

# **GST: ITS CAUSE AND EFFECTS**

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## **ABSTRACT**

This topic is about GST and its cause and effects. How GST helps in our day to day today life activity and what its cause and effects. GST stands for goods and service tax; it is an indirect tax which effects all the sectors and sections of our economy. The Goods and Service Tax (GST), Implemented on July1, 2017, is regarded as a major taxation reforms till date implemented in India since independence in 1947. GST was planned to be implemented in April 2010, but was postponed due to political issues and conflicting interest of stakeholders. The primary objective behind development of GST is to subsume all sorts of indirect taxes in India liked central excise tax, VAT/Sales Tax, service tax, etc. and implemented one taxation system in India. The GST based taxation system brings more transparency in taxation

system and increases GDP rate from 1%to 2% and reduces tax theft and corruption in country. It is ideal to note that both sides of coins (pros and cons) need to be taken in account. Impact of GST on society should studied carefully. The impacts are positive and negative.

Positive impact are : Simplified tax structure, Support for small and medium enterprises, More funds for production, Enhanced operations throughout India and Increased volume of export.

Negative impacts are: Negative impact on common man, negative impact on the real estate Market and GST on unemployment.

This paper focuses o the cause and effects, positive and negative sides and impact of GST on Indian economy.

**Keywords: GST, Tax and VAT**

## INTRODUCTION

The genesis of the introduction of GST in the country was laid down in the historic Budget Speech of 28th February 2006, wherein the then Finance Minister laid down 1st April, 2010 as the date for the introduction of GST in the country. Thereafter, there has been a constant endeavor for the introduction of the GST in the country whose culmination has been the introduction of the Constitution (122nd Amendment) Bill in December, 2014.

All the taxes mentioned earlier are proposed to be subsumed in a single tax called the Goods and Services Tax (GST) which will be levied on supply of goods or services or both at each stage of supply chain starting from manufacture or import and till the last retail level. So basically any tax that is presently being levied by the Central or State Government on the supply of goods or services is going to be converged into GST.

GST is proposed to be a dual levy where the Central Government will levy and collect Central GST (CGST) and the State will levy and collect State GST (SGST) on intra-state supply of goods or services. The Centre will also levy and collect Integrated GST (IGST) on inter-state supply of goods or services. Thus GST is a unifier that is going to integrate various taxes being levied by the Centre and the State at present and provide a platform for forging an economic union of the country.

This tax reform will lead to creation of a single national market, common tax base and common tax laws for the Centre and States. Another very significant feature of GST will be that input tax credit will be available at every stage of supply for the tax paid at the earlier stage of supply. This feature would mitigate cascading or double taxation in a major way. This tax reform will be supported by extensive use of Information Technology [through Goods and Services Tax Network (GSTN)], which will lead to greater transparency in tax burden, accountability of the tax administrations of the Centre and the States and also improve compliance levels at reduced cost of compliance for taxpayers. Studies indicate that introduction of GST would instantly spur economic growth and can potentially lead to additional GDP growth in the range of 1% to 2%.

### Advantages of GST

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 compliance is lesser
6. Defined treatment for E-commerce operators
7. Improved efficiency of logistics
8. Unorganized sector is regulated under GST

### Disadvantage of GST

1. Increased costs due to software purchase
2. Not being GST- complaint can attract penalties
3. GST will mean an increase in operational cost
4. GST came into effect in the middle of the year

5. Adapting to a complete online taxation system
6. SMEs will have a higher tax burden

## LITERATURE REVIEW

This section covers the review of literature of some of the important studies, research papers and articles on the various aspects of GST system.

Garg(2014) Focused on the impact of GST(Goods and Services tax) with a brief description of the historical scenario of Indian taxation and its tax structure and discussed the possible challenges, threats and opportunities that GST brings to strengthen our free market economy. Shah (2014) highlighted the objectives of proposed GST and discussed the possible challenges, threats and opportunities that GST bring before is to strengthen our forced marked economy.

Almost all the countries that have established the Goods and Services Tax (GST) system adopt the consumption-type GST in which all purchases of capital goods from other firms are deductible from a firm's sale.

## OBJECTIVE

1. To study the cause and effects of GST.
2. To suggest measure to overcome the disadvantages of GST

## RESEARCH METHODOLOGY

The research method here used is secondary data taken from journals, articles, magazines and websites.

## CHALLENGES BEFORE INDIA'S LARGEST INDIRECT TAX REFORM –GST

1. **Complex Tax Structure:** One of the major challenges of GST is its complex tax structure. The GST system has four tax slabs- 5%, 12%, 18% and 28%. Additionally, there is a special rate of 0.25% on rough precious and semi precious stones and 3% on gold. The multi-tax system has made it difficult for businesses to understand and comply with tax laws. The complexity of the tax structure has led to confusion among taxpayers, resulting in increased compliance among taxpayers, resulting in increased compliance costs and a riser in litigation.
2. **Technology Glitches:** The GST system requires taxpayers to file returns online through the GST portal. However, the portal has faced several technical glitches, making it difficult for taxpayers to file returns on time. The technical issues have also resulted in the incorrect GST return filings, leading to penalties and fines. The GST Network(GSTN), which manages the GST portal, has taken several measures to address the technical issues. However, the problem persists, and taxpayers continue to face difficulties in incorrect GST return filing.
3. **Higher Compliance Cost:** GST compliance involves various activities such as GST Registration, GST return filing, maintaining records, and undergoing audits. These activities involved significant cost,

which are borne by businesses. The compliance costs have increased significantly under GST, especially for small and medium-sized enterprises (SMEs). The high compliance costs have made it difficult for SMEs to operate and compete with larger businesses.

4. Input Tax Credit (ITC) issues: ITC is a significant feature of GST, which allows businesses feature of GST, which allows businesses to claim credit for the tax paid on the inputs used in the production of goods or services. However, several issues have arisen with the ITC mechanism under GST. The major issue is the delay in receiving the ICT refund. The delay in the refund has resulted in a shortage of working capital for businesses, leading to cash flow issues.

5. GST rates: GST rates have been a topic of discussion since the introduction of the tax system. The high tax rates on essential goods and services have faced criticism, as they have direct impact on the common man. The government has made several changes to the tax rates, reducing the rates on some goods and services. However, the high tax rates on certain goods and services. However, the high tax rates on certain goods and services continue to be a concern for businesses and consumers.

6. E-way Bill System: The E-way bill is a document that is required for the transportation of goods worth more than Rs.50000. The E-way bill system under GST has faced several glitches and delays in generating the bills. The delay in generating the E-way bill has resulted in the detention of goods and increased compliance costs for businesses

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### **IMPACT OF GST CHALLENGES ON BUSINESSES**

1. Increased Compliance Costs: The high compliance costs under GST have made it difficult for SMEs to operate and compete with larger businesses. The compliance costs involve various activities such as GST Return filing, maintaining records, and undergoing audits. The high costs have resulted in a significant burden for SMEs, reducing their profitability and competitiveness.

2. Cash Flow Issues: The delay in receiving the ITC refund has resulted in a shortage of working capital for businesses, leading to cash flow issues. The delay in the refund has made it difficult for businesses to manage their finances, resulting in reduced investments and growth opportunities.

3. Increased Litigation: The complex tax structure and technical glitches have led to confusion among taxpayers, resulting in increased litigation has resulted in higher legal costs and delayed resolutions of disputes, affecting the business operations of the companies involved.

4. Difficulty in adapting to the new system: The introduction of GST has required businesses to adapt to a new tax system, which has been challenging for many. The changes in tax rates, compliance procedures, and documentation have made it difficult for businesses to understand and comply with new system, resulting in increased compliance costs and reduced productivity.

5. Impact on Consumer spending: The high tax rates on certain goods and services have had a direct impact on consumer spending. The increased cost of goods and services has reduced the disposal income of the consumers, leading to a decline in consumer spending. The decline in consumer spending has a negative impact on businesses, especially those that rely on consumer spending.

## CONCLUSION

GST is an indirect tax which plays important role in the economy; GST has replaced many indirect taxes in India such as the exercise duty, VAT, services tax, etc. The indirect tax under GST will integrate the country with a uniform tax rate. It will improve the collection of taxes as well as boost the development of the Indian economy by removing the indirect tax barriers between states.

From all over study, I concluded that GST has certain positive like; GST also has an optional scheme of lower taxes for small businesses with turnover between INR 20 to 50 lakhs. It is called the composition scheme.

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