%	03%

(Table7.3.1. GST rates for various sectors)

VIII. IMPACT ANALYSIS OF GST

As we have seen earlier due to introduction of GST there are lot many changes have been made in Indirect Tax Structure both at state and central level.Now over to a brief impact analysis of GST is clearly mentioned in following table.

Tax Subsumed	Nature of tax	Impact of GST
Central Levies		
Central Excise duty	Duty levied on manufacture which was not allowed as credit against VAT	No specific duty on manufacture. GST will be levied only on sale of the manufactured goods.
Service Tax	Tax levied on provision of services which was not allowed against VAT	GST will be levied instead of service ta on provision of services
Additional Custom duty	Customduty which was computed in terms of excise duty and VAT rates that is applicable on the products.	GST will be levied on imports in lieu of these custom duties
Surcharges and Cess	Additional tax computed on duties and taxes mentioned above	No specific levy of surcharges and cess under GST
Central Sales Tax	Sales tax levied on interstate transfers and credit was not allowed for such tax against VAT	GST will now be levied on interstate transfers
State Levies		
VAT	Tax levied on sale of goods it was not allowed as credit against excise duty or service tax	GST will now be levied on such sale
Octroi	Tax levied by local authorities on entry of goods	No tax on such movement of goods. Long ques of trucks standing at Octroi nakas is now a thing of the past. It will help save fuel and precious time.
Entry Tax	Tax levied by state government on entry of goods	No tax on such movement of goods. Impact similar to that of

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		removal of Octroi.
Luxury tax	Tax Levied on luxury of goods and products such as hotel stay	No similar tax under GST
Entertainment Tax	Tax imposed on films	No similar tax under GST
State surcharge and Cess	Additional tax computed on duties and taxes mentioned above	No specific levy of surcharges and cess under GST

(Table 8.1 Central Levies and State levies)

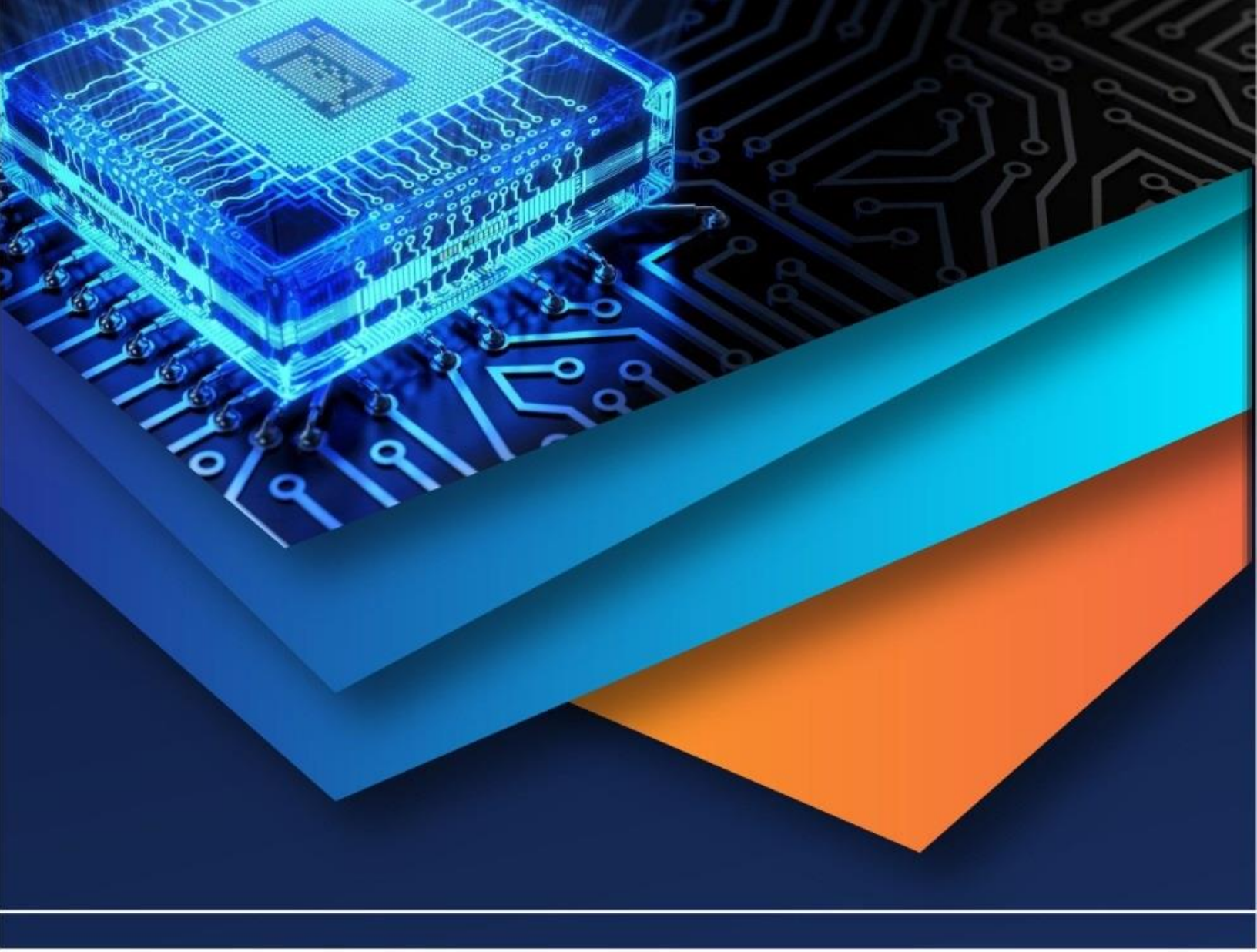
IX. THE WAY FORWARD

GST is an excellent step forward and it will help in the growth of our economy as has been predicted by various agencies. This tax system will not only benefit the consumers but the business houses at the same time and will also improve administrative efficiency of tax authorities. As mentioned above, GST will work effectively and efficiently, which will enhance production and it will increase country's GDP. It will be a game changer for nation and all the stakeholders will unite and develop something which beneficial to Indian Industry. Talking about the long-term benefits, it is expected that GST would not just mean a lower rate of taxes, but also minimum tax slabs. Countries where the Goods and Service Tax has helped in reforming the economy, apply only 2 or 3 rates – one being the standard rate, general rate, mean rate, a lower rate for essential commodities, and a higher tax rate for the luxurious commodities. Currently, in India, we have 5 slabs, with as many as 3 rates – an integrated rate, a central rate, and a state rate. In addition to these, cess is also levied. The fear of losing out on revenue has kept the government from gambling on fewer or lower rates. This is very unlikely to see a shift anytime soon; though the government has said that rates may be revisited once the RNR (revenue neutral rate) is reached. The impact of GST on macroeconomic indicators is likely to be very positive in the medium-term. Inflation would be reduced as the cascading (tax on tax) effect of taxes would be eliminated. The revenue from the taxes for the government is very likely to increase with an extended tax net, and the fiscal deficit is expected to remain under the checks. Moreover, exports would grow, while FDI (Foreign Direct Investment) would also increase. The industry leaders believe that the country would climb several ladders in the ease of doing business with the implementation of the most important tax reform ever in the history of the country. On priority, it is up to the government to address the capacity building amongst the lesser-endowed participants, such as the small-scale manufacturers and traders. Ways have to be found for lowering the overall compliance cost, and necessary changes may have to be made for the good of the masses. GST will become good and simple, only when the entire country works as a whole towards making it successful.

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