

# Goods & Service Tax – Welcome step for development of Economy

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**ABSTRACT** - After independence we have initiated the first step towards the revolutionary measures for improvement in Indirect Taxes. The said Act is well discussed before its application, in both the houses of the Parliament. In fact the Goods and Services Tax is value added tax. This will provide returns to the final seller and distributor of goods and service as it is charged on each of the stage of the distribution. This will have an impact on documents as everyone will have to maintain the details of goods sold at each stage of sales. The provisions relating to tax criterion and amount should be made easy and tax friendly. The amount of tax and its due date should be defined properly. The proposed Law (Act) has not clearly defined the concept of supply. The taxable amount has been limited just to Rs.10 lakh which is very low must be amended. It is also essential to define the tax liability State wise also.

**Key words:** *GST, Critical & troublesome. Diversified, value added tax, input credits, cascading effect, unhealthy competition, tax base.*

## I. INTRODUCTION

After independence we have initiated the first step towards the revolutionary measures for improvement in Indirect Taxes. The said Act is well discussed before its application, in both the houses of the Parliament. Presently the tax (both direct and indirect) revenue is Rs.14.6 lakh crores out of which indirect tax contribution is 34% of which Rs.1 lakh crore are from Service Tax revenue.

This rate of service tax is subject to change after the implementation of GST. The proposed Act is already delayed in India. Many countries have already adopted this tax system. As per primary estimation the extra revenue of Rs. One lakh crore is expected by the implementation of GST. This will generate new investment and will increase employment opportunity. We have to rethink regarding the transaction system in existence. Some provisions in this Act may be critical & troublesome.

The Indian Society is diversified at the same time we have three tier Tax collecting Government authorities. Central Government State Government and local Government bodies. The Government tries to satisfy their revenue needs from tax revenue. It is not possible to collect tax individually, accordingly the Indirect Taxes are thought over. The tax responsibilities lie with industrialists, traders and businessmen. These are indirect taxes. As per the constitution Central Govt. charge production tax, Excise,

Service Tax, State Government charges sales tax, luxury tax, and entertainment tax.

The rules are different for every State regarding levy of such taxes, even the tax rate differs. So present Govt. has given the slogan of 'one country, one tax' (Ek Desh, Ek Kar). The tax is levied on goods as well as services in indirect tax system. The Central and State Govt. are charging the taxes. Accordingly the share of tax which is accumulated/collected by Central Government is not shared by State and the revenue collected by the State Government is not shared by Centre. But it results in high prices of goods and services both.

This has resulted in a tendency of competition of the transactions without paying tax. So GST has been introduced as one of the measures of solution to the problem of nonpayment of tax on goods and services. Presently there is a conflict going on between state and centre governments for sharing of tax collected.

## II. WHAT IS GST?

In fact the Goods and Services Tax is value added tax. This will provide returns to the final seller and distributor of goods and service as it is charged on each of the stage of the distribution. This will have an impact on documents as everyone will have to maintain the details of goods sold at each stage of sales. The documentation will be important as no one can claim returns if there is no authentic proof of sales or payment of tax. This will result in control on unrecorded sales and will curtail the unaccounted money.

Some of the products like petroleum products, entertainment and amusement tax levied and collected by panchayat /municipality/district council, tax on alcohol/ liquor, stamp and customs duty, Tax on consumption and sale of electricity are not coming under the GST purview.

## III. OBJECTIVES OF GST

1. Ensuring availability of input credits across the value chain.
2. Minimizing cascading effect of Taxation.
3. Simplification of tax administration and compliance.
4. Harmonization of tax base, laws and administration procedure across the country.
5. Minimizing the tax rate slabs to avoid classification issues.
6. Prevention of unhealthy competition among states.
7. Increasing the tax base and raising compliance.

The objectives of GST is no doubt the step forward for development of economy however the implementation

challenges such as lack of adoption, lack of trained staff, increase in compliance cost due to double registration, lack of mechanism to control tax evasion and the difficulty. In measurement of impact of GST are some of the implementing hazards which may make the objectives failure and cannot reveal the desired effect on economy. However this does not mean that entire aspect of GST be stopped from implementation. A significant portion (35 to 40 percent) of Goods (majority agriculture products) is not subject to tax and we expect the status quo in future.

#### **Increase In the Tax base –**

GST will increase tax base (expansion of tax base). Rate of tax and tax base together will calculate ascertain the revenue through tax. (Tax rate x tax base) If Government has to increase revenue from tax they have option like:

- (a) To increase tax rate
- (b) To expand the base
- (c) To increase both tax rate and tax base.

While taking any decision the principle of paying capacity, demand to Goods and Services, willingness to purchase should not be disturbed as it will work adversely on economy and revenue may decrease so best possible alternative is to expand tax base.

GST system will help in this aspect only. Till this date the revenue from services, even then service revenue contribute large amount in Indian economy does not come under tax purview. In Maharashtra the Revenue from services is almost 60% but excluded from tax purview.

After liberalization service sector is in boom condition. The margin between service and goods is declining considerably. So the tax base was much narrow till date in Indian economy. Accordingly the services along with goods are being brought under the purview of taxation through GST. Presently the states are charging tax on Goods at their own rates, so in national on the single goods different tax rates are prevailing. So the manufacturer has to notice various tax rates on his production for various state in the country.

This needs to be managed properly. The diversification in tax rates results in the competitiveness of the business houses accordingly it was a need to develop a system that would help the businessmen to generate the strength and competitiveness to sustain in market for the longer time. GST will help generate the competitive awareness, cost of product with equal tax revenue to all. This GST system will further make the business sector organized and disciplined.

The development of economy and the increase in tax revenue is not a simple task. We are to work sincerely and efficiently to attain the benefits of the GST.

The provisions in proposed law of GST have been opposed on following grounds:

1. Complex provisions relating to tax criteria and Amount of Tax.
2. Tax Rate related to Goods and Services
3. Definition of the concept 'supply'.
4. Limit of taxable sales for business.
5. Credit of GST on purchases.

The provisions relating to tax criterion and amount should be made easy and tax friendly. The amount of tax and its due date should be defined properly. The proposed Law (Act) has not clearly defined the concept of supply. The taxable amount has been limited just to Rs.10 lakh which is very low must be amended. It is also essential to define the tax liability State wise also.

#### **Points against application of GST**

Some of the economists oppose the implementation of GST on following grounds:

1. **Rise in the rate of inflation:** Some economists put forth the view that there is possibility of increase in inflation due to implementation of the GST. The contribution of agriculture in national economy is 17% and 25% from industrial sector and 14% from service sector. Presently service tax is 14% and if the surcharge is increased then it will result in increase in inflation. The common man will have to face this difficulty. Before actual implementation of GST one cannot predict its +ve or -ve effects on the Indian economy.

2. **Submission of statements and complex procedure:** The main condition is to submit the statements in detail. Yearly about 37 statements are to be provided to government which is tedious and complex process. There is a need of simplicity in this process.

3. **Inter State Transactions:** The service tax will go to the state where consumption is being carried out. This will be injustice on the part of the state where manufacturing is carried out. The State where manufacturing is carried out provides their resources and deprived off from revenue.

GST will have inclusion of the Central excise duty tax, service tax, custom duty and seven relevant taxes. This will also include value added Tax, entertainment tax, central sales tax, excise duty and purchase tax, and luxury tax. Thus it can be concluded that:

- 1) GST is the revolutionary step in development of economy.
- 2) The tax revenue mix can change as per the economic condition of the country. In developing countries, indirect tax comprises a higher share of total taxes. In developed countries, their contribution is significantly lower.
- 3) With the implementation of GST a moderate increase in cost of financial services such as loan processing fees, debit/credit card charges, insurance premium is expected.
- 4) Because of taxes on input services will increase the operating expenses such as rent, legal and professional fees, advertisement, insurance, telecommunication and other expenses will also increase marginally.

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