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Pros & Cons of GST (Goods & Service Tax)

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Abstract-

GST also known as the Goods and Services Tax is defined as the giant indirect tax structures designed to support and enhance the economic growth of a country. The Goods and Service Tax Act was passed in the Parliament on 29th March 2017 & it's implemented from 1st July 2017. 150 plus countries have implemented GST so far. GST is beginning of a new regime as **“One Nation One Tax”**, the revolutionary steps in the domain of indirect taxes in the country after seventy years of independence. GST will simplify indirect taxation, reduce complexities, and remove the cascading effect. Experts believe that it will have a huge impact on businesses both big and small, and change the way the economy functions. Because it will narrow economic distance between producers and consumers as it will be imposed only value addition. The dream of one country, one act and one tax will be observed. It is expected that, it will help to improve the productivity in the country as well as will be benefited to the consumers, as maximum rate of GST is predetermined.

Introduction-

Tax policies play an important role on the economy through their impact on both 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 to support government expenditure on public services and infrastructure development.

The GST is a important taxation structure for the economic growth of the country. GST is levied on manufacturing, sale and consumption of goods and services at a national level. Under the GST scheme, no distinction is made between goods and services for levying of tax. In other words, goods and services attract the same rate of tax. GST is a multi-tier tax where ultimate burden of tax fall on the consumer of goods/ services. It is called as value added tax because at every stage, tax is being paid on the value addition. Under the GST scheme, a person who was liable to pay tax on his output, whether for provision of service or sale of goods, is entitled to get input tax credit on the tax paid on its inputs

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at the same time, also endeavor to generate tax revenues to support government expenditure on public services and infrastructure development. Cascading tax revenues have differential impacts on firms in the economy with relatively high burden on those not getting full offsets. Analysis of the tax levy can be extended to international competitiveness of the adversely affected sectors of production in the economy. Such domestic and international factors lead to inefficient allocation of productive resources in the economy. This results in loss of income and welfare of the affected economy.

Under this scheme, the customer 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.

Definition of Goods and Service Tax:

“New Article 366(12A) of the Indian Constitution defines Goods and Services Tax (GST) to mean any tax on supply of goods or services or both except taxes on the supply of the alcoholic liquor for human consumption.”

Salient features

- It would be applicable to all transactions of goods and service.
- It is to be paid to the accounts of the Centre and the States separately.
- The rules for taking and utilization of credit for the Central GST and the State GST would be aligned.
- Cross utilization of ITC between the central GST and the state GST would not be allowed except in the case of interstate supply of goods.
- The taxpayer would need to submit common format for periodical returns, to both the Central and to the concerned State GST authorities.
- Each taxpayer would be allotted a PAN-linked taxpayer identification number with a total of 13/15 digits.

GST Tax Slabs in India

Multi-tiered system

Tax rate	Indicative items
5%	50% of the consumer price basket, including foodgrains
6%	Mass consumption items like spices and mustard oil
12%	Processed foods
18%	Soaps, oil, toothpaste, refrigerator, smartphones
28%	White goods, cars
28% plus cess	Luxury cars, pan masala, tobacco, aerated drinks

Advantages of GST-

- 1) **Transparency and Less Corruption** – GST reduces various indirect taxes running in the current regime, which will make the process of tax collection transparent and easy.

Moreover, the retailer would not be able to make sales without the bill hence the cases of income tax evasion will also reduce a lot.

2) Simplicity at its Best – Goods and Service Tax (GST) will replace the existing form of indirect tax in the nation. It will prove a substitute for the 17 indirect laws pertaining to the nation and will subsidize it with the new GST Tax. That shall come across as a simpler term to envision.

3) Boosting of Revenue – Such simpler term of taxation will make more suppliers in a mood to pay the tax amount which in turn marks the boost in revenue levels.

4) Boost to GDP – The GST would have a positive impact on GDP of the country and the GDP of the country will increase by the country. This is surely a great help to the targets set by Modi Government.

5) Reduce the Cost- GST reduces the transaction costs of doing business, which improve the competitiveness for the trade and industry.

6) Quite an Investment Boost – By implementing GST, inflation will be under control. As is the norm with the current tax laws in India, there isn't any input on capital goods. But with the new GST Tax laws, one can avail input tax credit on the capital goods. And its affect to increase the investment at nation.

7) Avoiding the Trade Barriers- By making a common market, it will remove the state trade barrier. GST will reduce operational costs, prices of production or services that will directly benefit the consumers.

8) Standardization – Many countries follow a GST Tax regime and the new tax will make it easy for everyone to understand the bill. People have already started verifying the bills at restaurants and other retail outlets for the right tax. Earlier, there were many cases of people being charged inappropriately and this has ended with GST.

9) Reduces average tax burdens: Under GST mechanism, the cost of tax that consumers have to bear will be certain and it is expected that GST would reduce the average tax burdens on the consumers.

Disadvantages of GST-

1) According to the proposal of the GST Tax, the control on business will be rendered to Central and State Governments with businessmen binding by-laws. As such complexity may arise for many businessmen across the nation.

2) For GST, service tends to be more expensive. People might hesitate to adapt the change for new tax system.

3) GST has also had an impact on discount and reward programs as well. The product is being taxed on the rates pre-discount whereas the products were earlier taxed at post discount prices. Most of the companies have also suspended reward programs for temporary basis because of complexities of GST. So businessmen will have to change their strategy.

4) For manufacturing state, there will be a loss of revenue. GST may have a negative impact on retail market.

5) As per GST, the seller would require registering in all the states that it does business in and that would increase the complexity for the seller. The government should have created a provision for centralized registration of State GST as this would have helped many sellers during the roll out.

6) GST, implementation tax burden will be higher for Small businesses in the manufacturing sectors. As well as Inflation may increases at initially level.

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