Journal of Advances and Scholarly Researches in Allied Education
Vol. 18, Issue No. 4, July-2021, ISSN 2230-7540

Need for GST in India: An Overview

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Abstract - The Goods and Services Tax (GST) is without question the most significant and far-reaching tax reform in India's post-independence history. The Products and Services Tax (GST) was proposed in India with the intention of creating a national sales tax that would apply equally to all goods and services sold inside the country. As a result of GST replacing other taxes (sales tax, service tax, etc.), the Indian economy is now more unified and more individuals are subject to taxation. It has the potential to greatly contribute to the expansion of the economy and the nation's wealth through increasing productivity. Perhaps never before in the modern tax history of the world has a new tax regime been implemented, ingrained in both products and services by the State and the center in such a broad and complicated system. There were several disadvantages and restrictions with the previous indirect tax system. The benefits of GST were able to mitigate or completely offset the bulk of the drawbacks.In this Article the author has made an attempt to explore the benefits of introducing GST in India.

Keywords - Goods and Services Tax, Central Government, Indian Economy, Indirect Taxes First Discussion Paper (FDP), The Empowered Committee of State Finance Ministers (EC)

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INTRODUCTION

In his Budget address for 2006-07, the Union Finance Minister initially proposed moving toward GST. Originally, GST was scheduled to go into effect on April 1, 2010. It was proposed that the same Empowered Committee of State Finance Ministers (EC) that had developed the blueprint for State VAT provide a plan and framework for GST. Exemptions and thresholds, taxation of services, and taxation of inter-State supplies are only some of the areas that have been assigned to Joint Working Groups comprised of officials from both the States and the Centre. In November 2009, the EC presented its First Discussion Paper (FDP) on the GST based on debates inside and between itself and the Central Government. This laid out the specifics of the planned GST and has served as the starting point for talks between the Federal Government and the individual states.

Indirect tax reforms in India have taken a major stride forward with the implementation of the Goods and Services Tax (GST). The negative impacts of cascading or double taxation will be much reduced thanks to GST because of the consolidation of so many Central and State levies into a single tax. There would be significant benefits for consumers if the present estimated 25-30% tax on items were reduced. A corollary of this is that shoppers would have a far clearer idea of the true cost of indirect taxes applied to their purchases. Due to the complete neutralization of input taxes throughout the value chain of production and distribution, the introduction of GST would also make Indian goods competitive in local and international markets. The results of these studies indicate that this would stimulate economic expansion. Last but not least, the open and self-policing nature of this tax would make it simpler to implement. It would also help facilitate a transition from the black to white market. There will be a new tax called GST that the government plans to implement on July 1, 2017.

GST and Centre-State Financial Relations

The Constitution now establishes a clear separation of powers when it comes to fiscal matters between the federal government and the individual states. The Central Government has the authority to collect taxes on manufactured items (with the exception of alcoholic beverages for human consumption, opium, drugs, etc.), whereas the individual states are responsible for collecting taxes on retail sales. However, although the Central Government has the authority to impose a tax (the Central Sales Tax) on transactions between states, the States themselves are responsible for collecting and keeping all of the tax revenue. When it comes to taxes on services, however, only the federal government has the authority to collect payments. The Central Government of India imposes and collects this tax in addition to the Basic Customs Duty since the States do not have the authority to impose any tax on the sale or purchase of commodities during their importation into or exportation from India. Excise duty, sales tax, State VAT, and other taxes collected on similar domestic goods are offset by this extra customs duty (also known as CVD and SAD). The Constitution had to be amended so that both the federal government and individual states could impose and collect GST at the same time.

To guarantee that the Centre and the States work together to make choices on GST's structure, design, and operation after being given concurrent authority over its imposition, a novel institutional framework was necessary. On 19.12.2014, the 16th Lok Sabha proposed the Constitution (122nd Amendment) Bill to address these and other concerns. All products and services, with the exception of alcoholic beverages sold for human use, would be subject to the GST under the proposed legislation. The Union (CGST) and the States will each collect their share of the tax on their own, but they will do so simultaneously under the Dual GST system (SGST). The Parliament will have the exclusive authority to impose GST (IGST) on imports and exports of goods and services between states. Tobacco and tobacco products would be subject to an excise charge in addition to GST that may be levied by the Central Government.

In May 2015, the Lok Sabha voted in favor of the Constitutional Amendment Bill. In August of 2016, the Bill was approved by the Rajya Sabha and afterwards by the Lok Sabha after a few changes were made. Furthermore, the necessary number of states have approved the Bill, and the President signed it into law on September 8th, 2016, making it the 101st Constitutional Amendment Act. As of September12, 2016, the GST Council has also been informed. There is a Secretariat supporting the GST Council.

The Union Finance Minister, the Minister of State (Revenue), and the State Finance Ministers make up the Goods and Service Tax Council (hence "GSTC"), which makes recommendations on the GST rate, exemption and thresholds, taxes to be absorbed, and other topics. At a GSTC meeting, a quorum is defined as half of the council's entire membership. When making a decision, the GSTC requires a majority of at least 3/4 of the total weighted votes cast. There is equal weight given to votes cast at the federal level and at the state level, with the federal level carrying the equivalent of one-third of the total and the states carrying the equivalent of two-thirds. In the GST Council, all decisions have been made with unanimous agreement. To this point, the vote option has not been used. Many intergovernmental committees and sectoral working groups, with representation from both the federal government and individual states, have been established to facilitate the GST's implementation.

Salient features of GST

The salient features of GST are as under:

1. Unlike the current notion of manufacturing, selling, or providing products or services, GST is imposed on the'supply' of commodities or services.

2. Different from the current system, GST is based on the premise of taxes based on the final destination of a product or service rather than the country of origin.

3. It's a dual GST in which the federal government and individual states each collect their own taxes from the same pool of consumers. If GST is collected centrally, it would be known as Central GST (CGST), and if collected at the state level, it will be known as State GST (SGST).

4. If products or services are transferred across states (including stock transactions), an Integrated Goods and Services Tax (IGST) will be applied. This tax is to be levied and collected by the Government of India, and it is to be divided between the Union and the States in such a way as may be specified by Parliament by Law on the suggestion of the GST Council.

5. Since imports would be considered interstate supplies, IGST would be added to any other customs fees that could be incurred.

6. The Central Government and the State Governments will negotiate rates for the Central Goods and Services Tax (CGST), State Goods and Services Tax (SGST), and the Interstate Goods and Services Tax (IGST). On the advice of the GST Council, the rates would be announced. The GST Council recently met and resolved to impose GST at four rates: 5%, 12%, 16%, and 28%. What goes into each category has been categorized and a timetable or list of things has been produced. For the purpose of compensating states that stand to lose income as a result of GST's introduction, a cess will be applied on "demerit" items in addition to these rates.

7. GST would replace the following taxes currently levied and collected by the Centre:-

a) Central Excise Duty
b) Duties of Excise (Medicinal and Toilet Preparations)
c) Additional Duties of Excise (Goods of Special Importance)
d) Additional Duties of Excise (Textiles and Textile Products)
e) Additional Duties of Customs (commonly known as CVD)
f) Special Additional Duty of Customs (SAD)
g) Service Tax
h) Taxes added to the cost of products and services known as cess and surcharge.

8. State taxes that would be subsumed within the GST are:

   a) State VAT
   b) Central Sates Tax
   c) Purchase Tax
   d) Luxury Tax
   e) Entry Tax (All forms)
   f) Entertainment Tax and Amusement Tax (except those levied by the local bodies)
   g) Taxes on advertisements
   h) Taxes on lotteries, betting and gambling
   i) Taxes imposed by the state on the sale of products or provision of services.

9. Everything except alcohol sold for human consumption would be subject to the Goods and Services Tax.

10. From a date to be suggested by the GSTC, GST would be applied on five selected petroleum products (Crude, Petrol, Diesel, ATF, and Natural Gas).

11. GST would be applied on tobacco and tobacco products. More so, the Central Government will be able to impose Central Excise charge on these items.

12. Both CGST and SGST would share a single threshold exemption. The Goods and Services Tax (GST) will not apply to businesses with an annual revenue of less than Rs.20 lakh (Rs.10 Lakh for special category States). A composition arrangement is offered to taxpayers with annual gross receipts of up to 50 lakhs. According to the plan, a taxpayer's tax for the year will be a percentage of his turnover in a certain state, with no allowance for Input Tax Credit. Participation in this system will be voluntary.

13. As far as practicable, the list of exempted items and services would be simplified and made consistent between the federal government and the individual states.

14. Supplies sent outside would not incur any taxes. Therefore, neither the input nor the output tax would apply to the exported product or service.

15. Credit for Central Goods and Services Tax (CGST) paid on inputs may only be used to offset Central Goods and Services Tax (SGST) owed on outputs. No CGST Input Tax Credit (ITC) may be utilized to offset SGST costs and visa versa. So, except in certain cases involving interstate shipments for the purpose of reimbursing IGST, neither Input Tax Credit (ITC) stream may be used to offset the other. The following expenditures would be eligible for the credit:

   a) ITC of CGST allowed for payment of CGST & IGST in that order;
   b) ITC of SGST allowed for payment of SGST & IGST in that order;
   c) ITC of IGST allowed for payment of IGST, CGST & SGST in that order.

16. To guarantee that the Exporting State transfers the SGST credit utilized to pay IGST to the Centre, periodic account settlements between the Centre and the States will be conducted. The Centre will also transfer to the Importing State any IGST that was utilized to pay SGST. Even more, the Centre would send the destination State the SGST part of the IGST collected on B2C shipments. The data from the taxpayers' returns would be used to effectuate the transfer of monies.

17. To the greatest degree practicable, CGST and SGST legislation, rules, and collection processes would be unified.

A solid IT infrastructure will support the GST system as a whole. Towards this end, the Government established the Goods and Services Tax Network (GSTN). Both front- and back-end IT modules will be developed to serve states that have chosen this path.

Need of GST in India

Each state has its own tax structure, and residents must pay a variety of taxes at varying rates depending on their location and the level of government responsible for collecting them. The Products and Services Tax (GST) proposes to eliminate the need for separate state taxes by dividing them between the federal government and individual states. This would facilitate the easy distribution of goods and services throughout the country. Multiple taxes on the same commodity or service may increase administrative costs and create a tax system that is more vulnerable to tax avoidance and revenue leakage. Value will be added at every juncture, and rates at the federal and state levels would be equalized, making GST an absolute need in India's taxation system. The implementation of GST would boost tax collection rates, stimulate economic expansion, and unite the whole country under a single market.

As things stand, what do you think will happen? There is a risk of corruption in our current taxation structure, which in turn leads to mistrust in government; there is a hidden tax for exporting, but no price for importing goods and services over state lines. To address these concerns, the Rajya Sabha has presented the Goods and Services Tax (GST) bill, which would increase tax transparency and inform consumers of the exact amounts of tax they will owe the government when they make purchases or produce goods. Some of the reasons why GST is necessary are listed below.

Tax Structure will be Simple: Consumers are now subject to a bewildering array of taxes, but under GST they'll only be responsible for a single, uniform rate. Businesses will be able to save time and money thanks to a decrease in accounting complexity and the resulting reduction in paperwork. An rise in GDP of 2-2.5 percent is expected as a result of GST.

Tax revenue will increase: More people will pay taxes if they are easy to file, which is good for the government's coffers.

Competitive pricing: What Effect Will GST Have? Consumers' tax burdens will be lightened since all other indirect taxes will be done away with. In economics parlance, if prices are lowered, more people will buy the product, leading to more sales and profits for the businesses involved.

Boost to exports: The Indian market would gain from more exports and the entry of new exporters if prices were more competitive on the international stage. No final tax rate has been set, although GST is essential in nations with a lack of transparency and an overly complicated taxing structure.

Everyone is wondering the same thing right now. Do we have to pay tax at various rates and at different levels? Is there really no way to fix this? The introduction of GST is the answer to this problem. With GST, there will be no more reverberating effects from one kind of tax to the next. With GST, there will be just one tax to pay, and the burden will be reduced since products reach consumers at a very high rate compared to manufacture.

The necessity for GST was partially motivated by the need to increase national income through indirect taxes. A simplified tax system like GST attracts more taxpayers, who in turn boost the Indian government's coffers. In terms of the ease with which businesses may operate in a certain country, India comes in at position No. 130 out of 189. This low position may be attributed in part to India's convoluted tax structure. Therefore, India's current tax structure required reform. When compared to the previous tax system, GST was the complete improvement. It is anticipated that GST would improve the ease of conducting business in India and completely overhaul the country's indirect taxes system. For the commercial sector to overcome the enormous obstacles it faces in terms of the ease of doing business, GST is the only viable solution.

- Multiplicity of Taxes
- Different Taxable Events
- Multiple Authorities
- Multiple Compliances
- Tax on Tax
- Different tax rates across the country
- No seamless flow of credit
- Heavy Corruption

As we have seen, the previous indirect tax scheme was riddled with flaws and restrictions. The benefits of GST were able to mitigate or completely offset the bulk of the drawbacks. Listed below are some bullet points outlining why India needs GST:

Seamless Flow of Credit

State General Sales Tax Ordinary Revenue Flows to Consuming States since GST is a Destination Tax. The IGST owed by the interstate supplier in the exporting state may be reduced by the CGST, SGST/UTGST, and IGST credits he has available. The IGST that the importing state buyer has paid on his interstate purchases is eligible for credit. Since non-VATable CST formerly caused a kink in the credit chain in the event of interstate sales, the GST system has made it such that interstate shipments may now be made without any interruption to the flow of credit. The IGST credit that was applied to the payment of UTGST/SGST is remitted by the center to the importing State. The exporting state does not keep the money from out-of-state sales, and instead sends the UTGST/SGST credit it receives from paying IGST to the federal government. For this reason, the IGST required a reliable central-State settlement system. It is necessary to have a centralized organization that can operate as a clearing house, validate claims, and communicate with relevant governments to facilitate the movement of cash. Only with a solid information technology infrastructure can this be achieved.

Boosts in exports

Imagine that price competition exists in the Indian market. With an increase in the number of exporters, the economy as a whole will profit from the influx of international competition.

Competitive prices

Since GST replaces all other indirect taxes, it ultimately results in a lower tax burden for final consumers. In accordance with what we learn from studying economics, if we reduce the price of a product or service, more people will buy it, which is good news for businesses and consumers alike.

Increase in revenue

The necessity for GST was partially motivated by the need to increase national income through indirect taxes. A simplified tax system like GST attracts more taxpayers, who in turn boost the Indian government's coffers.

Easy and straightforward tax structure

Instead of having to keep track of many taxes, taxpayers would just have to worry about one under the simplified and streamlined GST system. When the number of moving parts in a firm decreases, there will be less paperwork to do, which will save time and money in the accounting department.

Benefits of GST Implementation

GST is comprehensive: All existing indirect taxes will be rolled into the GST system. In addition, uniformity in taxes throughout the nation will eliminate the possibility of taxing by whim.

GST is Multi-stage: Taxes on goods and services are charged at each juncture in the supply chain.

Value-addition: Value addition occurs at each level of manufacturing beyond the initial outlay of resources. Only the value added is taxed under the GST system. This is accomplished by a shift away from the existing system of indirect taxes and toward a system in which GST is collected at the time of purchase. The tax will be collected by the relevant taxation body in the jurisdiction where the ultimate consumer resides.

CONCLUSION

We have established that India needs a new and improved tax structure, and GST has been in discussion for a considerable amount of time. The effects have been fantastic, and GST has been a successful revolution thus far, but there are still certain inadequacies that the Council is continually looking into and improving. The shortcomings of the previous framework are compensated for by the benefits of GST. The Goods and Services Tax (GST) is structured in such a way that a person may claim a refund for taxes paid at any time along the value addition process, beginning at the point of manufacturing and ending at the point of consumption. For the most part, GST is a tax on value addition, and input tax credits are easily transferred between stages in the value chain. Indirect taxation in the nation will be simplified and harmonized by the implementation of GST. Because of the anticipated decrease in production costs and inflation, Indian business and industry should become more competitive on both the local and global levels. Additionally, it is anticipated that the implementation of GST would lead to the creation of a unified Indian market, which will considerably boost economic development. Even more, the improved tax compliance made possible by GST's dependable IT infrastructure would lead to a wider revenue base. There is a built-in mechanism in the architecture of GST that would incentivise tax compliance by merchants because of the smooth transfer of input tax credit from one level to another in the chain of value addition.

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