ISSN: 0976-3031

Available Online at http://www.recentscientific.com

CODEN: IJRSFP (USA)

International Journal of Recent Scientific Research
Vol. 8, Issue, 11, pp. 21477-21479, November, 2017

International Journal of Recent Scientific Research

DOI: 10.24327/IJRSR

Research Article

ANALYSIS ON GOODS SERVICE TAX

Gurucharan Singh Bagga*

High School Scholar Shiv Jyoti Convent School, Kota

DOI: http://dx.doi.org/10.24327/ijrsr.2017.0811.1082

ARTICLE INFO

Article History:

Received 06th August, 2017
Received in revised form 14th September, 2017
Accepted 23rd October, 2017
Published online 28th November, 2017

Key Words:

Stakeholders, indirect tax, retail, execution, national market

ABSTRACT

GST is one of the most crucial tax reforms in India which has been long pending. It was supposed to be implemented from April 2010, but due to political issues and conflicting interests of various stakeholders it got launched on 30th June of this year. It is a comprehensive tax system that will subsume all indirect taxes of states and central governments and unified economy into a seamless national market. It is expected to iron out wrinkles of existing indirect tax system and play a vital role in growth of India. This paper presents an overview of GST concept, explains its features along with its timeline of implementation in India. The paper is more focused on advantages of GST and challenges faced by India in execution.

INTRODUCTION

Introduction of the Value Added Tax (VAT) the Central and the State level has been considered to be a major step-an important breakthrough-in the sphere of indirect tax reforms in India. If the VAT is a major improvement over the pre-existing Central excise duty a the national level and the sales tax system at the State level, then the Goods and Services Tax (GST) will indeed be a further significant improvement-the next logical step-towards a comprehensive indirect tax reforms the country. Keeping this objective in view, an announcement was made by the then Union Finance Minister in the Central Budget (2007-08) to the effect that GST would be introduced with effect from April 1, 2010 and that the Empowered Committee of State Finance Ministers, on his request, would work with the Central Government to prepare a road map for introduction of GST in India. After this announcement, the Empowered Committee of State Finance Ministers decided to set up a Joint Working Group (May 10, 2007), with the then Adviser to the Union Finance Minister and Member-Secretary of the Empowered Committee as its Co-convenors and concerned four Joint Secretaries of the Department of Revenue of Union Finance Ministry and all Finance Secretaries of the States as its members. This Joint Working Group got itself divided into three Sub-Groups and had several rounds of internal discussions as well as interaction with experts and representatives of Chambers of Commerce & Industry. On the basis of these discussions and interaction, the Sub-Groups submitted their reports which were then integrated and consolidated into the report of Joint Working Group (November 19, 2007). This report was discussed in detail in the meeting of the Empowered Committee on November 28, 2007, and the States were also requested to communicate their observations on the report in writing. On the basis of these discussions in the Empowered Committee and the written observations, certain modifications were considered necessary and were discussed with the Co-convenors and the representatives of the Department of Revenue of Union Finance Ministry. With the modifications duly made, a final version of the views of Empowered Committee on the model and road map for the GST was prepared (April 30, 2008). These views of Empowered Committee were then sent to the Government of India, and the comments of Government of India were received on December 12, 2008. These comments were duly considered by the Empowered Committee (December 16, 2008), and it was decided that a Committee of Principal Secretaries/Secretaries of Finance/Taxation and Commissioners of Trade Taxes of the States would be set up to consider these comments, and submit their views. These views were submitted and were accepted in principle by the Empowered Committee (January 21, 2009). An important interaction has also recently taken place between Shri Pranab Mukherjee, the Union Finance Minister and the Empowered Committee (October 19, 2009) on the related issue of compensation for loss of the States on account of phasing out of CST. The Empowered Committee has now taken a detailed

Corresponding author: **Gurucharan Singh Bagga**
High School Scholar Shiv Jyoti Convent School, Kota

view on the recommendations of the Working Group of officials and other related matters. The GST is likely to change the whole scenario of current indirect tax system. It is considered as biggest tax reform since 1947. In India complicated indirect tax system was followed with imbrications of taxes imposed by union and states separately. GST has unified all the indirect taxes under an umbrella and created a smooth national market. Experts say that GST can help the economy to grow in more efficient manner by improving the tax collection as it will disrupt all the tax barriers between states and integrate country via single tax rate. Most of the countries followed unified GST while some countries like Brazil, Canada follow a dual GST system where tax is imposed by central and state both. In India also dual system of GST is applied including CGST and SGST.

LITERATURE REVIEW

Agogo Mawuli (May 2014)1 studied, "Goods and Service Tax- An Appraisal" and found that GST is not good for low-income countries and does not provide broad based growth to poor countries. If still these countries want to implement GST then the rate of GST should be less than 10% for growth.

Dr. R. Vasanthagopal (2011)2 studied, "GST in India: A Big Leap in the Indirect Taxation System" and concluded that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy. Success of GST will lead to its acceptance by more than 130 countries in world and a new preferred form of indirect tax system in Asia also.

Ehtisham Ahmed and Satya Poddar (2009)3 studied, "Goods and Service Tax Reforms and Intergovernmental Consideration in India" and found that GST introduction will provide simplier and transparent tax system with increase in output and productivity of economy in India. But the benefits of GST are critically dependent on rational design of GST.

Nitin Kumar (2014)6 studied, "Goods and Service Tax- A Way Forward" and concluded that implementation of GST in India help in removing economic distortion by current indirect tax system and expected to encourage unbiased tax structure which is indifferent to geographical locations.

Pinki, Supriya Kamma and Richa Verma (July 2014)7 studied, "Goods and Service Tax- Panacea For Indirect Tax System in India" and concluded that the new NDA government in India is positive towards implementation of GST and it is beneficial for central government, state government and as well as for consumers in long run if its implementation is backed by strong IT infrastructure.

Case Study

Say a shirt manufacturer pays Rs. 100 to buy raw materials. If the rate of taxes is set at 10%, and there is no profit or loss involved, then he has to pay Rs. 10 as tax. So, the final cost of the shirt now becomes Rs (100+10=) 110.

At the next stage, the wholesaler buys the shirt from the manufacturer at Rs. 110, and adds labels to it. When he is adding labels, he is adding value. Therefore, his cost increases by say Rs. 40. On top of this, he has to pay a 10% tax, and the final cost therefore becomes Rs. (110+40=) 150 + 10% tax = Rs. 165.

Now, the retailer pays Rs. 165 to buy the shirt from the wholesaler because the tax liability had passed on to him. He has to package the shirt, and when he does that, he is adding value again. This time, let's say his value add is Rs. 30. Now when he sells the shirt, he adds this value (plus the VAT he has to pay the government) to the final cost. So, the cost of the shirt becomes Rs. 214.5 Let us see a breakup for this:

Cost = Rs. 165 + Value add = Rs. 30 + 10% tax = Rs. 195 + Rs. 19.5 = Rs. 214.5

So, the customer pays Rs. 214.5 for a shirt the cost price of which was basically only Rs. 170 (Rs 110 + Rs. 40 + Rs. 30). Along the way the tax liability was passed on at every stage of transaction and the final liability comes to rest with the customer. This is called the Cascading Effect of Taxes where a tax is paid on tax and the value of the item keeps increasing every time this happens.

Action	Cost	10% Tax	Total
Buys Raw Material @ 100	100	10	110
Manufactures @ 40	150	15	165
Adds value @ 30	195	19.5	214.5
Total	170	44.5	214.5

In the case of Goods and Services Tax, there is a way to claim credit for tax paid in acquiring input. What happens in this case is, the individual who has paid a tax already can claim credit for this tax when he submits his taxes.

In our example, when the wholesaler buys from the manufacturer, he pays a 10% tax on his cost price because the liability has been passed on to him. Then he adds value of Rs. 40 on his cost price of Rs. 100 and this brings up his cost to Rs. 140. Now he has to pay 10% of this price to the government as tax. But he has already paid one tax to the manufacturer. So, this time what he does is, instead of paying Rs (10% of 140=) 14 to the government as tax, he subtracts the amount he has paid already. So, he deducts the Rs. 10 he paid on his purchase from his new liability of Rs. 14, and pays only Rs. 4 to the government. So, the Rs. 10 becomes his input credit.

When he pays Rs. 4 to the government, he can pass on its liability to the retailer. So, the retailer pays Rs. (140+14=) 154 to him to buy the shirt. At the next stage, the retailer adds value of Rs. 30 to his cost price and has to pay a 10% tax on it to the government. When he adds value, his price becomes Rs. 170. Now, if he had to pay 10% tax on it, he would pass on the liability to the customer. But he already has input credit because he has paid Rs.14 to the wholesaler as the latter's tax. So, now he reduces Rs. 14 from his tax liability of Rs. (10% of 170=) 17 and has to pay only Rs. 3 to the government. And therefore, he can now sell the shirt for Rs. (140+30+17) 187 to the customer.

Action	Cost	10% Tax	Actual Liability	Total
Buys Raw Material	100	10	10	110
Manufactures @ 40	140	14	4	154
Adds Value @ 30	170	17	3	187
Total	170		17	187

In the end, every time an individual was able to claim input tax credit, the sale price for him reduced and the cost price for the person buying his product reduced because of a lower tax liability. The final value of the shirt also therefore reduced from Rs. 214.5 to Rs. 187, thus reducing the tax burden on the final customer.

So essentially, Goods & Services Tax is going to have a two-pronged benefit. One, it will reduce the cascading effect of taxes, and second, by allowing input tax credit, it will reduce the burden of taxes and, hopefully, prices.

CONCLUSION

The idea behind having one consolidated indirect tax to subsume multiple currently existing indirect taxes is to benefit the Indian economy. It will help the country's businesses gain a level playing field. It will put us on par with foreign nations who have a more structured tax system. It will also translate into gains for the end consumer who not have to pay cascading taxes any more. There will now be a single tax on goods and services

In addition to the above, The Goods and Services Tax Law aims at streamlining the indirect taxation regime. As mentioned above, GST will subsume all indirect taxes levied on goods and service, including State and Central level taxes. The GST mechanism is advancement on the VAT system, the idea being that a unified GST Law will create a seamless nationwide market. It is also expected that Goods and Services Tax will improve the collection of taxes as well as boost the development of Indian economy by removing the indirect tax barriers between states and integrating the country through a uniform tax rate.

REFRENCES

1. Agogo Mawuli (2014): "Goods and Service Tax- An Appraisal" Paper presented at the the PNG Taxation Research and Review Symposium, Holiday Inn, Port Moresby, 29-30.
2. Dr. R. Vasanthagopal (2011), "GST in India: A Big Leap in the Indirect Taxation System", *International Journal of Trade, Economics and Finance*, Vol. 2, No. 2, April 2011.
3. Ehtisham Ahamad and Satya Poddar(2009), "Goods and Service Tax Reforms and Intergovernmental Consideration in India", "Asia Research Center",LSE,2009.
4. Girish Garg, (2014),"Basic Concepts and Features of Good and Service Tax in India".
5. https://en.wikipedia.org/wiki/Goods_and_Services_Tax_(India)_Bill
6. Nitin Kumar (2014), "Goods and Service Tax in India-A Way Forward", "*Global Journal of Multidisciplinary Studies*", Vol 3, Issue6, May 2014.
7. Pinki, Supriya Kamna, Richa Verma(2014), "Good and Service Tax-Panacea For Indirect Tax System In India", "*Tactful Management Research Journal*",Vol2, Issue 10, July2014
8. www.gstindia.com/basics-of-gst-implementation-in-india/
9. wwww.prsindia.org/billtrack/the-constitution-122nd-amendment-gst-bill-2014-3505/
10. wwww.taxguru.in/goods-and-service-tax/goods-service-tax-gst-2.html
11. wwww.thehindu.com/bussiness/industry/ten-things-to-know-about-gst-bill/article7137615.ece
12. www.top10wala.in/facts-about-gst-india-advantages/

How to cite this article:

Gurucharan Singh Bagga.2017, Analysis on Goods Service Tax. *Int J Recent Sci Res.* 8(11), pp. 21477-21479.
DOI: http://dx.doi.org/10.24327/ijrsr.2017.0811.1082

****