



Impact of Goods and Service Tax (GST) on Indian Tax Structure



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Abstract

This paper is an analysis of what the impact of GST (Goods and Services Tax) will be on Indian Tax Scenario. The authors have 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 model. GST has been detailed discussion in this paper by the authors as the background, silent features and the impact of GST in the present tax scenario in India.

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1. Introduction

Dani (2016), Garg (2014), 122nd amendment of constitution i.e. goods and service tax. The biggest taxation amendment which comes after the independence of India, which is going to change the whole scenario of taxation which is going from the last several years. Herekar (2012), Kaur (2016), it had faces many methods of taxation or we say it is the combination of various taxes and various method. It is going to smooth the part of the indirect tax.

It will come with many new rules and regulation, any aspect of taxation, many big implementations. It will create the whole taxation part transparent without any manipulation.

By reading the introduction of the Impact of GST with some features, you become some bit aware of how much or in what level Goods and service is going to change the scenario of taxation scenario.

For better understand, this Term Paper is divided into 2 aspects which going in this today scenario

- 1) VAT i.e. value-added tax
- 2) Service tax

It will clarify how the taxes impose, and what are the merit and demerit of recent tax policy, and

- a. Why is a necessity to introduced Goods and service tax?
- b. What are the challenges still India is facing?
- c. Why the VAT and service tax is going to combine?

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- d. What are the problems that India has faced before implementing the GST
- e. What is the benefit of GST?

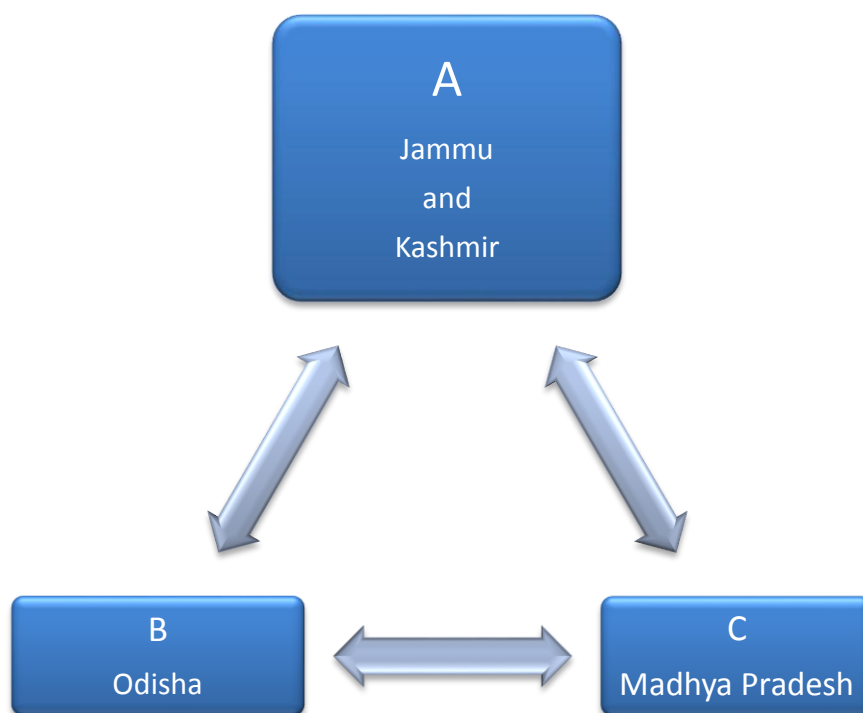
Voluntary Compliance Encouragement Scheme

This scheme was introduced in the year June 2013, for those taxpayers who have not submitted their tax from 2007 to 2013, it basically works as an encouragement for those taxpayer who is interested voluntary to reveal their profits and they will get some sort of satisfaction on their reveal. If any person would reveal voluntary and actual their service tax their accounts will not be audited by and CEBC officer or any Chartered Accountant.

Why service tax needed?

- a) With the increasing role of the service sector, the government doesn't want this sector will be untaxed.
- b) The GDP growth through the service sector is more than the other two sectors *i.e.* agriculture and industry sector.
- c) The tax burden on the international trade and manufacturing sector would be reduced by the service sector.
- d) It carries boom behavior of economic activity.
- e) This choice additionally make large income potential to the administration

How does the service tax work?



- a) If B is a seller of service who is residing in Odisha and C is the purchaser of service who is residing in Madhya Pradesh.
- b) If C wants service from B, the ultimately B gets service tax from C on the service the C receives and B will pay to the government.
- c) If A who is residing in J&K, want service from B, there is no burden of service tax on the service that the A consumes
- d) If C wants service from A, here tax will be imposed on C on the service consumer
 - 1) It implies that when Jammu Kashmir will receiver there is no tax.
 - 2) If Jammu & Kashmir is a seller there is impose of tax.
 - 3) If the service is provided in territorial water of India it is taxable same as other services.

Overview of Goods and service tax

What is GST?

Palil & Ibrahim (2011), Vasanthagopal (2011), Goods and Service Tax is a tax on goods and services. It is leviable at each point of sale or provision of service. At the time of sale of goods or providing the services, the seller or service provider can claim the input credit of tax which he has paid while purchasing the goods or procuring the service. This is simply very similar to the VAT. It can be termed as National level VAT on Goods and Services. The only difference in this system is that not only goods but also services are involved. The rate of tax on goods and services are generally the same. In most countries of the world, a single VAT exists which covers both goods and services sectors are taxed with very few exceptions/ exemptions. Full tax credits on inputs –100% set off

We all will pay GST on every product or service we buy. Since all indirect taxes levied by the States and the Centre will be merged into one GST, we would exactly know how much tax we pay which at present is difficult to understand. No distinction would be made between imported or Kumar (2014), Indian goods and they would be taxed at the same rate. The sellers or service providers collect the tax from their customer. Before depositing the same to the exchequer, they deduct the tax they have already paid. The success of GST would rest upon efficiency, equity, and simplicity.

Objectives of the study

- 1) To understand the concept of goods and service tax
- 2) To learn about shortcomings of the current taxation system in India
- 3) To understand how GST will work in India

To understand the benefits of GST over the current taxation system in India

2. Materials and Methods

The study focuses on the extensive study of Secondary data collected from various books, National & international Journals, government reports, publications from various websites which focused on various aspects of Goods and Service Tax.

3. Results and Discussions

3.1 Road Map of GST

The highlight before the amendment pass in parliament

- a) In 2006 in the presence of P.Chidambaram (ex-union finance minister) has declared or we can say also say the first time the issue of GST comes in front.
- b) In 2011, the first time this constitution amendment comes as a bill in front of parliament.
- c) 2011 bill didn't have the compensation of compensation column of excise i.e manufacturing
- d) 2011 to 2013, that time the standing committee had the majority of UPA government. In August 2013 the report has come with the total majority of UPA government.
- e) In May 2014 at the time of UPA government, the discussion going head, the state having a question why they believe in your words because in 2009 to 2011, the UPA government gave the assurance for compensation for loss of CST (or central sales tax that input credit) but they didn't give. Then the central govt. decide that they divide the compensation into 1/3 from 2014 onwards they are paying back that this year i.e. 2016 is last year for paying back. If any disputes come b/w two state or central and state or disputes arise because of separation of power, that's why due to these circumstance there will be a separate disputes Redressal and separate committee. If any disputes are not solved by committee and Redressal then judicial will take involve into it.
- f) Before this scenario taxes system is going by its way central have their own rules and state have their own rules but after GST, the taxation will going to combined then uniformity will come so there will unity, comfort and consent in both central and states. In central, takes the decision they have to involve state and same for the state.
- g) According to a consumer price index

- 1) 54% of goods are those goods which are out of the basket of indirect tax or we can also say out of the boundary of GST.
- 2) The government has decided ranges for taxes
- 3) No taxes that means there is a full rebate on these goods
- 4) Low rates that rates are minimum as a comparison to standard
- 5) Standard rate – a standard rate that government has decided or any goods which are not coming in the category of low and high there the tax is charged by the normal or standard rate
- 6) High rate – generally charge on that good which is irreversible or any goods which are making pollution or dangerous for the environment or luxury items.

HIGHLIGHT after passing in Parliament

- a) Before drafting the council some principle has to be taken by the drafting committee
 - 1) The rate will be lower than the existing rate.
For example – most of the goods excise tax is 12.5% and VAT is 14.5% and some other taxes like entry tax or central sales tax its come around 28% may be above
So the tax rate has to be less as compared to this.
 - 2) The tax has to be collected in that level by that working process of states will move smoothly
All state finance minister, union finance minister with their officer what rate they have to put, the rate must be equivalent in which the performance of states go smoothly their developments
- b) New, GST will be made in accordance with 122nd constitutional amendment.
- c) GST working draft will be designed by GST council, not by the central government.
After drafting:
Central Goods and Service Tax (CGST) will comes to parliament.
State Goods and Service Tax (SGST) will come to Vidhan Sabha of all states
Interstate Goods and Service Tax (IGST) will come to parliament
- d) GST will be designed in the ratio of 49:51 i.e 49% are the government officer who is highly paid professionals and remaining 51% is the private sector which covered LIC, HDFC, ICICI, NSE
This structure is designed in this way because nowadays any structure will work proper when the government and private sector work together, it will increase the efficiency level of the GST council. Because it is estimated in 1 month 3 billion vouchers and submission have to be submitted it will done only expert professional.
- e) The whole system will work on GST-N and this makes the system unite and centralized
- f) There is compensation for losing the state. By this scenario up to 3 years there is full compensation and if the loss will continue the central will compensation extension of next 2 year

How our GST works

- a) The merchants enrolled under GST (Manufacturers, Wholesalers and retailers, and administration suppliers) will charge GST on the cost of goods and services from their clients.
- b) They will claim credits for the GST incorporated into the cost of their own buys of goods and services utilized by them.
- c) The dealers or administration suppliers gather the expense from their client, who could possibly be a definitive client, and before storing the same to the exchequer, they deduct the tax they have effectively paid.
- d) If a business is enlisted for GST it must incorporate GST in the cost of products, administrations and different things they offer to others throughout the business. These are called taxable sales.
- e) There are different sorts of offers where GST is excluded from the price.
- f) Either Goods and service tax-free sales or tax input credit
- g) GST might be incorporated into the cost of buys (counting importations) made by a business, and it's a smart thought to take into account it when setting costs.
- h) When a business is registered for Goods and service tax, they can, for the most part, claim a credit for anything that they had purchased that is known by goods and service Credit

What are thing GST is going to vanished in the column of their Indirect tax

- a) Value-added tax
- b) Central Excise Duty

- c) Service Tax
- d) Taxes on lottery, betting & gambling- Central Sales Tax (levied by the center and collected by state)
- e) State cesses and surcharges (relating to the supply of goods and services)
- f) Additional Customs Duty- Purchase Tax
- g) Entertainment Tax
- h) Luxury Tax
- i) Octroi and Entry Tax

Whole GST is basically divided into three part

CGST – Central Goods and Service Tax i.e levied and collected by the government

SGST – State Goods and Service Tax i.e levied and collected by the state government.

IGST – Intermediate Goods and Service Tax i.e. levied and collected by central government

First of all, we have to know these 3 subtypes of GST signifies

Central Taxes to Be Subsumed

- a) Central excise duty
- b) Addition duty of excise
- c) Excise duty levied under medicinal and toiletries preparation act
- d) Service tax
- e) Surcharge and cess
- f) Additional duty of customs

State taxes to be subsumed

- a) State vat/ state tax
- b) CST or central sales tax
- c) Entertainment tax (not levied by local bodies)
- d) Luxury tax
- e) Tax on betting, lottery, and gambling
- f) Surcharge and cess.

IGST – section 3 of the model IGST act provides that.

- a) Any supply of goods, where the place of supply and the location of the supplier are in a different state then supply will be called as the **interstate supply of goods**
- b) Any supply of services, where the place of supply and the location are in a different state then the supply will be called as the **interstate supply of service**.
- c) Section 3A of the model IGST Act provides that:
- d) Any supply of goods, where the place of supply and the location of the supplier are in the same state then the supply will be called as the **intrastate supply of goods**
- e) Any supply of services, where the place of supply and location of the supplier are in the same state then the supply will be called as the **intrastate supply of service**.

Section 4 of the model act provide that:

- a) All the interstate supplies of goods and services will attract integrated goods and service.
- b) Every taxable person has to pay **IGST** at the rate specified.
- c) The central government may notify certain specific categories of supply of goods and services on which tax may be payable on a reverse charge basis.
- d) Certain goods and service may be specified on which no tax is required to be paid.

Merit of GST

- a) First, the new taxation regime is going to eliminate the cascading effect in another language double taxation system
Explain by example if any producer A produces goods, according to the existing system he has to pay excise duty and then if he have to sell the goods in the market in the state only again they have to pay VAT or value-added tax. The excise duty is collected by central govt. and VAT is collected by state govt. Here there is no tax credit of excise duty it reveals the cascading system.

- b) It will create a common market in the state as well as the country.
- c) It is natural and transparent method to raise revenue.
- d) Beneficial for both economy and corporation. As tax burden decrease reduce the production cost as production decrease making exporter more exporter.
- e) Only three accounts have to maintain ie. IGST, CGST, and SGST.
- f) Simplify the current indirect system.
- g) It is the long-term strategy for higher output, more employment opportunity, and economic boom.

Few points you need to know about the final decision in Rajya Sabha

- 1) Changes made to Bill in Rajya Sabha Will have to be approved again by the Lok Sabha (either in special, or the winter session).
- 2) The bill needs to be Ratified by a majority of states (15/29). Following this, it will be sent to the president.
- 3) After Presidential assent, a GST council comprising representatives from the states and the Centre will be set up.
- 4) The center will help codify Central GST and State GST laws which would be passed by parliament and state assemblies.
- 5) GST Network, the IT backbone of GST, to facilitate online registration, tax payment and return filing would be introduced. Every taxpayer will be issued a 15 digit common identification number which will be called goods and service tax identification number (GSTIN) A pan based number.
- 6) GST network will create an online portal. The portal will begin migrating data on existing taxpayers under the current VAT/excise/Service tax regimes.
- 7) Document for the dealer to provide their detail and upload a document.
- 8) The GST network has already validated the PAN of 58 lakh businesses from the tax department.
- 9) Government is already enabling 'master trainers' who would train accountant, lawyers and tax officers on the new system.
- 10) NSDL going to create a portal known by "GST Pilot Portal" which is incubated portal basically for uniting the function of GST

Demands of traders

- 1) Traders are expense authorities and not the citizens. In this manner, they ought to be effectively characterized as Tax Collectors under GST Taxation System.
- 2) Traders ought to be repaid by the Govt. for costs caused on the accumulation of GST.
- 3) Some kind of power system must be produced to guarantee that advantage of lessening in cost must be passed to end buyer. The substantial makers and organizations might be instructed by prudence regarding law to proclaim their Pre-GST and Post-GST cost of creation to the particular State tax assessment office.
- 4) In a request to make the partners mindful about modalities of GST and other related issues, a serious across the country exposure crusade comprehensive of workshops, courses and so forth may likewise be arranged with the dynamic help of exchange affiliations.
- 5) An extraordinary working gathering on GST might be shaped both at Center and state levels with delegates of exchange and industry for getting ready the last guide of GST and its usage.
- 6) Since GST will be founded on computerization framework, it is proposed that PC might be made accessible to dealers on appropriation to be given by the Government.
- 7) It is likewise proposed that GST programming might be made accessible to all merchants and others segment of the general public free of cost.

Comparison between our GST and other's countries GST

India has learned the various system of taxation from others countries, some of the parts of GST has taken other countries which help to set up the new regime.

- a) To building up new and best tax world. Today's also taxation system still hanging the political seesaw - through the fizz around its implementation has capably sustained for some years now. India is measuring development from upcoming GST so that it has to measure by other countries where the same system has implemented.
- b) All countries almost have the same concept. In some countries, GST is substituted by VAT. But perhaps the most continuous issue that needs to be resolved that is GST RATE. Most of the countries struggling to rationalize the GST rate.

- c) Similar to India context, Canada have also dual GST. At the time of implementation many rebels at the time of introduction of GST by the then political division in Canada, however, GST sustained despite the opposition. Even to subsistence government of Canada has been pragmatic and worked towards reducing the GST rate a couple of times post-implementation.
- d) By the view of statistic, somewhere GST create inflation, especially when effective rate is higher than the prevailed before. Singapore saw inflation when it was introduced in 1994. it is more than how the administrator keeps tabs on how prices move after imposition of the tax.
- e) In Malaysia when the same extent arises as able to mitigate this risk as a price control on account of the GST was administered by the Ministry of Consumer Affairs.
- f) Another key to Malaysian GST, before the start or implement the new regime the government of Malaysia starts giving 1.5 years preparedness to exited businesses.
- g) In India implementation of GST is quite challenging, because this GST going to change whole or fully previous taxation system, to adopt new regime.
- h) One more learning from the Malaysian government was the release of sector-specific guidance paper(s) this document addressing for "to be practiced" for a particular segment. This document can be introduced by Indian GST regime, to help the businessman until they fully adopt the new taxation system.
- i) As new GST, comes with online taxation policy, it will affect the traditional businessman who does know how to operate a computer or how to access portal sites it is a very challenging process for the normal businessman.
- j) Other problems of IT department have to prepare that type of software it will access easily, and understand by non-technical person easily, it may also be a very challenging process for an IT department that they have to go through normal citizen.
- k) Additionally, in the Indian GST, there may be no exception to little and medium enterprises, this postures amazing charge ahead for SMEs will make primed will invest, perused and change in the same route Concerning illustration whatever extensive scale player, without acknowledging those constrained assets accessible with them.
- l) In Malaysia, the same situation required made it will affect should across the board distress Also anti-. GST road challenges by little & medium organizations clinched alongside Kuala Lumpur few months after the actualizing.

Table 1
Comparison between VAT and service tax

	Value-added tax	Service tax
Meaning	The tax imposed on the sale of a commodity	The tax imposed on render of service
Charged Area	It is put multipoint of time It has accepted in the whole country	It is put a single point of time It has accepted in the whole country except Jammu and Kashmir
Introduced Rates	It was introduced in 2005 The rate is different for different type of product	It was introduced in 1994 The rate is flat for all commodity
Levied by statue	It is imposed by the state government It is governed by VAT act, 2005	It is imposed by the central government It is governed by finance act, 1994

Table 2
Comparison between the present scenario and the upcoming scenario

	Present scenario	Goods and service tax
Tax Rates	There is a different rate for a different function	There is one tax and uniform rate in the whole country
Laws and acts	Today, there have much acts, for the different levy	A there only single act which government the whole indirect policy.

Problems	There is a problem of cascading effect because CST, excise, ET and many taxes in which tax credit facility is not prevail	At every step, there will be a facility of the input tax credit.
Tax burden	The rate of goods become high because of the cascading effect	The rate of goods comparatively less, as the availability of the tax credit
administration	It is levied mainly in two stage 1. Manufacturing 2. Retailing	It will be levied only at the time of consumption
Compliance	Many laws, many burdens	One law, less burden
transparency	It is not transparent and not corruption free transaction Because the actual amount is not reflected	Due to the burden of the last person System become smooth and transparent

3.2 Comparison between GST and Service Tax

Imported Goods

Previously, the custom is subjected to service tax but GST preferred to keep away the customs duty. Hence, there will be custom authority different from GST authority

Exemption

Previously, revision of finance act 2012, there will be a comprehensive approach and the negative list has been provided which signifies the exemption in selected well. But, GST doesn't have an exemption list, for GST all the service are equal, so that exception list doesn't work here.

Group registration

This mainly for reduction the administration cost. This is beneficially for those companies who are exchanging goods and service on a frequent basis. This type of method done for cash flow upgrading. The existing scheme doesn't provide this type of method

Payment of taxes

Previously, tax payment has been done at the time of cash received or if cash not received, liberty of 3 months after the invoice issued.

But in the new policy, there will be 3 type for payment of tax

- At the time when invoice issued
- At the time when any payment received
- At the time when taxable supply has created

After knowing the whole scenario, of Value added tax, service tax, and Goods and service tax,

Now, we can easily compare the whole by this example, and this will show the perfect scenario of GST after implementation in India

Table 3
GST after implementation in India

	Present Scenario		After GST	
	With invoice	Without invoice	With invoice	Without invoice
<u>Manufacturer to distributor</u>				
Sale price of phone	10,000	11,000	10,000	11,000
Add: Excise Duty @ 12%	1,200	-	-	-
Add: VAT @ 4%	448	-	-	-
Add: GST @ 16%	-	-	1,600	-
Final payment	11,648	11,000	11,600	11,000
<u>Distributor to wholesaler</u>				
Sale price of phone	15,000	15,000	15,000	15,000
Add: VAT @ 4%	600	-	-	-
Add: GST @ 16%	-	-	2,400	-
Final Receipt	15,600	15,000	17,400	15,000
<u>Payment of Tax by distributor</u>				
	152	-	800	-
<u>Net profit to distributor</u>				
Sale price	15,600	15,000	17,400	15,000
Less: Purchase cost	11,648	11,000	11,600	11,000
Less: Net tax paid	152	-	800	-
Net profit to distributor	3,800	4,000	5,000	4,000
Final Result				
	Distributor will prefer without invoice		Distributor will prefer with invoice	

By this chart, you will understand today's scenario and upcoming scenario with invoice benefit and losses.

- Note :**
 - in this chart, I will compare GST v/s VAT and excise i.e goods and service tax & value-added tax.
 - Today, there is no decision of GST rate so here I put like 16 %. To equalize the pressure VAT = 4% and excise duty = 12% And
 - last the sale of goods in the state only

Today's scenario with invoice

Any product its manufacturing cost is Rs 10000. As any good produced it will be the part of excise duty which 12% so some good and to sell forward same good it will add total amount which is after duty charge 4% on same good i.e 448

Total = 10,000 + 1,200 + 448 = 11,648

This goodwill cost to the distributor

Now, this good sell to a wholesaler, the wholesaler will cost same good as 15000, on the sale of same good further, it will add vat @4% i.e 600. Now it will cost 15600

Payment to tax distributor = 152 (input tax credit i.e tax paid in this stage – tax paid in previous stage = 600 – 448)

Now the main topic of profit arise in this 2 stages

15600 (last seller price)

-11468 (in which manufacture sell goods to the distributor)

-152 (after getting a tax credit)

= 3800 (profit with invoice)

4. Conclusion

The proposed GST regime is a half-hearted attempt to rationalize the indirect tax structure. More than 150 countries have implemented GST. The government of India should study the GST regime set up by various countries and also their fallouts before implementing it. At the same time, the government should make an attempt to insulate the vast poor population of India against the likely inflation due to the implementation of GST. No doubt, GST will simplify existing indirect tax system and will help to remove inefficiencies created by the existing current heterogeneous taxation system only if there is a clear consensus over issues of threshold limit, revenue rate, and the inclusion of petroleum products, electricity, liquor, and real estate. Until the consensus is reached, the government should desist from implementing such regime. Overall we can conclude that the enumeration of benefits casts a welcome setting for GST. Proving GST as a superior and sufficient system depends upon the structure it is designed into and the manner of implementation. While it serves to be beneficial set up for the Industry and the Consumer, it would lead to an increase in revenue to Government.

Conflict of interest statement and funding sources

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Statement of authorship

The author(s) have a responsibility for the conception and design of the study. The author(s) have approved the final article.


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