GST: Boon or bane to Indian economy

Raghu veer teja on 07 December 2015

The Goods and Services Tax (GST) is the most-talked about upcoming comprehensive indirect tax in our country subsuming the major indirect taxes like Customs duty, Excise duty, Service tax and Value Added Tax (VAT). Based on recent newspaper reports, one would realize that it has become so controversial that the opposition political parties are not supporting the same despite several attempts by the government in power. This non-cooperation explains the delay in passing the bill. One hopes that the bill gets nod of the parliament in the foreseeable future and becomes an Act and will become effective from the next fiscal. In my view, GST is simply the streamlining of various indirect taxes in order to avoid the effect of cascading so that the final cost to customer will go down. The proposed GST is an attempt by the BJP Government to bring all the major indirect taxes under single roof in their quest to simplify the levy and collection of taxes.

**GST concept can be easily explained with the help of following example:**

A Person has 4 sim cards of different network operators, which he uses regularly. Hence, he has to recharge his numbers regularly. Also the data packages are offered at different prices,
validity and quantity. So, for him, knowing various offers offered by his 4 network operators is very important but not so easy. He used to have a glance at charts of different network operators. Also, while using different Sims, he missed the opportunity to get talk time offers, which are given to two users of same network (e.g.: Idea to Idea talk time offers). Hence his expenditure on mobile recharge used to be high. To overcome these difficulties, he has chosen a network operator and ported the rest into the same network. This has helped him in reducing burden of knowing offers offered by different network operators and expenditure on recharges.

The concept of GST is also similar. By bringing all the taxes under single roof, we are simplifying our process of referring rules under different taxes. Similarly, the tax burden will reduce same as the person recharge amount reduces. But the important point is, by porting a number; he is changing the network but not the number. In the same way, rules of various indirect taxes will not change. The only thing that changes is the way of claiming input tax credit. Without GST, input excise or service tax cannot be claimed against output VAT. But now, with the introduction of GST, it may become possible.

**HOW IS GST LEVIED?**

GST is a consumption-based tax. It is based on the destination / actual or final consumption point of goods and services. GST is collected at each stage of purchase or sale in the supply chain. Manufacturer, wholesaler or retailer have to pay the applicable GST rate and can claim input-GST through tax credit mechanism. But being the last person in the supply chain, consumer will bear this tax. Hence, GST is a last point retail tax.

**TYPES OF GST**

There are three types of GST.

- **SGST** – State GST, collected by the State Govt.
- **CGST** – Central GST, collected by the Central Govt.
- **IGST** – Integrated GST, collected by the Central Govt.
Present excise duty and service tax will be replaced by CGST at single rate. VAT will be replaced by SGST. IGST is for inter state sales/stock transfers. In case of imports, both CGST and SGST are levied. Rate structure of GST will be same as the rate structure of VAT. There will be a lower rate for essential commodities and relatively higher rate for luxuries.

**POSITIVE SIDE OF GST**

- State level VAT has been introduced in our country mainly to eradicate the cascading effect i.e. tax on tax which used to happen in sales tax. After introduction of VAT, dealers are able to claim input VAT against output VAT. But the main drawback in VAT is, it is levied after the levy of excise duty and service tax, and is again causing the effect of cascading. Hence, effective implementation of GST will help in eradicating cascading effect.

- Instead of maintaining big records, returns and reporting under different statutes, all assessees will find comfortable under GST, as the compliance cost will be reduced. It also simplifies the procedure of claiming input tax credit.

- Due to full and seamless credit, manufacturers or traders do not have to include taxes as a part of their cost of production, which is a very big reason to say that we can see a reduction in prices. Hence GST leads to decrease in prices and helps price sensitive consumers. However, if the government seeks to introduce GST with a higher rate, this might be lost.

- Export of goods/services is not going to be taxed under GST. Hence, It is good for export-oriented businesses and Indian goods can withstand global competition comfortably since their prices will comparatively decrease. This will result in rise in GDP and also favourable BOP.

- By bringing all the indirect taxes into single basket, government will be able to cover each and every manufacturer, service provider, seller who are not made liable to tax earlier due to different exemptions from various laws. Also, simplified procedure also encourages dealers to comply with tax rules and procedures.

**DOWNSIDE OF GST**
• VAT has been first introduced in 1998, though it came into force in 2005. This type of a delay may become a potential threat to GST since many changes take place between law formulation and actual implementation.

• GST is a consumption-based tax. This results in increase in revenue of state governments where consumption is comparatively high.

• GST will really result in benefit the end consumers only if the laws formulated are followed and implemented both in letter and spirit.

• A high GST rate will create even more problems rather than solving existing problems to the consumers. Similar to VAT, if different states opt for different SGST rates, the very purpose of introducing GST will be defeated.

• Govt is not providing any guarantee that, after implementation of GST, prices of various goods and services will surely reduce. Unless govt. makes any rule or law, price hike or reduction is the prerogative of seller/manufacturer/service provider.

**CONCLUSION**

In my view, GST is not only a combination of VAT and other indirect taxes but also a step taken to eradicate the problems and to plug out the loopholes in the present indirect tax system. Implementation of GST, though, is likely to cause inflation in the initial stages, will surely result in more employment opportunities and economic growth in our country and Indians will become employment providers rather than employment seekers in near future.

I would appreciate if readers of this article could give their valuable feedback.

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PANKHURI SINGHAL

Nice

PRIYA GARG

Grt effort in explaining gst through example..keep it up..:-)

MANOJ

Govt spending will increase all policies more or less result in payment of more tax by indiviual single buisnessman will have to pay more tax hence rise in inflation

ANUSHRI GUPTA

nice insight into GST....SGST rates across the states should be uniform.

SUSHIL DAGA

Pl confirm if Octroi/Entry Tax / requisition of Way Bill as applicable in different states for entry of goods from other states will remain applicable after GST comes into force or will be done away with.

MADHUKAR N Hiregange

Good effort. However full and seamless credit may not be available as per draft law and also if 18% rate fixed; some service exports and supplies to 100% EOUs would not get the credits
accumulated; procedures may not necessarily come down though entities who have VAT, Excise and Service tax would find the new regime less cumbersome.

ASHISH JINDAL
Nice snapshot

HOTEL GOMTI
Good analysis of GST

SATISH
Nice .......... simple way to understanding the impact of GST

HARSHAD PRACHANDE
Good article about concept & working of GST. Challenge pertaining to GST is implementation and having same rate across states.

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