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Basic concepts, Objectives, challenges and benefits of Goods and Service Tax in India

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Abstract:

This paper is an analysis of what the impact of GST(Goods and Service Tax) will be on Indian Tax scenario. Here, stated with a brief description of the historical scenario of Indian taxation and its tax structure. Then the need arose for the change in tax structure from traditional to GST in the present tax scenario in India. The Goods and Service Tax(GST) is a value added tax to be implemented in India, the decision on which is pending. GST is the only indirect tax that directly affects all sectors and sections of our economy.

Introduction Of GST:

Introduction of the Value Added Tax(VAT) at the Central and State level has been considered to be a major step- an important step forward in the globe of indirect tax reforms in India. If the VAT is a major improvement over the pre-existing Central excise duty at the national level, then the sales tax system at the State level, then the Goods and Service Tax(GST) will indeed be an additional important perfection the next logical step towards a widespread indirect tax reform in the country. Initially, it was conceptualized that there would be a national level goods and Services tax, however with the release of First Discussion Paper by the Empowered Committee of the State Finance Ministers on 10th Oct2009 it has been made clear that there would be a "Dual GST" in India, taxation power both by the center and the state to levy the taxes on the Goods and Services. Almost 150 countries have introduced GST in some form. While countries such as Singapore and New Zealand tax virtually everything at a single rate, Indonesia has five positive rates, a zero rate and over 30 categories of exemptions. In China, GST applies only to Goods and the provision of repairs, replacement and processing services. GST rates of some countries are given below. Country Australia, France, Canada, Germany, Japan, Singapore, Sweden Rate of GST 10%,19.6%, 5%, 19%, 5%, 7%, 25%, 15%. World almost 150 countries there is GST or VAT which means tax on goods and services. Under the GST scheme, no distinction is made between goods and services for levying of tax. In other words GST attract the same rate of Tax. GST is a multi-tier tax where ultimate burden

of tax fall on the customer of goods/service. It is called as value added tax because at every stage, tax is being paid on the value addition. Under the GST scheme, a person who was liable to pay tax on his output, whether for provision of service or sale of goods, is entitled to get input tax credit (ITC) on the tax paid on its inputs.

Objectives Of GST:

One of the main objectives of GST would be to eliminate the cascading impact of taxes on production and distribution cost of goods and services. The exclusion of cascading effects i.e. tax on tax will significantly improve the competitiveness of original goods and services which leads to beneficial impact to the GDP growth. It is felt that the GST would serve a superior reason to achieve the objective of streamlining indirect tax regime in India which can remove cascading effects in supply chain till the level of final consumers only when all such above mentioned indirect taxes are completely included in GST. It is understood that alcohol tobacco and petroleum products will not be enclosed by GST as alcohol and tobacco are considered as sin Goods and governments do not like to allow free trade on these property.

Challenges Of GST:

- **With respect to Tax Threshold:**

The threshold limit for turnover above which GST would be levied will be one area which would have to be strictly looked at. First of all, the threshold limit should not be so low to bother small scale traders and service providers. It also increases the allocation of government resources for such a petty amount of revenue which may be much more costly than the amount of revenue collected. The first impact of setting higher tax threshold would naturally lead to less revenue to the government as the margin of tax base shrinks second it may have on such small and not so developed states which have set low threshold limit under current VAT regime.

- **With respect to Rates of taxation:**

It is true that a tax rate should be divided in accordance with the state's necessity of funds. Whenever states feel that they need to raise greater revenues to fund the increased expenditure, then ideally they should have power to decide how to increase the revenue.

- **With respect to nature of taxes:**

The taxes that are generally included in GST would be excise duty countervailing duty, cess, service tax, and state level VATs among others. Interestingly there are numerous other states and union taxes that would be still out of GST.

- **With respect to tax management and infrastructure:**

It depends on the states and the union how they are going to make GST a simple one. Success of any tax reform policy or managerial measures depends on the inherent simplifications of the system, which leads to the high conformity with the administrative measures and policies.

Benefits Of GST:

- Many indirect taxes in state and central level included by GST, you need to pay a single GST instead of all.
- Ensure better compliance due to aggregate tax rate reduces.

- By reducing the tax burden the competitive of Indian products in international market is expected to increase and there by development of the nation.
- Uniformity of tax rates across the states.
- GST provide comprehensive and wider coverage of input credit setoff, you an use service tax credit for the payment of tax on sale of goods etc.
- Prices of Goods are expected to reduce in the long run as the benefits to less tax burden would be passed on to the consumer.

Conclusion:

GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. GST is leviable on all supply of Goods and provision of Services as well combination thereof. All sectors of economy whether the industry, business including Govt. departments and service sector shall have to bear impact of GST. All sections of economy viz. big, medium, small scale units, intermediaries, importers, exporters, traders, professionals and consumers shall be directly affected by GST.

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