

# A Comprehensive Study of Goods and Services Tax in India

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## ABSTRACT

The Goods and Service Tax [GST] is implemented by the Government of India on 1<sup>st</sup> July 2017 through the one hundred and first amendment of the constitution of India. It was marked a significant shift in the country's taxation landscape. GST, which is publicized as the one nation one tax, brought with its expectations of free flowing of credit, subsequent to reduction in prices of goods and services as well as free movement of goods in India. In view of the changes, it brought to the tax system, it may be early to pass a final judgment on its achievement. While GST has streamlined the tax regime and promoted economic integration, its full potential is yet to be realized, requiring continuous reforms and adaptations to address challenges and capitalize on opportunities for sustainable growth. This paper tries to trace the historic journey of GST in India and take a look at the experience of Government and businesses in their initial years of GST implementation.

**Keywords--** Goods and Service Tax, Value Added Tax, GSTN

idea of GST is one nation one tax. However, at present certain items such as petroleum products, alcohol and immovable property are outside the GST net. India has adopted dual GST instead of national GST and the tax rates has been set mainly at five slabs of 0%, 5%, 12%, 18% and 28%. It has made the entire structure of GST fairly complicated in India as the centre have to coordinate with 28 states and 8 union territories under GST regime (Dani, 2016).

For a developing economy like India, it is desirable to become more competitive and efficient in its resource usage. Traditionally India's tax regime trusted heavily on indirect taxes including customs and excise. Revenue from indirect taxes was the major source of tax revenue till tax reforms were undertaken during nineties. The major argument put forth for heavy reliance on indirect tax was that India's majority of population was poor and thus widening base of direct taxes had inherent limitations. (Chadha et al, 2009).

## I. INTRODUCTION

Value Added Tax (VAT) was first introduced by Maurice Laure, a French economist in 1954. Since VAT can be applied on goods and services, it has been termed as Goods and Service Tax (GST). Goods and Service Tax is a tax imposed on manufacture, sale and utilization of goods and services and is a substitute of major indirect taxes imposed on goods and services by central and state governments. GST is a broad based, single comprehensive tax levied on goods and services at each point of sale or provision of services, in which the seller or service provider may claim the input credit of tax which he has paid while purchasing the goods or availing services; the final consumer will thus bear only the GST charged by the last dealer in the supply chain (Vasanthagopal, 2011).

The GST seeks to create national market for goods and services by subsuming multiple taxes at the national level and state level, thereby creating a paradigm of "one nation, one tax, one market" (Kaur, 2017). The key

## II. RATIONALE OF GST

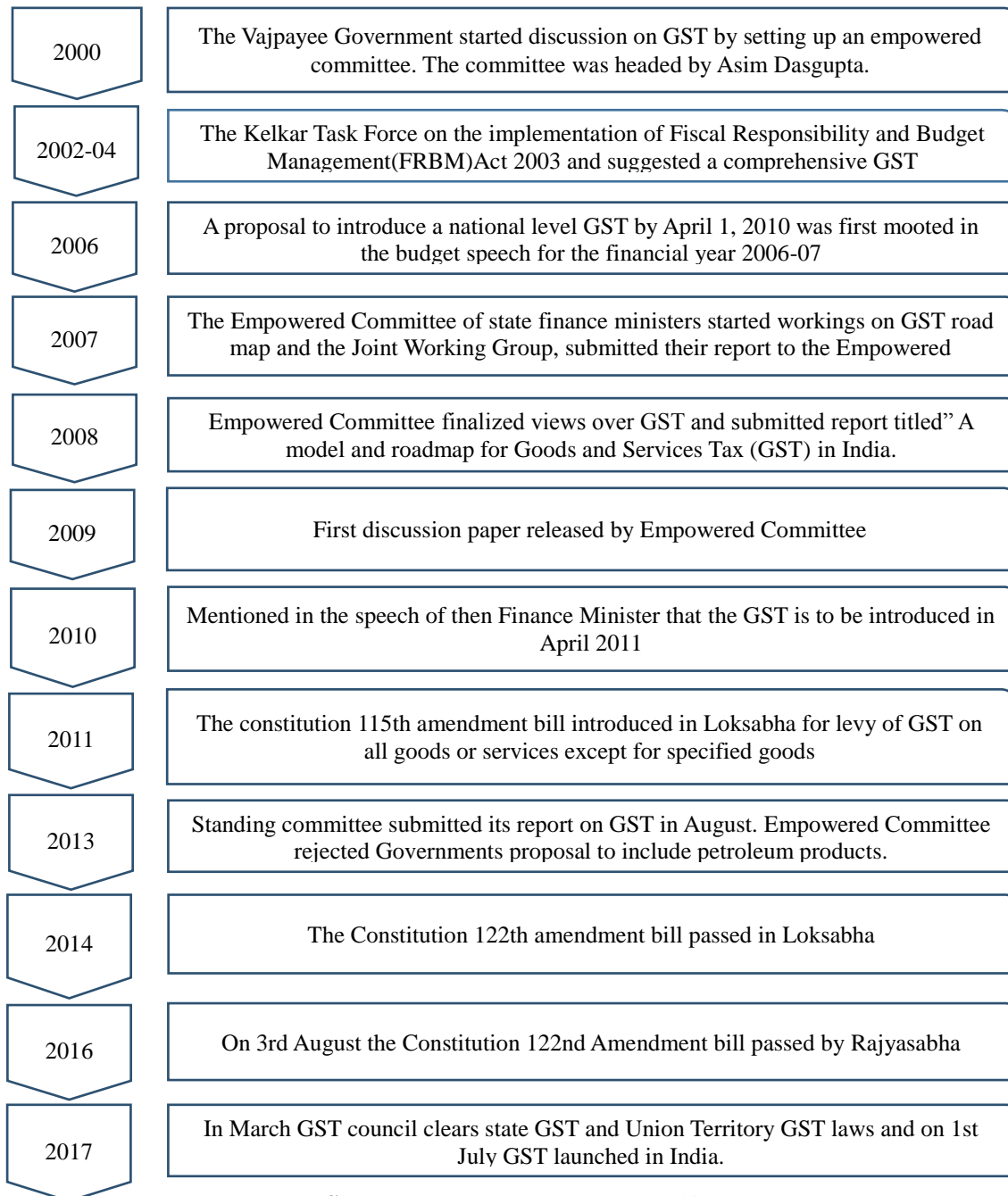
Under VAT regime, the multiplicity of taxes due to the federal administration resulted in a complex indirect tax structure in the country. There was no uniformity in tax rates and structures across states and there were cascading of taxes due to tax on tax. As per the report of the (Finance Commission, 2009) taxation of goods and services in India has been characterized as a cascading and distortionary tax on production resulting in mis-allocation of resources and lower productivity and economic growth. So that the GST has been introduced with the objectives of

- The incidence of tax falls only on domestic consumption;
- The efficiency and equity of the system is optimized;
- There should be no export of taxes across taxing jurisdictions;
- The Indian market should be integrated into a single common market;
- It enhances the cause of cooperative federalism.

### III. THE TIMELINE OF GST IN INDIA

The idea of launching GST in India was first initiated by the Government of India in the year 2000 under the leadership of Atal Bihari Vajpayee, the then finance minister of India. It has been evolved over a period of time featured with multiple discussions between States

and Centre. Constitution (122nd Amendment) Bill, 2014 received the assent of the President of India on 8th September, 2016 and became Constitution (101st Amendment) Act, 2016, which paved the way for introduction of GST in India on 1<sup>st</sup> July 2017. The major milestones in the GST journey is depicted in the figure given below.

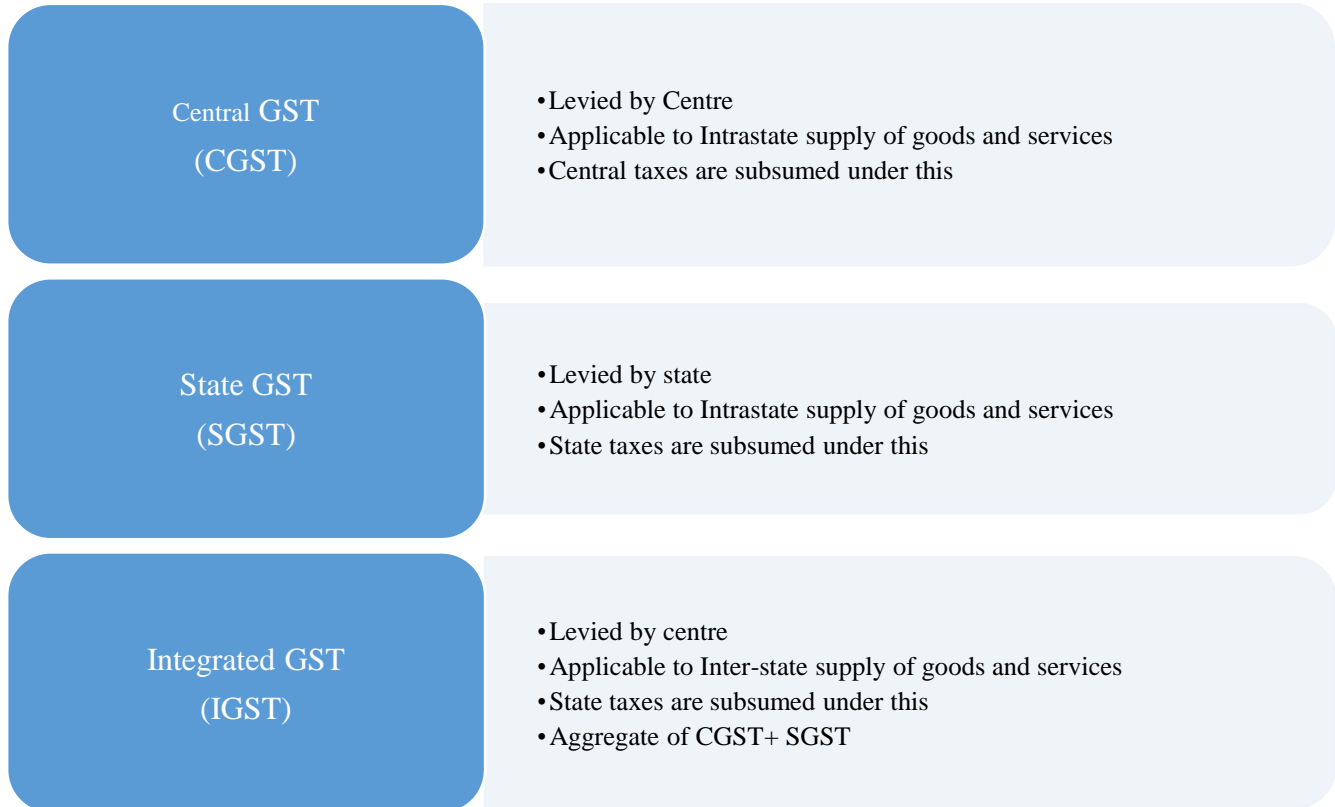


**Source:** <http://www.gstseva.com/gst/history/>

**Indian Model of GST**

India is a federal country where both the centre and the states have been assigned the powers to levy and collect taxes through appropriate legislation. Therefore,

dual GST structure is imperative in India as like in Brazil and Canada. The components of Indian GST are depicted below;



On the introduction of GST, certain taxes which were prevailed in the previous indirect tax regime were abolished by subsuming them under GST

Taxes subsumed		Taxes not subsumed
Central GST	State GST	
<ul style="list-style-type: none"> <li>• Central Excise duty</li> <li>• Service Tax</li> <li>• Additional duties of excise</li> <li>• Additional duties of customs</li> <li>• Surcharges and levies charged by centre</li> </ul>	<ul style="list-style-type: none"> <li>• VAT</li> <li>• Sales tax</li> <li>• Luxury tax</li> <li>• Entry tax and Octroi</li> <li>• Taxes on lotteries, betting, gambling</li> <li>• Surcharges, cesses levied by state</li> <li>• Purchase tax</li> </ul>	<ul style="list-style-type: none"> <li>• Basic customs duty</li> <li>• Export duty</li> <li>• Toll tax</li> <li>• Road tax</li> <li>• Electricity duty</li> <li>• Stamp duty</li> <li>• Property tax</li> </ul>

**Comparison of past tax structure with GST**

<b>Past Indirect Tax</b>	<b>GST</b>
<ul style="list-style-type: none"> <li>• Goods and service were taxed separately</li> </ul>	<ul style="list-style-type: none"> <li>• One tax for both goods and services</li> </ul>
<ul style="list-style-type: none"> <li>• Different tax rates levied across states. For e.g Excise 12% and service tax 15%</li> </ul>	<ul style="list-style-type: none"> <li>• GST has one CGST rate and a uniform rate of SGST across all states and IGST for interstate.</li> </ul>
<ul style="list-style-type: none"> <li>• There were separate laws for separate levy such as Excise Act, VAT law..etc</li> </ul>	<ul style="list-style-type: none"> <li>• There is only one law as GST subsume various taxes of central and state governments</li> </ul>
<ul style="list-style-type: none"> <li>• Tax burden was very high due to multiple taxes such as sales tax, VAT, Excise duty...</li> </ul>	<ul style="list-style-type: none"> <li>• Tax burden is less as it split equitably between manufacturing and services.</li> </ul>
<ul style="list-style-type: none"> <li>• Input Tax Credit(ITC) was available only for intrastate transactions</li> </ul>	<ul style="list-style-type: none"> <li>• ITC is available for both intrastate and interstate transactions.</li> </ul>
<ul style="list-style-type: none"> <li>• Tax compliance was complex due to multiplicity of laws.</li> </ul>	<ul style="list-style-type: none"> <li>• Tax compliance is easier as there is only one law to comply with.</li> </ul>
<ul style="list-style-type: none"> <li>• Complex tax structure</li> </ul>	<ul style="list-style-type: none"> <li>• Simple tax structure as compared to previous tax system</li> </ul>
<ul style="list-style-type: none"> <li>• Cascading of tax was observed as credit of Central Sales Tax (CST) and many other taxes were not allowed.</li> </ul>	<ul style="list-style-type: none"> <li>• Cascading issues won't arise as CST concept is eliminated with the introduction of IGST.</li> </ul>
<ul style="list-style-type: none"> <li>• Tax was levied at two stages,(i) when products move out of factory(ii) at retail outlet.</li> </ul>	<ul style="list-style-type: none"> <li>• GST is based on destination principle and is charged at the point of consumption.</li> </ul>
<ul style="list-style-type: none"> <li>• Registration number were called as TIN</li> </ul>	<ul style="list-style-type: none"> <li>• Registration number is called as GSTN</li> </ul>

**Features of GST**

- The base is extended to all goods and services except some specified items
- Tax is destination based
- Full and immediate input tax credit in respect of capital goods.
- There is seamless flow of tax credit in the value chain and across state borders
- The exports are zero rated
- Computerized compliance and administrative systems
- Simultaneous power for centre and states to make law governing GST

**Benefits of GST for Business and Industry**

- **Easy compliance**- GSTN system provides common procedures for registration, return filing, duty payments, and refund of taxes...etc which makes the tax compliance easy and transparent.
- **Uniformity of tax rates** - GST ensures common tax rates across country which facilitates ease of doing business in the country.
- **Removal of cascading**- The seamless flow of tax credits throughout the value chain and across boundaries of states ensures minimal cascading of taxes. It reduces hidden costs in doing business.
- **Improved competitiveness**- The subsuming of various central and state taxes, comprehensive

set-off of input tax credit, reduction in transaction cost..etc will eventually leads to an improved competitiveness for businesses.

- GST brings more efficient neutralization of taxes to make exports more competitive internationally.
- Benefit of exemption/composition scheme for larger segment of small scale suppliers to make their products cheaper.
- Online registration will ensure minimal bureaucracy interface.
- Electronic refund procedures will fast track the process and enhance liquidity for businesses

**Benefits of GST for Government**

- **Simple and easy to administer**- Multiple indirect taxes at the central and state levels are subsumed under GST. Supported with the robust IT infrastructure, GST is treated as the simpler and easier tax system levied so far in India.
- **Better control on leakage**-There is an inbuilt mechanism in the design of GST that it will incentivize tax compliance by businesses.
- Higher revenue efficiency- Self compliance

**Benefits to Consumers**

- GST is beneficial to consumers as there is only one tax from the manufacturer to consumer. Transparency of the system prevent leakages and provides relief in terms of reduced tax burden on most of the commodities.

- Huge number of items are either exempt or in the 5% tax bracket.

#### **Benefits to Economy**

- To create a unified common national market
- To make India a manufacturing hub
- To boost investment and exports
- To generate more employment by increased economic activity

## **IV. INTERNATIONAL EXPERIENCE OF GST**

It is a known fact that GST has been implemented in more than 160 countries. But in its structure India's GST is more complicated and very different from the global variety. Countries like Singapore and Indonesia have been applying everything at single and consistent rate (Kharub, 2018). Australia implemented the Goods and Services Tax

in 2000. It is a single-level tax system administered by the federal government. The standard GST rate in Australia is 10%, and most goods and services are subject to this rate. However, certain items such as basic food, healthcare services, and exports are either exempt or subject to a reduced rate. In Australia the GST is a federal tax which is collected by the supreme authority and further divided among states without any conflict (Bolton & Dollery, 2017). Taking about the Brazil model of GST, it is much independent of and carefree in comparison to other nations and has a dividing rule of taxes between the centre and states. New Zealand implemented GST in 1986. It is a single-level tax system administered by the Inland Revenue Department (IRD). The standard GST rate in New Zealand is 15%, one of the highest among OECD countries. The standard GST rates in most of the countries ranges between 15-20% (Kraal & Kasipillai, 2016), (Rupa, 2017).

### **Comparison of GST in different countries**

Particulars	India	Canada	UK	Singapore	Malaysia
Name of GST in the Country	GST	Federal GST & Harmonized Service Tax	Value Added Tax	GST	GST
Standard Rate	0%,5%,12%,18%&28%(+ Cess for luxury items)	GST 5% and HST varies from 0 to 15%	20% reduced rates 5%, Zero and exempt	7%, zero rate & exempted	6%
Threshold Exemption limit	40/20 lakhs(20 lakhs in NE states)	Canadian\$30000(15.6laks in INR)	£73000(61.32lakhs in INR)	Singapore\$ 1 million(4.8 crore in INR)	MYR 500000(75 lakhs in INR)
Liability arises on	Accrual basis	Accrual basis	Accrual basis	Accrual basis	Accrual basis
Returns and payments	Monthly 1 and annual return	Monthly, quarterly or annually	Usually quarterly	Usually quarterly	Large organization s-monthly
Reverse charge Mechanism	Apply on goods and services	Applicable to importation of services and intangible properties	Applicable	Applicable to services	Applicable to imported services
Exempt	Manufacture of exempt goods and provision of exempted services	Real estate, financial services, rent, charities, health, education	Medical, education, finance, insurance, postal services	Real estate, financial services, residential rent	Basic food, health, transportation, residential property and agricultural land

**Source:** Compiled from (Kumari & Jyothi, 2017), (Kraal & Kasipillai, 2016), (Sharma, 2016).



These are just a few examples of countries with GST systems. Many other countries, such as South Korea, and Japan, also have their versions of GST or similar value-added tax systems, each tailored to their specific economic and administrative needs.

## V. GST EXPERIENCE IN INDIA

Transition from one tax regime to another is always a difficult process, especially when a complex tax system is subsumed into a single tax across a country. Regardless of some teething problems in managing compliance requirements, implementation of GST is seen as being positive and it's been critical for businesses to remain competitive in the market under GST scenario. GST has brought about many changes. Industry requires to keep pace with these changes. Initial structural problems are gradually getting reduced with industry players learning, with the passage of time.

As per (Ministry of Finance, 2018), there has been fifty percent increase in the number of indirect taxpayers and a large increase in voluntary compliance especially by small enterprise that buy from large enterprises and want to avail themselves of input tax credit. Revenue collections crossed the INR one Lakh crore mark for three time so far which were in April 2018, October 2018 and January 2019.

According to (Jain, 2018) GST rates applicable to various goods has been rationalized and the number of goods under the 28% tax bracket has been reduced from 200 goods to almost 50 goods. Industry and general public are hopeful that the government will further downsize the rates on some more mass consumption products. The way bill system under VAT regime, which varied from state to state in formats, requirements, and procedures has been now replaced with an electronically generated E way bill from 1<sup>st</sup> April 2018. It is treated as a system to curb leakage in revenue collection. Integration of GST solutions with E way bill solutions is expected to ease the overall compliance burden on businesses. According to GST provisions, an exporter is to be sanctioned 90% of the refund amount provisionally within seven days of a refund application being filed. This came as a huge relief to industry.

## VI. CHALLENGES AND THE WAY FORWARD

While the adoption of GST in India has yielded numerous benefits, it is essential to acknowledge the challenges faced during its implementation. Initially, there were technological and administrative challenges, as businesses had to grapple with new compliance requirements and adjust to the new tax regime. Moreover,

the varying tax rates across different goods and services have posed difficulties, requiring constant revision and refinement. Taxpayers have huge amounts that are blocked due to the procedural challenges, and as they are required to keep funds in the form of electronic credit ledger. Apart that they can claim refund only after filing the relevant returns which depends on the compliance done by the supplier and his ratings. Not all taxpayers have technical expertise to deal with online systems. Thus, most of them require intermediaries for their compliance under GST. Minimum of thirty-seven returns is required to be filed by every registered tax payer during a financial year. It further adds to compliance burden among taxpayers. The above concerns which were observed by the researcher evidenced by the survey conducted by (KPMG, 2018), which reveals that the industry faced major issues in meeting compliance with GSTN portal and the exporters of goods and services believe that the benefit provided to them is not adequate with the refunds on exports not processed till date, leading to blockage of working capital.

To address these challenges, the Indian government must focus on improving infrastructure, especially in digital connectivity and taxpayer education. Streamlining the tax rates and addressing the concerns of key sectors such as agriculture, real estate, and small businesses would also contribute to the success of GST. Regular monitoring and feedback mechanisms should be established to ensure timely resolution of emerging issues.

## VII. CONCLUSION

The adoption of the Goods and Services Tax (GST) in India has been a transformative step towards a more inclusive and efficient tax system. So that it must be handled with utmost care. It has streamlined the tax administration, supported economic growth, and strengthened the country's competitive advantage. All sectors of economy whether industry, business, government departments, service sector have to bear the impact of GST. GST has increased the technology dependency of taxpayers as every transaction is made online. However, GST regime is still a work in progress. There are lingering challenges that require attention to maximize its potential benefits. How to further fine tune a progressive tax is a enduring challenge for the government. The elimination of obstacles faced so far on managing GST can contribute in realizing government's aim of "one nation, one tax, one market". It is now the time for the government to stabilize the system, remove uncertainty, and facilitate compliance by easing the process, to make the GST a real success. Continuous monitoring, reforms, and effective implementation will pave the way for a prosperous and dynamic Indian economy in the years to come.

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