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## **Advantages & Limitations of GST on Indian Economy**

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### **Abstract-**

India is a developing country in the world. Indian government has to play an important role in the all-round development of society in the modern system. It has not only to perform its traditional functions but also to undertake welfare and development activities such as health, education, sanitation, rural development, water supply etc. All these functions require huge public finance. Taxes constitute the main source of public finance whereby government raises revenue for public spending. Taxes had been broadly categorized into direct and indirect taxes. GST has been one of the most crucial tax reforms in India's indirect tax structure. It was supposed to be implemented from April 2010, but it is implemented on 1 July 2017. The GST of India has altered the entire scenario of the former indirect tax system in India. It is considered as the biggest tax reform since 1947.

### **Introduction**

India is a developing country in the world. Indian government has to play an important role in the all-round development of society in the modern system. It has not only to perform its traditional functions but also to undertake welfare and development activities such as health, education, sanitation, rural development, water supply etc. All these functions require huge public finance. Taxes constitute the main source of public finance whereby government raises revenue for public spending. Taxes had been broadly categorized into direct and indirect taxes. GST has been one of the most crucial tax reforms in India's indirect tax structure. It was supposed to be implemented from April 2010, but it is implemented on 1 July 2017. The GST of India has altered the entire scenario of the former indirect tax system in India. It is considered as the biggest tax reform since 1947.

The Goods and Services Tax Bill or GST Bill, also referred to as The Constitution Bill, 2014, initiates a Value added Tax to be implemented on a national level in India. GST will be an indirect tax at all the stages of production to bring about uniformity in the system. 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. At the consumer level, GST would reduce the overall tax burden, which is currently estimated at 25-30%. Under this system, the consumer pays the final tax but an efficient input tax credit system ensures that there is no cascading of taxes- tax on tax paid on inputs that go into manufacture of goods. In order to avoid the payment of multiple taxes such as excise duty and service tax at Central level and VAT at the State level, GST would unify these taxes and create a uniform market throughout the country. Integration of various taxes into a GST system will bring about an effective cross-utilization of credits. The current system taxes production, whereas the GST will aim to tax consumption.

**Advantages of GST to the Indian Economy:**

- 1. GST eliminates the cascading effect of tax**
- 2. Higher threshold for registration**
- 3. Composition scheme for small businesses**
- 4. Simple and easy online procedure.**
- 5. The number of compliances is lesser**
- 6. Defined treatment for E-commerce operators**
- 7. Improved efficiency of logistics**
- 8. Unorganized sector is regulated under GST**

**Limitations of GST:**

**GST Compliance**

SMEs are still not completely aware of the nuances of the new tax regime. Changing over to a completely new system of taxation requires understanding of the minutiae, which businesses lack right now. Most of them are worried about filing timely returns, but it is important to note that even before businesses can reach the filing stage they have to issue GST-compliant invoices. For a traditionally pen-and-paper economy like India, this change to digital record-keeping is going to be massive. Invoices after 1st July will need to be GST-compliant with all details such as GSTIN, place of supply, HSN code etc. as mandated by the law.

### **Increase in Operating Costs**

Most small businesses in India do not employ tax professionals, and have traditionally preferred to pay taxes and file returns on their own to save costs. However, they will require professional assistance to become GST compliant as it is a completely new system. While this will benefit the professionals, the small businesses will have to bear the additional cost of hiring experts.

Also, businesses will need to train their employees in GST compliance, further increasing their overhead expenses.

### **Policy Change**

During the Middle of the Year

GST will go live three months into the financial year 2017-18. So, for FY 2017-18, business will follow the old tax structure for the first 3 months, and GST for the rest of the time. It is impossible to cross over from one tax structure to the other in just a day, and hence businesses will end up running both tax systems in parallel, which might result in confusion and compliance issues.

### **Online Procedure**

GST compliance, return filing and payments all have to be done online. Many small businesses are not tech-savvy and do not have the resources for fully computerized compliance. Even as the rest of the nation gets ready to go digital, businesses in small cities across India face a huge technology problem in the days ahead.

Cloud-based software like the Clear Tax GST software could be an answer to this problem. This does not require any downloads, and the process for return filing on Clear Tax GST is very simple. Business owners need only upload their invoices, and the software will populate the return forms automatically with the information from the invoices. Any errors in invoices will be clearly identified by the software in real-time thus increasing efficiency and timeliness.

### **Higher Tax Burden for Manufacturing SMEs**

Small businesses in the manufacturing sector will not have it easy in the GST regime. Under the excise laws, only manufacturing business with a turnover exceeding Rs. 1.50 crores had to pay excise duty. Whereas, under GST the turnover limit has been reduced to Rs. 20 lakh, thus increasing the tax burden for many manufacturing SMEs. However, SMEs with a turnover of upto 75 lakhs can opt for the composition scheme and pay only 1% tax on turnover in lieu of GST and enjoy lesser compliances. The catch though is these businesses will then not be able to

claim any input tax credit. The decision to choose between higher taxes or the composition scheme (and thereby no ITC) will be a tough one for many SMEs.

#### **No Clarity on Tax Holidays**

Many manufacturers (textile, pharmaceutical, FMCG industries) enjoy tax holidays and state benefit schemes. There is still no notification regarding these benefits. This will mean increased costs for these industries, which will probably be passed on to the end consumers.

#### **Disruption to Business**

Cloth merchants (unorganized) are going on strike to protest against GST. Eateries and drug shops in Chennai are also threatening to protest the regime change – and this is only the tip of the iceberg. In the coming days, we can expect to see more of these protests happening across the country and these will undoubtedly disrupt business. If there's any solace, it's in knowing that other countries who implemented GST never had it easy either. Malaysia recently introduced GST in 2014 and faced nationwide strikes and protests. How the Indian government will handle these events is left to be seen.

#### **CONCLUSION**

Change is definitely never easy. The government is trying to smoothen the road to GST. It is important to take a leaf from global economies that have implemented GST before us, and who overcame the teething troubles to experience the advantages of having a unified tax system and easy input credits. The key is to be GST-compliant at any time. We at Clear Tax have an All-in-one GST kit specially designed for CAs.

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