



# Goods and Services Tax- A Major Reform in Indian Taxation System

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## Abstract:

*Goods and Services Tax is one of the biggest tax reform in Indian history. Goods and Services Tax bill is officially known as the Constitution (122<sup>nd</sup> Amendment) Bill 2014, which will be implemented in India by 1<sup>st</sup> July, 2017. GST is a combination of various taxes including central excise duty, service tax, additional custom duty, surcharges, state level value added tax and octroi, which will be levied on all transactions such as sale, transfer, barter, lease, or import of goods or services. GST would help to increase to GDP and overall economic growth of the country. This research article therefore, is an attempt to find out the need and journey of GST as well the impact of GST on Indian economy.*

**Keywords:** *Goods or services, GST, GDP, Indian economy, Indian Taxation*

## 1. Introduction

The word 'tax' is derived from 'Latin' word 'taxare' which means to estimate. Indian taxation system is a combination of two taxes- Direct and Indirect tax. Direct taxes are those taxes which levied on individual or organisation and burden of which can't be shifted or transferred to another person, for instance the income tax. On the other hand indirect tax is that tax which is ultimately paid by the end-consumer of goods and services and the burden of which can be shifted or transferred. Good and Services Tax (GST) is a comprehensive tax to be levied on manufacturing, sales and consumption of goods and services at a national level. It is a domestic trade tax which will be levied in form of value added tax on all goods and services. It is one of the biggest taxation reforms in Indian history which may lead to integration of state economies and boost the overall growth of India. It was introduced as The Constitution (One Hundred and Twenty Second Amendment) Act 2017, following the passages of Constitution 122<sup>nd</sup> amendment bill. GST is a combination of various taxes including central excise duty, service tax, additional custom duty, surcharges, state level value added tax and octroi, which will be levied on all transactions such as sale, transfer, barter, lease, or import of good or services. In India, the unified tax will take the form of "dual" GST, to be levied currently by both centre and states. The unified tax will be comprises of a Central GST and State GST, which will be legislated, levied and administered by the respective levels of government. The same taxable base will be subject to both GSTs.

## 2. Review of Literature

**Shaik et al (2015)** studied the concept and impact of GST on Indian economy. The study also focused on some aspects of GST models. This study also covered the advantages and working of GST. The study concluded that GST in Indian framework will lead to commercial benefits which were untouched by VAT system and would essentially leads to economic development.

**Sherawat and Dhnda (2015)** studied the concept, features and advantages of GST in India. The study focused on implication and collection of GST in India. The study concluded that a simplified, user-friendly and transparent tax system is required to fulfil the implementation of GST.

**Khurana and Sharma (2016)** studied the background, objectives of the proposed GST and the impact of GST in the present tax scenario in India. The study concluded that GST will have positive impact on various sectors and industry.

**Lourdunathan F and Xavier P (2017)** studied the prospectus and challenges in the implementation of GST in India. The study is concluded that GST will bring One Nation and One Tax market.

### 3. Objective of the study

1. To study the need and journey of GST in India.
2. To study the impact of GST on Indian economy.

### 4. Research Methodology

The study is based on secondary sources of data or information. Different books, newspapers and relevant websites, Govt. Publications and research papers, have been consulted in order to make the study effective one. The study attempts to examine the need of GST and challenges during its implication as well the impact of GST on Indian economy.

### 5. Need of GST

The present structure of Indirect Tax is very complex in India. It consists of cascading effects of tax. There are so many types of taxes that are levied by Central and State Government on Goods and Services. People have to pay lots many taxes for availing different services i.e. if they want to watch movies then they have to pay 'Entertainment Tax' and Value Added Tax on purchasing of goods and services. As of today some of these taxes are levied by central government and some of by states governments. But there was a lack of unified indirect tax structure in India. It has been long pending issue to streamline all the different types of taxes and implement a "single taxation system", and this system is called GST. The main expectation from this system is to abolish all indirect taxes and only one GST would be levied. GST would help to eliminate the cascading effects of production and distribution cost of goods and services, which would help to increase GDP and then to economic condition of the country. GST would be able to cover all the shortcomings of existing VAT system and hopefully serve the economic health. By implementing GST, the efficiency and equity of system is optimized. GST will also help to avoid distortion caused by present complex tax structure and will help in development of a common national market. The implementation of GST would ensure that India provide a tax regime that is almost similar to the rest of the world. It will also improve the International cost competitiveness of native goods and services.

### 6. Journey of GST in India

Goods and Services Tax is not a new phenomenon. France was the world's first country to implement GST Law in year 1954. Since then, 159 other countries have adopted GST Law in some form or other. In many countries VAT is a substitute for GST, but unlike Indian VAT system, these countries have single VAT tax which fulfils the same purpose as GST.

In India, the discussion on GST Law had started in the year 2000, when the Prime Minister Atal Bihari Vajpayee was set up a committee, which was headed by Asim Dasgupta (Finance Minister, Govt. of West Bengal). Committee has given the task of designing of GST model and overseeing the IT back-end preparedness for its rollout. It is considers to the major improvement over the pre-existing central excise duty at the national level and sales tax at state level.

In 2003, Kelkar Task Force on implementation of FRBM Act, had pointed out that although the indirect tax policy in India has steadily progressing in the direction of VAT principle since 1986, the existing system of taxation of goods and services still suffers from many problems and had suggested a comprehensive Goods and Services Tax(GST) based on Vat principle. GST system was targeted to be a simple, transparent and efficient system of indirect taxation as has been adopted by over 130 countries all over the world.

After successful implementation of VAT system in India, the task force on GST and various committees had put suggestion and Union Government first time in the Union Budget 2006-07

announced that the GST would be applicable from 1<sup>st</sup> April, 2010. The government has formed various Joint Working Groups of state finance minister to study the impact of GST on the revenue of various states. Task force of finance minister has submitted their report in December, 2009 on structure of GST in India. On 22<sup>nd</sup> March, 2011, Constitution (115<sup>th</sup> Amendment) Bill introduced and same was referred to Parliament Standing Committee on Finance for discussion, and finance minister in his speech announced that GST will be rolled out by 1<sup>st</sup> April, 2011.

In August, 2013 Standing Committee on Finance tabled its Report on GST Bill and in December, 2014 revised Constitution Amendment Bill was tabled in Parliament. In December, 2014 the Constitution (122<sup>nd</sup> Amendment) Bill was introduced in Parliament; since 115<sup>th</sup> Amendment Bill has been lapsed due completion of parliament terms. So the Government of India has introduced Constitution (122<sup>nd</sup> Amendment) Bill on 19<sup>th</sup> December, 2014 and Lok Sabha has passed the bill on 6<sup>th</sup> May, 2015, but the Bill was pending in Rajya Sabha. On June 14<sup>th</sup>, 2016 the Ministry of Finance has released a draft model law on GST on public domain for views and suggestions. On August 3<sup>rd</sup>, 2016, the Constitution (122<sup>nd</sup> Amendment) Bill, 2014 was passed by Rajya Sabha with certain amendments. The final step to the Constitution (122<sup>nd</sup> Amendment) Bill, 2014 becoming an Act was taken when the Hon'ble President of India gave his final assent on 8<sup>th</sup> September, 2016. GST will be applicable by 1<sup>st</sup> July, 2017.

### **7. Impact of GST on Indian Economy**

The Goods and Services Tax (GST) is the biggest tax reform in Indian tax history. GST is a combination of various indirect taxes in India. It is likely to improve the country's tax to GDP ratio and also inhibit inflation. Overall, GST Bill or Goods and Services Tax is a blessing for India. It will help the consumer as it will decrease the burden from their shoulder of paying different layers of taxes. There will be a positive impact of GST on Centre and State government and business or industry. GST would be simpler and easier to administer than all the other indirect taxes of the Centre and State levied so far. GST will have better control on leakages in tax system, and it is expected to decrease the cost of collection of tax revenues of the government, and will therefore, lead to higher revenue efficiency. Under GST, there would be only one tax from the manufacture to the consumer, leading to transparency of tax paid to the final consumer. Due to efficiency gains and prevention of leakages, the overall tax burden on most commodities will come down, which will benefit the consumer. A robust and comprehensive IT system would be the foundation of GST regime in India. Therefore, all tax payer services such as registration, returns, payment, etc. would be available to the taxpayer online, which would make compliance easy and transparent. GST would make doing business in the country tax neutral, irrespective of the choice of the place of doing business.

### **8. Conclusion**

Good and Services Tax (GST) is a comprehensive tax to be levied on manufacturing, sales and consumption of goods and services at a national level. The study attempted to analyse the need, journey and impact of GST on Indian economy. This taxation system is expected to abolish all indirect taxes by merging all the indirect taxes into a unified taxation system known as Goods and Services Tax. It would help to eliminate the cascading effects of production and distribution cost of goods and services, which would help to increase GDP and then to economic condition of the country. Indian government formed various Joint Working Groups of state finance minister to study the impact of GST on the revenue of various states. The study concluded that GST is expected to bring favourable impact for the whole economy.

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