International Journal of Financial Management and Economics 2023; 6(1): 166-170

International Journal of Financial Management and Economics

P-ISSN: 2617-9210
E-ISSN: 2617-9229
IJFME 2023; 6(1): 166-170
www.theeconomicsjournal.com
Received: 11-02-2023
Accepted: 16-03-2023

Tabassum
Department of Commerce, Aligarh Muslim University, Aligarh, Uttar Pradesh, India

Mohd Izhar Ul Islam
Department of Business Administration, Faculty of Management Studies and Research, Aligarh Muslim University, Aligarh Muslim University, Aligarh, Uttar Pradesh, India

Mohammad Danish
Centre for Distance and Online Education, Aligarh Muslim University, Aligarh, Uttar Pradesh, India

Corresponding Author:
Tabassum
Department of Commerce, Aligarh Muslim University, Aligarh, Uttar Pradesh, India

Reviving India's economy through Goods and Services Tax (GST): A conceptual study

Tabassum, Mohd Izhar Ul Islam and Mohammad Danish

DOI: https://doi.org/10.33545/26179210.2023.v6.i1.189

Abstract
GST is a game changer for its far-sweeping impact on businesses and end-consumers. Manufacturers, traders and service providers across India have been placed under one unified tax umbrella. They no longer need to work with a tedious array of distinct types of taxes they were previously required to comply with. Despite many of its advantages in the current ongoing scenario, the end consumer needs to improve in price hiking in basic amenities. The bill was brought to implement one tax in the country but resulted in the most significant drawback and a deadly weapon for the poor and middlemen of the country. The current picture of GST is not as rosy as it was portrayed. The code of conduct on which GST works, i.e. One Tax, One Nation, One Market, is not fit and suitable for India as the GST regime could not attain the objective of implementing the single tax system in India. This paper will assist in showing the flaws and adverse effects of GST on the economy of India. This paper presents an overview on the problem of cascading effect of the former multistage tax structure and the basic concept of GST and its benefits as well as drawbacks.

Keywords: GST, Goods and Services Tax, cascading effect, drawbacks and flaws

1. Introduction

There's no denying that yield from indirect taxes is the bedrock of the government's revenue. Indirect taxation consists of all those taxes which are indirectly collected from the consumers on the consumption of goods and services by the union and state government through intermediaries at different stages. Indirect tax is the base and foundation of the Central Government's revenue. Goods and Services Tax (GST), an indirect tax, is a comprehensive and embracive tax on the manufacture, sale and consumption of goods and services throughout the country. It is a single indirect tax for the whole nation, making India a unified common market. In the case of indirect tax, the liabilities of the tax can be passed on to someone else. This means that when the wholesaler pays value-added tax (VAT) on his sale, he can pass on the liabilities to the retailer, and when the retailer pays the tax, he can pass on the liability to the customer. So, in effect, the consumer pays the price of the item and the VAT at various levels. This whole system leads to double taxation (Banik & Das, 2018) [5]. This system directly hits the final consumer, who has to bear the entire burden, which is largely borne by the poor people who spend a major portion of their income on the consumption of goods. To make the consumer somewhat accessible and to release them from a load of all taxes, the Government of India has introduced the concept of GST, i.e., Goods and Services Tax. GST was launched as the 101st amendment of the Indian Constitution at midnight of June 30 – July 1, 2017. It was applicable to the whole of India. Central Hall of Parliament witnessed the mega launch of GST by the President and Prime Minister of India (Srivastava & Srivastava, 2017) [17].

Applauded and Glorified by the Central Government, GST came into existence as the most awaited and conscientious tax rejuvenation post 17 years of heated arguments (since 2000 when it was first proposed) among the centre and the states. Being an indirect tax, GST is going to replace the plethora of all indirect taxes which were previously imposed by Union and State Governments. GST is the landmark amendment in the history of the Indian taxation System. The amendment is expected to increase GDP by a percentage point or even more (Nayyar & Singh, 2018) [16].

2. Objective of the Study

The objectives of the present study are as follows:

- To illuminate the concept of GST.
- To understand the cascading effect of the former tax structure.
- To highlight the pros (benefits) and cons (flaws and adverse effects) of GST.

3. Research Methodology

Being conceptual in nature, the present study is based on secondary data extracted from journals, articles, newspapers, and magazines. Considering the objectives of the study, descriptive type of research design has been adopted to have more accuracy and rigorous analysis of research study (Tabassum & Yameen, 2022) [19]. Available secondary data has been extensively used for the study.

4. Classification of Indian Taxation

India has a well-structured and simplified taxation system, wherein authoritative segregation has been done among the Central Government, the different State Governments, and the Local Bodies. The Department of Revenue under the Government of India's Ministry of Finance is solely responsible for the computation of tax. This department levies taxes on individuals or organizations for income, customs duties, service tax and central excise. However, the agriculture-based income tax is imposed by the respective State Government. Local bodies have the power to compute and levy tax on properties and other utility services like drainage, water supply and many others. The past 15 years have witnessed tremendous reformations of the taxation system in India. Apart from the rationalization of the rates of tax, many steps for simplification of the different laws of taxation have been taken during this period. However, the process of tax rationalization is still in progress (Nayyar & Singh, 2018) [16].

5. Cascading Effect: Issue of Present Multi-staged Tax System

One of the primary goals of a taxation regime is always avoidance of "taxation over taxes" or the "cascading effect" of incident taxes. The cascading effect of taxes is one of the significant distortions of the Indian taxation regime. This cascading, caused due to a variety of charges by Union and State Government, has raised the tax burden on Indian products and made them less competitive in the international market (Tyagi *et al*., 2019) [21].

The gargantuan sizes of corporate taxes owe much to this taxation structure and have led to the adoption of tax evasion practices. A common person finds himself throttled in the Gordian knot of multiple tax rates, laws and elaborated processes and often fails to comply with these complex legislations. The extra tax paid due to taxation of the already taxed amount is finally borne by the end-user or consumer, which is a common man and badly affects them in addition to inflation (Tyagi *et al*., 2019) [21].

The Federal Structure of our democracy allows states and the Centre to levy taxes separately, which has caused cascading of taxes mainly. While Excise duty, service tax and central sales tax are levied by the Central Government, VAT, entry tax, state excise, property tax, agriculture tax, luxury tax and more are charged by the State Governments. There are many possible transactions which come under the ambit of two or more of these taxes, and the value of the second tax is arrived at by adding the value of the first tax to the value of the transaction. The prevalent complex, multi-staged and cascading tax structure steals the advantage of the availability of cheap labour and other factors of production. It brings the market price (post taxes) at par or above the price of international. Hence the manufacturing industry of India is not able to compete with other countries due to high market prices of products (Bhattacharjee & Bhattacharya, 2018) [6].

6. Goods & Service Tax (GST): An Integrated Tax System

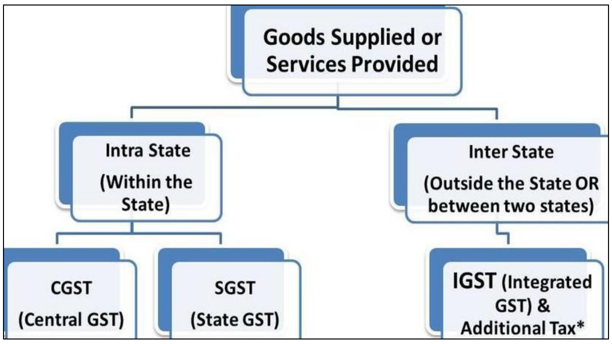
GST is a comprehensive and concise indirect tax on the manufacture, sale and consumption of goods and services throughout India. The introduction of GST is a significant step in transforming the Indian indirect tax system. The simplicity of the tax will lead to easier administration and enforcement. Amidst economic crisis across the globe, India has posed a beacon of hope with ambitious growth targets, supported by a strategic understanding named GST that is expected to provide the much-needed stimulant for economic growth in India by transforming the existing base of indirect taxation towards the free flow of goods and services throughout the nation. GST will turn India into one common national market, leading to the greatest ease of doing business from the consumer's perception; the greatest benefit would be in terms of a reduction in the overall tax burden, which is currently estimated as 25-30%, free movement of goods from one state to another and reduction in the paperwork to a large extent (Singh & Sarva, 2016) [18].

7. The Frame of Reference for GST in India

In general, there are mainly two models of GST, i.e., unitary and dual. In the former, Union Government collects GST; in the latter, both Union and State Governments collect GST. India has chosen to adopt the dual system of GST. A four-tier structure has been formulated for the running GST regimes in India, which includes:

1. Central GST (CGST)
2. State GST (SGST)
3. Integrated GST (IGST)
4. Union Territories GST (UTGST)

CGST and IGST are the concepts of Union Government, while the other two are of state and UTs' matter. IGST is applicable to inter-state sales that will help smooth transfer between states and Union (Kumar, 2016) [14].



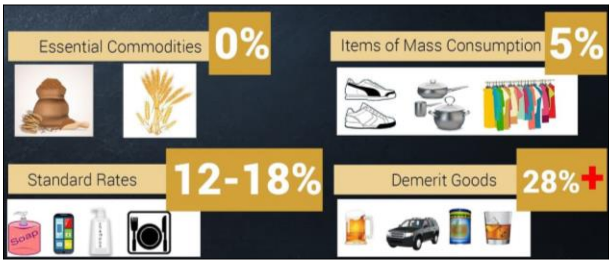
Source: Authors

Fig 1: GST – the tax structure

8. Demystifying the Tax Slab

The rate has been codified in the four-tier tax slab structure under the GST regime, which shall cover every product, commodity and service sold or bought in India. Interestingly, a 0% tax rate is also inserted under which essential commodities of everyday use, such as food grains, rice, wheat, etc., are included. This will help the rural population to a greater extent and help in controlling inflation. There is a special rate of 0.25% on rough, precious, and semi-precious stones and 3% on gold (Gade *et al*., 2022) [9].

However, there are three items which do not fall under the purview of GST, i.e., alcohol for human consumption, petroleum products such as petroleum crude, motor spirit (petrol), high-speed diesel, natural gas and aviation turbine fuel and the last one is electricity which has been kept aside under the range of GST (Gupta, 2014) [10].



Source: The Bloomberg

Fig 1: GST Rates

9. Reasons for Adopting Dual GST System

India is a federal country where the Centre and States have been assigned the powers to levy and collect taxes through appropriate legislation. Both levels of government have distinct responsibilities, according to the division of power prescribed in the Constitution, for which they need to raise resources. A dual GST will, therefore, be in keeping with the Constitutional requirement of fiscal federalism. (Khan & Shadab, 2012) [12]

A GST is a consumption-based tax; where the revenue of State Governments depends on the consumption of goods & services within the State. Consequently, some states may have to suffer. With the view to prevent the states from revenue losses, the Union government has assured that if any government suffers in terms of less income generation due to the introduction of GST, that portion of revenue loss will be compensated by Union Government for five years from the date of implementation of GST Act (Gupta, 2014) [10].

10. GST in Countries Other than India

Presently there are around 160 countries which follow GST tax system or VAT in some form or other. France was the first country to implement GST to reduce tax evasion (Dey, 2020). Similar to Indian Context, it is only Canada that has the Dual GST System. Throughout the world, rate of GST ranges between 15-20% generally. It may differ to higher or lower side in few countries. Although we do not follow an ideal GST, we just follow the Indian version of GST which is termed as Indian GST. Nevertheless, Indian GST has the highest rate of tax as compared with all over the world.

The economy of a country grows when its people and their business grow, and there is an increase in the Government's revenue in the long run. GST has been introduced to flourish morality and to deliver corruption-free trade throughout the country. Here, there are some points plotted that describe the benefits of GST for all:

1. GST shall ease the way of doing business and attract foreign capital and foreign investment in the country.
2. GST shall reduce the overall transaction cost of businesses, which will affect the business positively.
3. GST will curb the circulation of black money. This can only happen if the "Kacha Bill", or temporary bill normally followed by traders and shopkeepers, is put to check. A unified tax regime will lead to less corruption which will indirectly affect the common man.
4. Reduction in the total cost of different goods can also be passed on to the customers.
5. The reduced cost will induce people to purchase more, and this will enhance the demand for products and boost their sales, thereby benefiting the overall economy.
6. The enhanced production means a reduction in the unemployment rate. It is also expected that GST will contribute to producing more jobs in the field of accounts & commerce. This may reduce unemployment in the country by a pinpoint (Vasanthagopal, 2011) [22].
7. If more employment is generated in the country, this leads to high demand. This vicious circle of demand – production – employment – demand implies that the GDP of the country can be seen in an increasing trend.

12. Shortcomings and Negative Impact of GST

The basic idea of GST in India is to mitigate the ill multiple tax system and to provide a uniform tax system. GST has brought in a "One Nation One Tax" system, but its effect on various industries, businesses and consumers is slightly different, and this made GST a deadly weapon for the common man (Tabassum & Yameen, 2023) [20].

A comparative look at the rates in Asia and Europe shows that India has the highest tax rates and that by splintering a so-called unified structure; we have made it a whole lot more confusing. Therefore, by the present model of GST, we cannot conclude just by seeing its few advantages. Still, we should also consider its disadvantages and the decision to implement GST in the Indian phase.

The present GST tax system needs to be fixed. It lacks economic vision as the present GST Act has various loopholes laying adverse effects on the Indian economy and the country's people, either from the working or business class.

12.1 Contrary to Single Tax Concept

The present GST system disaffirms the concept of one nation, one tax. The principle on which GST works, i.e., one nation, one tax, is not suitable for India. Previously we had 32 taxes, including 29 state VAT taxes, one sales tax, one excise duty and one service tax. After implementing GST, we now have 31 taxes, including 29 SGST taxes, 1 CGST and 1 IGST, which again gives a complicated tax structure to the country and contradicts the principle of a single tax in the nation (Abbasi, 2018) [1].

On the other hand, the Constitutional provisions and judgments on GST do not allow imposing a single GST tax system in India due to the following reasons. According to Article 246A, parliament and state can levy taxes on the supply on goods & services. Therefore, not only parliament but state can have its own GST. Article 279A of the

Constitution says the GST council has only recommendatory powers. So, it's up to state governments to implement their ideas. In this way, the state government levies its own GST and distorts the entire GST system of the country. On 11th November 2016, 9 judges on behalf of the Supreme Court of India gave their judgment regarding the entry tax case that every state is as sovereign as the parliament in its powers to levy taxes. So, it provides freehand to state by which they can levy their own GST (Abbasi, 2018) [1].

12.2 Multi-tier and Complicated Tax Structure

The current model of GST with numerous exemptions and a four-tier rate structure - 5%, 12%, 18% and 28% - apart from a compensation cess and exempt items and different rates for gold (3%) and rough diamonds (2.5%), is very different from the original plan of the single tax rate. The Asia-Pacific Tax Complexity Survey conducted by Deloitte said India's tax structure is the second most complicated tax structure. Indian tax laws are perceived to be the second most complex in the Asia-Pacific region; well over half of the respondents believe that complexity in the regime has increased in the last three years. International Monetary Fund has lauded India's efforts to lower the compliance burden under the Goods and Services Tax but stated that the GST regime must have fewer rates and efforts should also be made to lower the tax slabs (Kumar & Choudhary, 2017) [13].

12.3 Filing Returns become more complex

The GST system is dependent on the online submission of taxes. As a result, it overburdens the online system of the Ministry of Corporate Affairs. Therefore, the problem of hanging and website crashes repeatedly occurs, which makes tax filing more adverse than before (Debnath, 2016) [7]. The existing online infrastructure could be more robust. According to the previous tax system in our country, one had to file tax twice a year, but now the system has been so complicated that one must file GST thrice a month on the 10, 15 and 20 dates of the month, respectively, only through an online system. So, in a simple way, one must file 36 GST taxes and then has to file 12 TDS returns. So now 36+12=48 and one annual return, so a total of 49 taxes are filed in a year, which is a tedious process and hence lays overburdening on the tax department of India and businessmen. If a person owns 13 outlets in 13 states of the country, he has to file 49*13= 637 taxes in the same year, which is a very irrelevant system. It's been more than five years since GST was rolled out, and there are still unclear GST provisions and procedures. During the initial phase, the government was taking initiatives to help people understand GST, but all that seem cold now (Modi, 2017) [15].

12.4 Lead to the problem of Tax Evasion and Corruption

The implementation of the present GST system in the country also increases the problem of tax evasion, which results in a massive loss in the economic condition of the country due to the following provision existing in the bill, which states that business entity with an annual turnover less than Rs. 20 lakhs are given exemptions under GST registration (Kumar, & Choudhary 2017) [13]. The above provision provided in the bill is the biggest loophole which can increase the problem of tax evasion and can be explained by a simple example - If a businessman owns a firm or company with an annual turnover of 80 lakhs and falls under the taxpaying category according to the norms of the GST but instead paying taxes he divides his business into four firms of 20-20 lakhs and make his wife, son, daughter and himself director of the following four firms. By showing the business into four parts with an annual turnover of Rs. 20 lakhs, he is not entitled to pay GST. Still, these four firms were originally only in the papers, and he saved his firm's annual turnover of 80 lakh rupees to pay GST. This is how people will do tax evasion in many forms and, thus, will result in huge economic loss to our country.

12.5 Higher tax burden for manufacturing SMEs

GST regime will not be easy for small businesses in the manufacturing sector (Agarwal, 2022) [2]. Under the excise laws, only manufacturing businesses with a turnover exceeding Rs. 1.50 crores had to pay excise duty. Whereas under GST, the turnover limit was reduced to Rs. 20 lakhs which increased the tax burden for many manufacturing SMEs. However, SMEs with a turnover of up to 75 lakhs can opt for the composition scheme, pay only 1% tax on turnover instead of GST, and enjoy lesser compliance. The decision to choose between higher taxes or the composition scheme will be a tough one for many SMEs (Krishna & Jaiswal, 2017) [12].

12.6 Disruption to Small Businesses

Small businesses are unable to afford the cost of computers and accountants required to implement GST (make bills and file tax returns). 28% GST rate on some products like marble, plywood, and automobile parts is too much for common people. Buyers are willing to purchase from unregistered dealers to avoid paying high GST, especially products with a 28% GST rate (Agrawal, 2017) [3]. Assigning maximum retail price (MRP) to handmade products like local shoes, Banarasi sarees, etc., takes a lot of work. Most small artisans are illiterate and, therefore, unable to write MRP on their products and/or do any paperwork. Dealers need clarification on how to rate such products. Small businesses with a low annual turnover exempted from GST are still afraid to supply as they have no proof that they are exempted from GST. Buyers are demanding bills from even those GST exempted shops but need evidence. Many dealers are still buying from unregistered wholesalers on cash without bills and without paying any tax (Asmuni *et al*., 2017) [4].

13. Conclusion

GST is a significant reform. It has some teething issues. There is no doubt that GST is aimed at increasing the taxpayer's base by bringing SMEs and the unorganized sector under its purview. This will make the Indian market more competitive and create a level playing field between large & small enterprises. Further, Indian Businesses will be able to compete better with other foreign countries. Notwithstanding, the present structure is not perfect, but this model could be a grand success if it had been planned considering the welfare of poor people.

Despite all its shortcomings, GST is expected to positively benefit the two pillars of the growing economy, i.e., India's business climate as well as the financial system of the country. Both play a crucial role in shaping the economy of any country. However, all will not be smooth sailing. A policy change of such a huge nature is sure to be forced with teething troubles. Therefore, a strict check on profiteering activities needs to be done so that the final consumers can enjoy the real benefit of GST. The study concludes that GST is not a perfect tax system; it is merely a drift in consumers' pockets, as the present picture of GST is not as rosy as it was portrayed.

14. References

1. Abbasi H. GST : Impact and Challenges Faced by Indian Economy. International Journal on Recent and Innovation Trends in Computing and Communication; c2018 Apr. p. 232-235.
2. Agarwal S. Impact of the GST on Corporate Tax Evasion : Evidence from Indian Tax Records; c2022. p. 1-42.
3. Agrawal Y. Goods and Services Tax and Its Impact on Indian Economy. IOSR Journal of Business and Management (IOSR-JBM). 2017;19(10):26-30. www.iosrjournals.org
4. Asmuni S, Yusoff S, Ses NSM. Acceptance towards Goods and Services Tax (GST) among local business communities. Journal of Emerging Economies and Islamic Research. 2017;5(4):62. https://doi.org/10.24191/jeeir.v5i4.8837
5. Banik S, Das AA. GST in India: Impact and challenges. IOSR Journal of Business and Management (IOSR-JBM); c2018. e-ISSN, 07-10.
6. Bhattacharjee G, Bhattacharya D. GST and its aftermath: is consumer really the king? SAGE Publishing India; c2018.
7. Debnath P. Implementation of goods and service tax (GST) in India and its control over the tax collection. Journal of Commerce and Trade. 2016;11(1):28-35.
8. Dey AR. GST: It's impact on common man in India. Shanlax International Journal of Management. 2020;7(3):6-12.
9. Gade R, Kaakandikar R, Poman A. Study & Calculation of Goods and Service Tax (GST). Journal of Positive School Psychology. 2022;6(8):3167-3184.
10. Gupta N. Goods and Service Tax: It's Impact on Indian Economy. International Research Journal of Commerce Arts and Science. 2014;5(3):126-133.
11. Khan A, Shadab N. Goods and Services Tax (GST) in India: prospect for states. Econstor. Eu. 2012;4(1):38-64. https://www.econstor.eu/handle/10419/157646
12. Krishna RB, Jaiswal DA. Mother of All Tax Reforms: India's Goods and Services. International Journal of Management (IJM). 2017;8:8-15.
13. Kumar A, Choudhary S. Goods and Sales Tax (GST): Concepts and Implication in India. International Journal of Research in Humanities and Social Sciences. 2017;5(6):1-10.
14. Kumar V. Gst-a Boon or a Bane for India. International Journal for Innovative Research in Multidisciplinary Field. 2016;2(9):1-5. https://www.academia.edu/download/49232100/201609070.pdf
15. Modi A. Impact of GST on common man. International Journal of Engineering and Management Research (IJEMR). 2017;7(4):59-60.
16. Nayyar A, Singh I. A comprehensive analysis of goods and services tax (GST) in India. Indian Journal of Finance. 2018;12(2):57-71. https://doi.org/10.17010/ijf/2018/v12i2/121377
17. Srivastava PK, Srivastava R. Goods and Services Tax (GST): A Mystery or Solution? Sustainable Resource Management through Innovative Management Practices; c2017. p. 25.
18. Singh RR, Sarva M. The fundamental Features of Good and Service Tax in India. International Journal of Business & Engineering Research; c2016. p. 10.
19. Tabassum, Yameen M. Credit default swaps (CDSs): an effective tool to manage credit risk of Indian banks. Journal of Money and Business. 2022;2(2):165-172. https://doi.org/10.1108/JMB-03-2022-0012
20. Tabassum, Yameen M. Why do banks use creditdefault swaps (CDS)? A systematic review. Journal of Economic Surveys; c2023. p. 1-31. https://doi.org/10.1111/joes.12547
21. Tyagi A, Rai K, Gupta P, Sardana S. Issues and Challenges of GST. Finance and Accounting Review. 2019;6(1&2):19-26.
22. Vasanthagopal R. GST in India: A big leap in the indirect taxation system. International Journal of Trade, Economics and Finance. 2011;2(2):144.