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Goods and Service Tax (GST) - A Tax Reform in India

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Abstract:

Indian taxation system plays a vital role in macroeconomics in the form of economic growth; welfare of the society. Indian taxation system consists of both the direct tax and indirect tax out of which the indirect tax is very vital due to its broad coverage and steady revenue potential. However, the Indian taxation system has also some limitations such as fragmented and multiple central and state taxes, cascading effect, compliance complexities and administrative inefficiencies. To overcome these limitations the goods and service act 2017 was introduced and implemented in India from July 2017.Implimentation of this Act in Indian economy is a major and significant development in Indian indirect tax system that resulted in subsuming the number of existing taxes into unified tax and this tax act is tax on destination based system that simplifies the tax structure and also reduces cascading effect, and a significant improvement in compliance of tax procedure and enhancement of tax revenue for both central and state governments. The goods and services tax is classified as Central Goods and Service Tax(CGST),State Goods and Service Tax(SGST), Union Territory Goods and Service Tax(UTGST) and Integrated Goods and Service Tax(IGST).With the introduction of Goods and Service Tax Act in Indian economy benefited in the form of One Nation and One Tax, increases in the tax revenues, reduction of cascading effect, boost to the economic growth, benefits to consumers.

Key Words: Goods and Service Tax, Cascading effect, Inter-state trade, tax compliance, tax reforms

Introduction:

Indian indirect taxation system is playing a very vital role in the Indian economy due to its wide range application and potential of earning more revenue than any other departments or sections of the government. The Indirect tax is levied and collected on manufacturing of goods as excise duty, on imports of goods as customs duty, supply of services as service tax and on sale of goods as sales tax. All indirect taxes are levied on the basis of ad volorem, that levied tax on total price of the product or service leads to cascading method that levy tax on tax, and tax canons of equality that emphasizes on rich people pay more tax and poor people to pay less tax for achieving social equality ,and similarly tax canon of certainty is for making clear and certain about how much tax is being paid and when tax is to be paid and the method of tax payment to be clearly mentioned and the tax canon of convenience explains tax is to be collected from tax payer as per his/her convenient and tax canon of economy deals with cost of tax collection charges to be as low as possible .All these tax canons are not being implemented properly in the earlier tax system in india , tax evasion is also one of the major problem in earlier indirect tax system in india where central sales tax (CST) paid on inter-state purchases are not eligible to get input tax credit (ICT) that leads to tax evasion. The cascading means tax on tax is also one of the limitations of earlier tax system as tax paid on excise duty not eligible for input tax credit. However since the year 2005 onwards all states except jammu& Kasmire the basis for tax levy is changed to value added (VAT) and tax is levied only on the value added at each stage of sale of the product. Before the GST Act introduced the Indian indirect taxation system consist many number of limitations such as 'n' number of taxes like excise duty that is levied on manufacturing goods, customs duty that is levied on goods imported and exported, Central sales tax (CST)that is levied on inter-state sale of goods, service tax that is levied on services provided with the state , entertainment tax levied on cinemas, and different tax rates at different states and lack of compliance complexities , fragmented and multiple central and state taxes and potential tax evasion by the businesses , high selling price of the products due to cascading etc. This paper deals with how the above indirect taxation system limitations are concerned and overcome with the introduction of Goods and Service Tax from 1st July 2017.

REVIEW OF LITERATURE:

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Thakur, Tejnarayan, and Aribam Debala Devi. 2025. "GST Reforms 2025 and The New Tax Regime in India.

Analysed the implementation of the GST 2.0 Impact on ease of compliance and minimisation of litigation, inducement of consumer spending and he also hinted that the problem of assignment of tax treatment, maintenance of transactional credit and determination of sector specific concessions.

Dhotre, Avinash C., Kishor N. Chinchodkar, Abhijeet D. Ghodake, and Bhausaheb N. Shinde. 2024. "Contribution of Goods and Services Tax (GST) Revenue: India's March towards $5 Trillion Economy".In this article they focused how GST revenue contributing to the India's march towards $ 5 trillion economy. GST revenue increasing year by year and GST contribution is vital in the development of the economy.

OBJECTIVES:

1. To Understand the concept and legal structure of the Goods and Service Tax in India
2. To Explain the impact of the GST on Indian economy
3. To Understand the reasons behind the recent reforms in GST in India.

METHODOLOGY:

As this paper is a descriptive and exploratory one ,the data is collected from secondary data that is published in periodicals ,journals ,books, daily newspapers, and circulars from various government ,non government agencies and the related data available at internet ,websites of government and non government departments and bodies.

IMPLIMENTATION OF GST IN INDIA:

Goods and Service Tax that is implemented in India from 1st July 2017 .To understand comprehensively the concept and control structure and nature and features of the GST are explained as below:

OBJECTIVES OF THE GST:

To overcome the effect of cascading:

Cascading simply refers to 'tax on tax' that leads to increase of the product and sales value and also more amount of tax payable by the consumer . In pre-GST period indirect taxes such a Central sales tax (CST) that was levied on interstate transactions (transactions between the states) and value added tax (VAT) that was levied on intrastate transactions (transactions within the state) resulted in tax is payable on tax amount that was paid by his previous dealer or businesses and input tax credit (ITC) available on for VAT transactions and not for CST transactions .In order to avoid all these limitations in the pre-gst tax system ,the new indirect tax system GST is introduced where ITC (Input Tax Credit) is available for both whether it is intra state or interstate transactions . Thus the effect of cascading effect of tax is removed.

To create 'One Nation One Market':

Different tax rates levied and collected on entry tax and Octroy tax and sales tax by the states on transaction within ,between and among the states that led to complexity in compliance and finally price raise of goods and services .So the the new tax regime (GST) introduced unified tax system by subsuming multiple taxes across the country including state Jammu and Kashmir. The new GST regime aims to change the incidence of tax on goods and service from point of origin to point of consumption. That results in destination of consumption state gets the tax revenue than the state of manufacturing or sale of goods and service.

Modifying the complexity and making it as simple tax structure:

In pre-GST period indirect tax system india multiple tax system that is central government levies excise duty, central sales tax and import duty and so on. Similarly the state governments also levied and charged various types of tax such as Octroi tax, entry tax and sales tax etc,. To pay all these taxes the business firms have to be registered with different central and state tax authorities and it is very complexity of compliance of tax procedures. By introducing GST unified tax system across the country is implemented and ease of doing business enhanced and complexity in compliance is minimized.

To improve compliance and transparency:

Goods and Service Tax (GST) in india is backed by Goods and Service Tax Net Work (GSTN) a government owned organization operated with non-profit motto. This Organization assists from registration of the firm to filing of returns by the firm and all the transactions carried out through online to eliminate manual interaction in registration, tax returns ,uploading of e- invoices, e-way bills and inpupt tax credit tax compliance. Thus transparency in transactions and simplicity in compliance enhanced.

FEATURES OF GST:

Destination based tax:

When tax is levied and collected on point of origin or production of goods and services that is referred as tax on the point of origin, under this method tax is levied and collected by the point of origin state , and tax revenues given to that state. Under this method good s manufacturing and service rendering states earns more and more tax revenue that led to income disparity among the states and rich states become richer and poor states suffer a lot of loss of tax revenue. To eliminate this limitation, in new GST regime,the tax is levied and collected on the basis of point of destination or consumption, means tax is levied and collected in the state of goods and service consumption .Under this system distribution of GST tax revenue among the states depends on their consumption of goods and services. Thus disparity in distribution of tax income among rich and poor states is avoided and fair revenue distribution achieved.

Duel GST model (Central GST and State GST):

This duel Goods and Service Tax is also one of the important feature of GST. Under this method tax is levied and colleted by the Central and State governments on the same transaction simultaneously. This method provides fair tax distribution between center and state governments. The reason to follow this method is federal system of administration where both the centre and state governments have the power of levy and collect the tax on transactions. This tax system facilitates in maintenance of federal financial powers of centre and state and ensures fair distribution of tax revenue between centre and states and also provides uniform tax system across India.

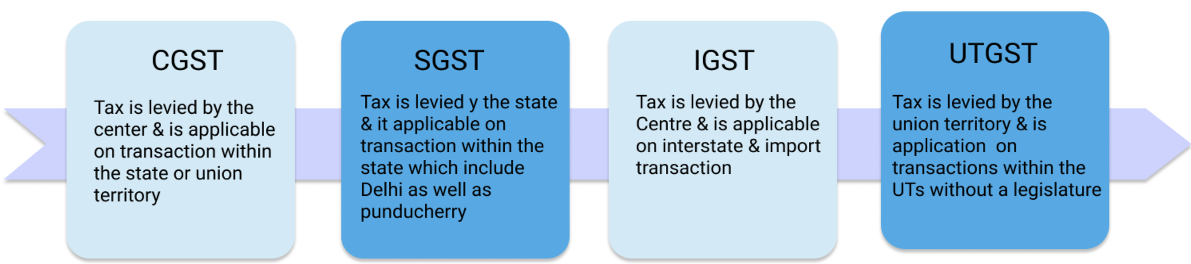
Input Tax Credit (ICT):Its mean taxpaying businesses can avail deduction of tax amount paid on purchases ,from tax payable by the firm. When the tax payer is payable tax of Rs.100, the business firm can deduct the the tax amount that already paid by it on purchase of goods and services. This facility of ICT is available only when fulfill the following points a) .The firm must be registered one under GST b). Having the valied invoice to claim ITC

c) The claiming business firm should receive or purchased the goods and services actually d).Collected tax is to be paid to the government by the supplier of goods and services e).The buyer of the goods and services has to be filed tax returns with the government.

Online tax filing and digital system:

In new GST regime from the business firm registration to gst tax file returning and input tax credit , all these are operated or maintained by using technology through internet by the Goods and Service Tax Net work(GSTN) portal. This online method provides less paper work and improve in transparency in transaction and accountability and makes faster and easier tax administration. It also helps in minimizing tax evasion.

STRUCTURE OF THE GST:



1.Central Goods and Sales Tax (CGST): This tax levied and collected by the Central Government on the transactions taken place within a state or intra state. The rate of tax under CGST depends on type of the product whether it is essential goods such as hair oil and soaps ,tea and toothpaste etc,. that are taxed with 5 percent ,previously before GST 2.0 they were charged with 12 percent or 18 percent and On luxurious goods on sale value of the goods and services.The necessary goods and services that are charged with 18 percent

And the luxurious or sin goods are charged with 40 percent of goods and service value.

2. State Goods and Service Tax (SGST): This tax is levied and collected on the transactions of consumption and destination within the state boundaries by the state government. Including Delhi and Puduchery. For example purchase of goods and services from the Vijayawada and selling in the visakapatnam is intra state transaction that attracts the both state goods and service tax rate and also the central goods and service tax . The rate state goods and service tax depends on type of category of goods and services.

3.Union Territory Goods and Service Tax (UTGST):

This tax is levied and collected by the central government on supply of goods and services within (intra)the boundaries of union territories excluding Delhi and Pandichery. Ex : Goods and services purchased in and supplied in the state of Telangana .Rate of UTGST depends on supply of essentials or luxuries or sin goods and services.

4.Integrated Goods and Service Tax (IGST):

The transactions of purchase or sale of goods and services between and among the states or Union Territories or between the state and union territory and imports and exports are levied tax and collected by the central government. Later tax apportioned to the state or union territory where finally goods or services are consumed.

Components of Tax Collection

Intra-state sales: Seller collects both CGST and SGST. The SGST portion goes to the state government.

Inter-state sales: IGST is charged (not SGST) by the central government, which is later apportioned to the consuming state.

Compliance: Taxpayers file returns with state tax authorities to comply with SGST provisions.

GST COUNCIL:

GST Council consist of a chairman and members. The central government finance minister acts as chairman of the council and Union minister of state for finance and all states finance ministers are members of the council. It takes decisions based on the majority of vote for modifications in GST act and implementation, and to avoid any authoritarianism. This council recommends and suggests on the issues such as deciding the GST rates and exemptions, formulating GST laws, principles of levy, and methods of determining of place of supply, turnover limit for tax registration, acts as mediator between centre and state governments for providing solutions in case any dispute that arises between them, and compensation amount to be given to states for revenue losses arising from GST implementation.

IMPACT OF GST

On Businesses :

Accuracy:

The entire system of GST is depends on technology and from business registration to return filing all activities are carried out with the help of technology by the organization GSTN. So after implementation and introduction of GST in 2017, the human intervention reduced by automation and errors are minimized.

Cash balance:

As GST operates on online , input tax credit is credited to the businesses automatically without any delay thus the inflow of cash increases and so requirement of working capital by them is minimized.

increased

Adoption of new measures:

To compliance the GST rules and regulations effectively ,the businesses need to take measures for better internal controls and timely reconciliation.

Growth of tax revenue:

Tax revenue increases as the efficient and enhanced tracking is possible with the technology oriented GST implemented.

On Consumers:

With the introduction of the GST, the customer or final consumer gets the benefit in the various forms such as

Affordable of essentials:

Daily –used essential items like food, groceries, soap, and medicine prices becomes cheaper and affordable.As most of the daily essential products are taxed at rate of '5' percent or '0' percent as per GST

Minimized cascading effect:

In GST, it is allowed the businesses to avail the input tax credit (ITC) that is paid by the businesses on purchase of raw materials, to use as 'already paid tax' and deductable from the payable tax. So the burden of Tax on tax is minimized that led to lowered the products prices.

Avoiding Overcharging:

In GST every transaction is carried out by the online or with the help as software .Therefore the consumers are able to verify how much tax is being levied and how much collected tax from him .Thus charging extra price by the supplier is avoided.

Luxuries and Sin products:

In GST regime the luxuries items such as cars, cameras and mobiles and sin products such as tobacco ,beedi, and cigarettes become costlier as tax rate on these products are more than previous tax regime.

OVERALL BENEFITS OF GST:

1.Simplyfied tax system:

In pre -GST regime huge number of indirect taxes levied and collected by the central and state governments. The indirect taxes include excise duty, service tax,value –added tax (VAT), and others . All these taxes are subsumed into a single and unified tax that is Goods and Service Tax. This Goods and Service Act is simple and easy and comprehensive to understand by the citizens, manufacturers, traders and service providers and for tax payers the tax is based on self assessment and for consumers component of value of the product and amount of tax is separately segregated in the invoice thus consumer knows how much tax is levied and how much the business man collected price from him. Thus GST regime simplified the tax structure make it more comfortable and easy to compliance tax rules that led to ease of doing business.

2. Reduced tax evasion:

The businesses intentionally paying less tax or avoiding paying the tax is tax evasion . As there was no any centralized invoice monitoring system in pre-GST indirect tax system, businesses tries to pay less central sales tax by under declaration of value of goods transported between the states. By operating multiple small firms by the businesses to keep its turnover below the taxable limit and under invoicing and creating fake invoicing to avail input tax credit without actual movement of of goods as there was no any seamless integration by the state-level VAS system. High cash transactions were carried out without any bill,to hide the transactions .All these tax evasion practices resolved by the GST implementation.

3. Easier interstate transactions:

Interstate movement of goods across the state borders faces huge bottlenecks. Vehicles needed wait long hours at border check post to comply with VAT laws of the entry state and required a lot of paper work and other procedures in pre-GST regime .GST provides seamless and much faster movement of goods across state borders.

4. Transparency in transaction:

Central and State government tax authorities levied and collected multiple taxes at different stages of manufacturing, distributing of goods and services in the previous indirect tax system. There is also complex compliancy and limited VAT availability are some of the reasons for manipulating the tax payable by the businesses. With the implementation of the GST use of technology, data from GSTN (Goods and Service Tax Network), input tax credit (ICT) encourages to have every paid tax is to be documented and encourages to have business with registered business entity only.The GST scope also covers not only the sale or purchase of

Goods and services but also it includes transfers, leases and barter, to ensures nothing is left beyond the GST regime.

<u>LIMITATIONS OF GST:</u>

1***.Technical issues in the beginning:***

GSTNetwork services:

GSTN portal, provides services beginning from firm registration to returns, payment of tax and so on.Due to heavy overload the services frequently crashed, slow processing time, session time out etc, especially during the peak of the return filing deadline. Mismatch of invoices , occurred due failure of the system in matching GSTR-1 with GSTR-2A led to deny of ITC to the buyers as suppliers fail to file returns and this lead to a significant impact on cash flows and working capital .

2.Compliance burden for small businesses:

Lack of digital literacy o makes the businesses to face the problem in online return filing, e-way bills and navigating GST bills. Delays in credit of Input tax credit leads to blockage of cash flows and working capital. Frequent changes in GST rules makes the businesses to be confuse and ineffective compliance .

The cost of compliance is more for the small businesses (1.45% of turnover) than large businesses (0.02%).

Administrative overheads also increases as hiring professional accountant for implementing the GST rules.

3. Frequent changes in GST rule:

In impacts significantly in negative on businesses in the form of confusion about the GST rules and updating of IT system is required whenever changes happen in GST rules and also frequently update in internal processes required whenever changes or alteration in tax rates. Penalty on small businesses(Rs.25.000/- per return) for not keeping up with new rules is also one of the concern to be noted.

4. Exceptions and Considerations:

Though the aim of the GST is to have 'Unified tax system ' and 'One nation one market', some products like petrol, tobacco etc, are not brought into the scope of the GST due to some constrains in implementing the GST to all products in india. Thus exemptions and considerations from the GST leads to confusion in taxation system .There are various types of taxes like state GST, central GST, integrated GST and UT GST, a business firm that has transactions across the country has the problem to learn about all the types of GST taxes and also varied interpretation of the GST Act by the various state authorities ,led to litigations in the application of GST.

LATEST DEVELOPMENTS IN GST:

Simplified tax rates: The recent reform in the GST implemented from 22nd Sep,2025.The various tax rates 5%,12%,18%and 28% are replaced with only two tax rates 5% and 18% and on luxurious and sin products such as large cigarettes and premium cars attracts tax of 40% by cancelling the tax rates of 12% and 28%.This change of tax rates led to save 5%-10% of their monthly expenditure on groceries and household items, and provides a major boost to Job-creating sectors like FMCG, consumer durables, automobiles and construction.The introduction of new slab rates for luxury and sin products is also a significant development. A higher tax on luxury products align with the ethos of the welfare state in India.

Price-based differential tax :Introduction of new price-based tax differential in the regime, which aims to tax two products in the same category differently based on their affordability. A garment priced below Rs.2500will be taxed at 5% and ,those priced above the Rs.2500 with be taxed at 18 percent. This type of tax system ensures that affluent individuals contribute more to the country's growth objectives.This tax model address the anomaly of taxing widely different income groups equally.

Inviting foreign companies: This reform in GST is also addresses the growing demand from the foreign countries to open up the Indian economy. Most foreign companies are interested in capturing the premium and luxury market in India, which is growing faster than the overall economy. With India entering into free trade deals, foreign companies could dominate this segment in the near term. As foreign companies do not create jobs in the country, it is apt for the government to levy higher taxes.

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CONCLUSION:

Before the GST implementation the Indian indirect taxation system consist large number of limitations such as multiple number of taxes like excise duty, customs duty, Central sales tax (CST), service tax, entertainment tax, and different tax rates at different states and lack of compliance complexities , fragmented and multiple central and state taxes and potential tax evasion by the businesses, high selling price of the products due to cascading etc. This paper deals with how the above indirect taxation system limitations are concerned and overcome with the introduction of Goods and Service Tax from 1st July 2017.With the implementation of GST in the country, the consumers, businesses, industrialists ,distributions of goods and service get benefited through unified tax system, one nation one market, minimizing the impact of tax cascading, and tax evasion, and lower prices and increase in tax revenue ,transparency in the transactions ,digitalization of transactions and ease of compliance and avoiding human intervention etc. However this GST system also have the limitations like it is hard for small businesses to compliance due to technology hurdles and changes in the rules of GST rules and regulations.GST 2.0 reforms simplified the taxes and there exist only 5%and 18% and 40% of tax for luxury and sin products.GST2.0 reforms are very much needed for creation of own market for own products keeping in view the deadlines announced by the USA president. With the implementation of GST2.0 demand for consumer goods induced, production of FMCG increased and employment generation increased and creation of own market for own manufactured goods and services achieved.

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