



Short Study of New Changes in Indirect Taxation System in India Because Of GST Act -2017

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Before central government and state government was levied many indirect tax in previous taxation systems. A developing economy like India necessities sufficient resources to finance the developmental activities that are comprehensively and achieves all levels of the society and most of the finances from taxation. Presently, the tax structure of our country is very complex. To overcome these complexities of our taxation system, the government constantly changing the taxation system to rationalize tax administration and generate more revenues for social protection, infrastructure, and several other developmental activities. That's the main reason, the government to implement or move towards the GST is an indicator of our evolved taxation system. After passing the 101st Constitutional Amendment (GST) Act, the highly anticipated tax products GST appears to be an actuality on 1st July 2017. To ensure a smooth transition, government and all related nodal agencies like Goods and Services Tax Council, GSTN etc., have been regularly making decision to resolve the problems encountered being at different levels. To simplify the difficulties faced by indirect taxation system and create a common taxation system throughout the nation and decreasing the barriers between states, the dual structure Goods and Service Tax (GST) was passed by parliament. This system has a uniform rate of tax for all the states. This paper is designed specifically to provide an in-depth knowledge of GST and what challenges the economy faces in implementing the GST at this time in a very practical and streamlined manner.

Objectives of the study :

The main specific objectives of the paper is follows

- i. To study the concept of GST.
- ii. To understand the salient features of Goods and Services Tax and challenges in implementing GST.
- iii. To know the impact of GST on Indian Economy and challenges.

Research Methodology:

The study is based on the secondary sources that are from various online sources, government official websites, repeated journal articles, related to GST.



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Concept of GST:

The previous structure of Indirect Taxes is very complex. Introduction of a GST is to replace the existing multiple taxation system into a single taxation system of both center and states. There are several indirect taxations collected by both center and state government. We pay VAT and service tax when purchasing any goods and receiving any service and there are also several taxes collected by both central and state like Excise duties, Import Duties, Luxury Tax, Central Sales Tax etc. In 1954, France is the first country implemented GST in their taxation system and later the concept of GST was spread internationally. Currently, more than 160 countries will have adopted the GST concept into their taxation system. In India, due to non-consensus between central and state government, the Empowered Committee of the State Finance Ministers on 10.11.2009, had been made clear that there would be a "Dual GST" in India, taxation power – both by the Centre and the State to levy the taxes on the Goods and Services. The proposal is to introduce a Dual GST regime i.e. Central and State GST. Only Brazil and Canada have dual GST model (Just like India is going to implement Dual GST Model). A dual GST is proposed whereby a Central Goods and Services Tax (CGST) and State Goods and Services Tax (SGST) will be levied on the taxable value of every transaction of supply of goods and services. GST was first introduced during the 2007-08 budget session. On 17th December 2014, the current Union Cabinet ministry approved the proposal for introduction GST Constitutional Amendment Bill. On 19th of December 2014, the bill was presented on GST in Lok Sabha. The current central government is very determined to implement GST Constitutional Amendment Bill. GST is a tax reform, the implementation of GST is going to impact every sphere of business activity and economy in the face of increasing international competition consequent to globalization and liberalization, The implementation of GST have several impact on different business activities and also the different areas of the economy, like supply chain, IT, logistics, pricing, margins, working capital, Manufacturing Industry, Factors of Production, Employment, MSME, Exim trade, housing, Poverty Reduction, GDP, government revenue, and agriculture etc. as a number of business decisions taken based on the current tax structure may no longer be relevant in the new GST regime. The current section is again divided into several subsections like.

Impact of GST on Businesses Sourcing:

Sourcing:

GST is likely to have a positive impact on Inter-state procurement. Manufacturers get the choice of consolidating supplies from vendors; Additional Duty/CVD and Special Additional Duty components of Customs Duty to be subsumed.

Distribution:

The new regime has allowed consolidation and optimization of warehouses; Current arrangements for distribution of finished goods to change; Current network structure and product flows may need review and possible alteration because of removal of Excise Duty.



Pricing and profitability:

Tax changes resulting from the GST structure had led to reprising of Products resulting in both way changes; Margins or price mark-ups would also need to be re-examined.

Cash flow:

Removal of the concept of Excise Duty on manufacturing can result in improvement in cash flows and inventory costs as GST would now be paid at the time of sale/supply rather than at the time or removal of goods from the factory.

Changes in system and transaction management:

Potential changes to accounting and IT systems in areas of master data, supply chain transactions, system design is required to be done; Existing open transactions and balances as on the cut-off date need to be migrated for ensuring smooth transition to GST; Changes to supply chain reports, other tax reports and forms (e.g., invoices, purchase orders) need review; Appropriate measures like training of employees, compliance under GST, customer education and tracking of inventory credit are needed to ensure smooth transition to the GST regime.

Positive Effects of GST on Service Sector:

- 1) No double taxation: This was one thing that has affected many service providers. In the previous system of taxation, the works contract was complex. Here, the transfer of goods is a part of the service contract which means that every invoice has the value of goods used as well as the services supplied. These two attract a tax rate of 70% each bringing the total to 140% which is very high. With the implementation of GST, these two are considered to be one and thus taxed as 'supply of service.'
- 2) More Clarity for Software Industry: For companies that sell online software, it was not clear whether to apply VAT or Service Tax on the product. In GST regime, there is a clear demarcation between products and services which will remove the confusion for service industry.
- 3) Repairs and maintenance: The service providers that provide repair and maintenance services to companies will be able to claim both the credit of input and credit of input services as provided by the GST system. The current regime only offers the credit of input services which is a bit limiting. Now that they can claim both of the credit of input and credit of input services, they can offer their repair and maintenance services at lower prices and thereby attracting more clients.
- 4) Access to inputs held in stock: The service providers will access CENVAT credit of input that is held in stocks. This is best used when a person is moving from one category of taxation to the next like exemption category to the taxable one.



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5) Equality in all states: The previous taxation system did not cover Jammu and Kashmir. Which presented a disadvantage to other places in India because taxation provisions. However, GST now covers the whole land bringing all service sectors under the same taxation laws.

Negative Impacts of GST on Service Sector:

1) Lack of a centralized registration: With the previous taxation system, many service providers rejoiced over being able to register all their businesses in different areas from a central place. However, this privilege has been taken away. Now, they are required to register their businesses in the respective state and pay the CGST tax.

2) Taxation for free services: Business supplying services for free still had to get taxed for it. Every supply that is made without consideration is taxed.

3) Increased cost of service to end consumer: Because the rate of taxation is higher in the GST system, the end consumer will also feel a pinch of extra expenditure. The taxation is between 18% and 20%. Because this rate is high, the cost of service will be higher.

4) Lack of a centralized system of accounting: Every business in every state need to have their accounting records because there is no centralized registration of businesses. Every business in every state is financially accountable to that state for taxation resulting in separate accounts of the business to be prepared.

5) The burden of public education: The business owner is charged with the responsibility of educating the masses on the benefits of this GST system. Failure of which may lead to unprecedented events.

Conclusions:

Tax policies play an important role on the economy because of their impact on efficiency and equity. A good tax system should keep in view issues of income distribution and, at the same time, also endeavor to generate tax revenues for supporting government expenditure on public services and infrastructure development. The ongoing tax reforms on moving to goods and services tax would affect the national economy, International trade, firms and the consumers. There has been a good deal of criticism as well as appraisal of the proposed Goods and Services Tax regime. It is considered to be a major improvement over the pre-existing central excise duty at the national level and the sales tax system at the state level, the new tax will be further significant breakthrough and the next logical step towards a comprehensive indirect tax reform in the country. GST is not simply VAT plus service tax, but a major improvement over the previous system of VAT and disjointed services tax – a justified step forward. Due to unstable environment of Indian economy, it is demand of time to implement GST. Consumption and productions of goods and services is undoubtedly increasing and because of multiplicity of taxes in current tax regime administration complexities and compliance cost is also accelerating. Thus, a simplify user -friendly and transparent tax system is required which can be fulfilled by implementation of GST. GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. GST is leviable on all supply of goods and provision



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of services as well combination thereof. All sectors of economy whether the industry, business including Govt. departments and service sector shall have to bear impact of GST. All sections of economy viz., big, medium, small scale units, intermediaries, importers, exporters, traders, professionals and consumers shall be directly affected by GST. The insurance industry is also not going to remain unaffected from its impact. It will certainly going to have an impact on the insurance industry as well as policyholders. Typically, policyholder's pay service tax on the risk element of the premium component whereas the investment element of the policies is usually out of the service tax scope. With the implementation of the GST, insurance policies including life, health and motor will all be costlier Insurers need to ensure that their GST implementation plan achieves the key objectives of zero business disruption and 100% compliance. One of the critical success factors for a business to smoothly transition into the GST regime would be process-readiness and technology-readiness to take on not only higher compliances, but also transaction-level reporting — a novel concept in the prevalent indirect tax regimes. Gearing up to ensure that all transactions are appropriately mapped and measured would be essential. The GST regime is likely to throw up interesting opportunities and challenges for insurers. They need to consider GST as a business transformation lever to strengthen their present business processes, identify opportunities and have a first mover advantage.

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