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## **GST: The Revolutionary Tax Reform**

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### **Abstract:**

*Goods and Service Tax is a comprehensive tax levy on manufacture, sale and consumption of goods and services. It is one of the significant steps towards the development of the country. It is one of the biggest tax revolutions which is all set to integrate the state and national economy to boost the overall growth of the country. It will replace central excise duty, service tax, VAT, central sales tax, entertainment tax, octroi, state surcharge, luxury tax, lottery tax and other surcharge on supply of goods and services. The purpose of GST is to replace all these taxes with single comprehensive tax, bringing it all under single umbrella. The purpose is to eliminate tax on tax. Multiple tax and complex taxation system is one of the biggest hurdle for economic growth of the country. Now GST system have been applied there would be single tax system which would record a significant development in comprehensive indirect taxation reform. An attempt is made in this paper to study the concept of goods and service tax and its impact on Indian economy.*

### **Introduction**

Tax policies play an important role on the economy through their impact on both efficiency and equity. A good tax system should keep in view issues of income distribution and, at the same time, also endeavour to generate tax revenues to support government expenditure on public services and infrastructure development. GST stands for Goods and Services Tax. It is a domestic trade tax that will be levied in the form of a value added tax on all goods and services -in practice with some exemptions.

The reference of GST was first made in the Indian Budget in 2006-07 by the then Finance Minister Mr. P. Chidambaram as a single Centralized Indirect tax. The Bill was introduced on December 19, 2014 and passed on May 6, 2015 in the Lok Sabha and Passed in Rajya Sabha on 3rd August 2016. The Government wants to implement GST Bill From 1st April 2017. Clause 366(12A) of the Constitution Bill defines GST as "goods and services tax" means any tax on supply of goods, or services or both except taxes on the supply of the alcoholic liquor for human consumption. So GST is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level.

### **Objectives of the study**

- To study the concept of Goods and Services Tax(GST) and its impact
- To understand how it is levied
- To study the need and benefits of GST in Indian context

### **Research Methodology**

The study focuses on extensive study of secondary data collected from various books, National and International Journals, govt reports, publications from various websites focused on Goods and Service tax.

### Concept of GST

The Goods and Services Tax (GST) is a vast concept that simplifies the giant tax structure by supporting and enhancing the **economic growth** of a country. GST is a comprehensive tax levy on manufacturing, sale and consumption of goods and services at a national level. Before GST, companies and businesses have to pay lot of indirect taxes such as VAT, service tax, sale tax, entertainment tax, octroi, and luxury tax. The purpose of GST is to replace all other taxes with single comprehensive tax, bringing it all under single umbrella. The purpose is to eliminate tax on tax.

On bringing GST into practice, there would be **amalgamation** of Central and State taxes into a single tax payment. It would also enhance the position of India in both, domestic as well as **international market**. GST is applied on goods and services at the place where actual consumption happens. It is based on the Destination Principle. GST would be levied and collected at each stage of sale or purchase of goods and services. Goods and services are not distinguished and are taxed at single rate in supply chain till the goods and services reach consumer. It is the consumer of goods and services who bears the tax. The manufacture or wholesaler or retailer will pay the applicable GST rate but will claim back through tax credit mechanism.



Administrative responsibility would be generally rest with single authority to buy tax on goods and services. Under the previous system, levies were charged at multiple points and by different authorities, for example at the police at check points, by state Govt. agencies at inter-state borders. This encourages corruption, that a common nationwide tax is expected to eliminate. It is believed that it would make the tax procedure more fair, transparent and efficient. The current tax structure does not allow business person to take tax credit. There are many chances of overlapping or doubling of taxation at every step of supply chain. This will be eliminated with the implementation of GST. Indian Govt. is opting for dual system of GST. This system will have two components which will be known as: -

- Central Goods and Service Tax (CGST)
- State Goods and Service Tax (SGST)

### Need and Benefits of GST in India

Following are the supporting reasons to adopt GST

- Present tax system allows is diversity of taxes, the introduction of GST is likely to unique it.
- Many areas of Services which are untaxed. After the introduction of GST they will also get covered.

- GST may help to avoid confusions caused by present complex tax structure and will help in development of a common national market.
- Excise, VAT, CST have the cascading effects of taxes. Therefore, there will be end up in paying tax on tax. GST will replace existing all present taxes.
- GST will lead to credit availability on throughway purchases and reduction in obedience requirements.
- Applying of GST will do more than simply redistribute the tax burden from one sector or Group in the economy to another.
- Achieves, uniformity of taxes across the territory, regardless of place of manufacture or distribution.
- Provides, greater certainty and transparency of taxes.
- Ensures tax compliance across the country
- GST will avoid double taxation to some extent.
- The effective implementation of GST makes sure that India provides a tax system that is almost similar to the rest of world where GST implemented.

If the GST is implemented in the true spirit, it will have many positives effects for the stakeholders and will lead to a better friendly tax environment.

**Impact of GST on prices of goods & services:**

The tax rate under GST are set at 0%, 5%, 12%, 18% and 28% for various goods and services, and almost 50% of goods & services comes under 18% tax rate. But how is our life going to change post GST? Let's see how GST on some day-to-day good and services will have an impact on an end user's pocket.

**Footwear & Apparels/Garments:** Footwear costing more than INR 500 will have a GST rate of 18% from an earlier rate of 14.41 rate but rates for the footwear below INR 500 has been reduced to 5%. So, you need to shell out more for buying a footwear above INR 500/-. And with respect to the ready-made garments, the rates have been reduced to 12% from an existing 18.16% which will make them cheaper.

**Cab and Taxi rides:** Now, taking an Ola or an Uber will be cheaper because the tax rate has come down to 5% from an earlier 6% for a cab booking made online.

**Airline tickets:** Under the GST, tax rate for economy class for flight tickets is set at 5% but the tax for business class tickets will have a higher tax rate of 12%.

**Train Fare:** There will not be much of an impact. The effective tax rate has increased from 4.5% to 5% in GST. But, passengers who travels for business trips can claim Input Tax Credit on their rail ticket which can help them to reduce expenses. People travelling by local trains or in the sleeper class will not be affected, but first-class & AC travellers will have to pay more.

**Movie Tickets:** Movies tickets costing below INR 100 will be charged a GST rate of 18% but prices above INR 100 will have a higher tax rate of 28%.

**Life Insurance Premium:** The Premium Amounts on policies will rise, with an immediate impact can be seen on your term and endowment policy premiums as the rates have been increased under GST across life, health and general insurance.



**Jewellery:** The gold investment will become slightly expensive because there will be 3% GST on gold & 5% on the making charges. The earlier tax rate on gold was around 2% in most of the states and the GST is increased from the existing rate to around 2% to 3%.

**Buying a Property:** Under construction properties will be cheaper than read-to-move-in properties. The GST rate for an under-construction property is 18% but the effective rate on this kind of property will be around 12% due to input tax credits the builder will avail of.

**Education & Medical Facilities:** Education and Medical sectors have been kept outside the GST ambit and both the primary education & healthcare is exempt from GST. It means a consumer will not pay any tax for the money you spent on these services. But due to increase in the rate of taxes for certain goods & services as procured by these organisations, they may pass on the additional tax burden to the consumers.

**Hotel Stay:** For your hotel stay, If your room tariff is less than Rs 1,000, then there will be no GST, but anything above Rs 5,000 will attract 28% tax

**Car:** Most of the cars in the Indian market will become slightly cheaper, except for the hybrid cars because the GST rate will be 28% tax on all the vehicles irrespective of their make, engine capacity or model. However, over and above this 28%, an additional cess will be levied which can be either 1%, 3% or 15 %, depending on the particular car segment.

**Mobile Bills:** People will have to pay more on mobile phone bills as GST on telecom services is now 18%, as opposed to the earlier tax rate of 15%.

**Restaurant Bills:** Your restaurant bill would depend on whether you dined at an AC or Non-AC establishments which do not serve alcohol. Now dining at five-star hotels will be charged at 18% GST rate and the Non-AC restaurants will be charged 12% and a 5% GST will be charged from small hotels, dhabas and restaurants who do not cross an annual turnover of INR 50 Lakh.

**DTH and cable services:** The money you pay towards your DTH connections or to your cable operator will reduce a bit as the rate is fixed at 18%, which is lower than the earlier taxes which were comprising of entertainment tax in the range of 10% to 30%, apart from the service tax of 15%.

**Amusements Parks:** The ticket price for amusement parks and theme parks will increase as the earlier service tax of 15% will become 28% under the GST.

**Electrical and Electronic Goods:** Electronic goods like AC, microwave ovens, refrigerators, washing machines etc will be cheaper because presently there is 12.5% excise and 15.5% VAT is levied on them but after GST only single tax will be levied which will bring the prices of these electronic goods..

Here's is a list of some items which are completely exempt from the GST regime:

- \*The unprocessed cereals, rice & wheat etc.
- \*The unprocessed milk, vegetables (fresh), fish, meat, etc.
- \*Unbranded Atta, Besan or Maida.
- \*Kid's colouring book/drawing books.
- \*Sindoor/Bindis, bangles, etc.

## **Conclusion**

GST is a comprehensive tax to levy on manufacture, sales and consumption of goods and services at national level. One of the biggest tax reforms in India the GST is all set to integrate State economies and boost overall economic growth. A well designed GST is an attractive method to get liberate of deformation of the existing process of multiple taxation. Also government has promised

that GST will reduce the compliance burden. Many Indirect Taxes like Sales Tax, VAT, service tax etc., will be diminished because there will be unique tax system i.e. GST, that will reduce observance present burden. GST still has to face many challenges after its implementation and will result to give many benefits. GST have faced lots of controversies and oppositions in terms of its implementation. Finally the GST bill has been passed. Time will only decide whether it will have positive impact or negative impact. The new system of taxation is considered to be more improved system over the pre-existing central excise duty at the national level and sales tax system at state level. At the end we can say no doubt it is the biggest ever change in tax structure of India. There will be fall in prices of some commodities but on the other hand price of some other goods and services will rise. There is threat of inflation too and states may face reduction in their financial resources. But overall it is indeed a revolutionary change.

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