An Overview of Goods and Service Tax in India

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Received August 12, 2017 Accepted Sept. 08, 2017

ABSTRACT

GST is one of the most crucial tax reforms in India which has been long pending. It was supposed to be implemented from April 2010, but due to political issues and conflicting interests of various stakeholders it is still pending. The Constitution (122 Amendment) Bill, 2014 seeks to amend the Constitution to introduce the GST. This paper is an analysis of what the impact of GST will be on Indian Tax Scenario. Then the need arose for the change in tax structure from traditional to GST Model. GST has be detailed discuss in this paper as the background, silent features and the impact of GST in the present tax scenario in India. The GST is a value added tax to be implemented in India, the decision on which is pending. GST is the only indirect tax that directly affects all sectors and sections of our economy. The GST is aimed at creating a single, unified market that will benefit both corporate and the economy. The changed indirect tax system GST is planned to execute in India. Several countries implemented this tax system followed by France, the first country introduced GST. GST is a new story of VAT which gives a widespread setoff for input tax credit and subsuming many indirect taxes from state and national level. India is a centralized democratic and therefore the GST will be implemented parallel by the central and state governments as CGST and SGST respectively. In this paper started with the introduction, in general of GST and have tried to highlight the objectives the proposed GST is trying to achieve. Thereafter, I have discussed the possible challenges and threats; and then, opportunities that GST brings before us to strengthen our free market economy.

Key Words: *GST, CGST, SGST, Input Credit, Tax, Indirect Tax, India.*

1. Introduction

Introduction of the Value Added Tax (VAT) at the Central and the State level has been considered to be a major step – an important step forward – in the globe of indirect tax reforms in India. If the VAT is a major improvement over the pre-existing Central excise duty at the national level and the sales tax system at the State level, then the Goods and Services Tax (GST) will indeed be an additional important perfection – the next logical step – towards a widespread indirect tax reforms in the country.

The proposed GST is likely to change the whole scenario of current indirect tax system. It is considered as biggest tax reform since 1947. Currently, in India complicated indirect tax system is followed with imbrications of taxes imposed by union and states separately. GST will unify all the indirect taxes under an umbrella and will create a smooth national market. Experts say that GST will help the economy to grow in more efficient manner by improving the tax collection as it will disrupt all the tax barriers between states and integrate country via single tax rate. The GST is being introduced not only to get rid of the current patchwork of indirect taxes that are partial and suffer from infirmities, mainly exemptions and multiple rates, but also to improve tax compliances. GST was first introduced by France in 1954 and now it is followed by 150 countries. Most of the countries followed unified GST while some countries like Brazil, Canada follow a dual GST system where tax is imposed by central and state both. In India also dual system of GST is proposed including CGST (Central Goods and Service Tax) and SGST (States Goods and Service Tax).

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 (ITC) on the tax paid on its inputs.

2. Objectives of GST

- To examine their various characteristics and assess their suitability in India's fiscal federal context.
- To identify the Central Taxes and State Taxes which possess properties to be appropriately subsumed under GST?
- To understand the concepts and fundamental of GST.
- To understand how GST work in India for economic rapid growth.
- To understand the benefit of GST for consumers and businesses.

Understanding GST Concept and Fundamental

How GST is charged at each level of supply chain – standard Rate
(Assume rate GST=6%)*.

*Rate of GST is not yet specified in the draft GST law.

The main objectives of GST would be to eliminate the cascading impact of taxes on production and distribution cost of goods and services. The exclusion of cascading effects i.e. tax on tax will significantly improve the competitiveness of original goods and services which leads to beneficial impact to the GDP growth. It is felt that the GST would serve a superior reason to achieve the objective of streamlining indirect tax government in India which can remove cascading effects in supply chain till the level of final consumers only when all such above mentioned indirect taxes are completely included in GST.

3. Concepts of GST

GST or Goods and Services Tax are applicable on supply of goods and services. It will replace the current taxes of excise, VAT and service tax. Currently there are different VAT laws in different states. This creates problems, especially when businesses sell to different states. Also, most businesses have to pay and comply with 3 different taxes – excise, VAT, and service tax.GST will bring uniform taxation across the country and allow full tax credit from the procurement of inputs and capital goods which can later be set off against GST output liability. This reform gives equal footing to the big enterprises as well as SMEs. The aim of GST is thus to simplify tax hurdles for the entire economy.

GST and its future aspects in Indian economy showing a signal of rapid growth of Indian economy. Goods and Service tax is a key for our GDP, this should be send a strong signal to the investors (Internal & External) that India's economy can overcome serious global issues and challenges. GST would help country to make 'One India rather than divide India' India is proposing to implement "dual GST". All transaction of goods and service made for a consideration would attract two levies – CGST (Central Good & Service Tax) and SGST (State Goods and Service Tax) Country's economic growth forecast, Indian economy is expected to register a growth of 7.5 percent to 8 Percent in 2016-17 and 9 percent in 2018-19 and it will be depend upon the all economy factors. In an summary help to understand GST will or doing work in India and benefit for Indian economy as well as consumers and how much relief to the customer on tax burden point of view.

4. Dual GST

Dual GST means, the proposed model will have two part called
1. CGST – Central Goods and Service Tax for levied by Central Govt.
2. SGST – State Goods and Service Tax levied by State Govt.
There would have multiple statute one CGST statute and SGST statute for every state.

5. Salient Features of GST

The salient features of GST are as under:

- The GST shall have two components: one levied by the Centre (referred to as Central GST), and the other levied by the States (referred to as State GST). Rates for Central GST and State GST would be approved appropriately, reflecting revenue considerations and acceptability.

- The Central GST and the State GST would be applicable to all transactions of goods and services made for a consideration except the exempted goods and services.
- The Central GST and State GST are to be paid to the accounts of the Centre and the States individually.
- Since the Central GST and State GST are to be treated individually, taxes paid against the Central GST shall be allowed to be taken as input tax credit (ITC) for the Central GST and could be utilized only against the payment of Central GST.
- Cross utilization of ITC between the Central GST and the State GST would not be permitted except in the case of inter-State supply of goods and services.
- Ideally, the problem related to credit accumulation on account of refund of GST should be avoided by both the Centre and the States except in the cases such as exports, purchase of capital goods, input tax at higher rate than output tax etc.
- To the extent feasible, uniform procedure for collection of both Central GST and State GST would be prescribed in the respective legislation for Central GST and State GST.
- The States are also of the view that Composition/Compounding Scheme for the purpose of GST should have an upper ceiling on gross annual turnover and a floor tax rate with respect to gross annual turnover.
- The taxpayer would need to submit periodical returns, in common format as far as possible, to both the Central GST authority and to the concerned State GST authorities.
- Each taxpayer would be allotted a PAN-linked taxpayer identification number with a total of 14/15 digits. This would bring the GST PAN-linked system in line with the prevailing PAN-based system for Income tax, facilitating data exchange and taxpayer compliance.
- The GST would be applicable on the supply of goods or services as against the present concept of tax on the manufacture and sale of goods or provision of services. It would be a destination based consumption tax.
- It would be a dual GST with the Centre and States simultaneously levying it on a common tax base. The GST to be levied by the Centre on intra- State supply of goods and services would be called the Central GST (CGST) and that to be levied by the States would be called the State GST (SGST).
- The GST would apply to all goods other than alcoholic liquor for human consumption and five petroleum products, viz. petroleum crude, motor spirit (petrol), high speed diesel, natural gas and aviation turbine fuel. It would apply to all services barring a few to be specified.
- The CGST and SGST would be levied at rates recommended by the GST Council.
- There would be a floor rate with a small band of rates within which the States may fix the rates for SGST.
- The list of exempted goods and services would be common for the Centre and the States which would be finalised by GST Council.
- An Integrated GST (IGST) would be levied and collected by the Centre on inter-State supply of goods and services. Accounts would be settled periodically between the Centre and the States to ensure that the SGST portion of IGST is transferred to the Destination State where the goods or services are eventually consumed.
- Tax payers shall be allowed to take credit of taxes paid on inputs (input tax credit) and utilize the same for payment of output tax. However, no input tax credit on account of CGST shall be utilized towards payment of SGST and vice versa. The credit of IGST would be permitted to be utilized for payment of IGST, CGST and SGST in that order.
- HSN (Harmonised System of Nomenclature) code shall be used for classifying the goods under the GST regime. It is being proposed that taxpayers whose turnover is above Rs. 1.5 crores but below Rs. 5 crores shall use 2 digit code and the taxpayers whose turnover is Rs. 5 crores and above shall use 4 digit code. Taxpayers whose turnover is below Rs. 1.5 crores will not be required to mention HSN Code in their invoices.
- Exports shall be treated as zero-rated supply. No tax is payable on export of goods or services but credit of the input tax related to the supply 4 shall be admissible to exporters and the same can be claimed as refund by them.
- Import of goods and services would be treated as inter-State supplies and would be subject to IGST in addition to the applicable customs duties. The IGST paid shall be available as ITC for payment of taxes on further supplies.
- The laws, regulations and procedures for levy and collection of CGST and SGST would be harmonized to the extent possible.

6. Benefits of Goods and Services Tax

- GST provide comprehensive and wider coverage of input credit set off, you can use service tax credit for the payment of tax on sale of goods etc.
- CST will be removed and need not pay. At present there is no input tax credit available for CST.
- Many indirect taxes in state and central level included by GST, You need to pay a single GST instead of all.
- Uniformity of tax rates across the states.
- Ensure better compliance due to aggregate tax rate reduces.
- By reducing the tax burden the competitiveness of Indian products in international market is expected to increase and there by development of the nation.
- Prices of goods are expected to reduce in the long run as the benefits of less tax burden would be passed on to the consumer.

7. Indirect taxes included under GST

The following indirect taxes from state and central level are going too integrated with GST:

- The GST would replace the following taxes currently levied and collected by the Centre:
  - ✓ Central Excise duty
  - ✓ Duties of Excise (Medicinal and Toilet Preparations)
  - ✓ Additional Duties of Excise (Goods of Special Importance)
  - ✓ Additional Duties of Excise (Textiles and Textile Products)
  - ✓ Additional Duties of Customs (commonly known as CVD)
  - ✓ Special Additional Duty of Customs (SAD)
  - ✓ Service Tax h. Central Surcharges and Cesses so far as they relate to supply of goods and services
- State taxes that would be subsumed under the GST are:
  - ✓ State VAT
  - ✓ Central Sales Tax
  - ✓ Luxury Tax
  - ✓ Entry Tax (all forms)
  - ✓ Entertainment and Amusement Tax (except when levied by the local bodies)
  - ✓ Taxes on advertisements
  - ✓ Purchase Tax
  - ✓ Taxes on lotteries, betting and gambling
  - ✓ State Surcharges and Cesses so far as they relate to supply of goods and services

8. Applicability of CGST and SGST

The applicability of taxes is as usual there would be a prescribed limit of annual turnover, also some goods and services are exempted under GST. Threshold for annual turnover for goods and services would be 10 lakh for SGST and threshold of CGST for goods may be 1.5 crore and service would have a separate threshold that too will be appropriately high. It is assumed that aggregate total of CGST & SGST would be 20%.

9. Challenges of GST

a) With respect to Tax Threshold

The threshold limit for turnover above which GST would be levied will be one area which would have to be strictly looked at. First of all, the threshold limit should not be so low to bother small scale traders and service providers. It also increases the allocation of government resources for such a petty amount of revenue which may be much more costly than the amount of revenue collected. The first impact of setting higher tax threshold would naturally lead to less revenue to the government as the margin of tax base shrinks; second it may have on such small and not so developed states which have set low threshold limit under current VAT regime.

b) With respect to nature of taxes

The taxes that are generally included in GST would be excise duty, countervailing duty, cess, service tax, and state level VATs among others. Interestingly, there are numerous other states and union taxes that would be still out of GST.

c) With respect to number of enactments of statutes

There will two types of GST laws, one at a centre level called 'Central GST (CGST)' and the other one at the state level - 'State GST (SGST)'. As there seems to have different tax rates for goods and services at the

Central Level and at the State Level, and further division based on necessary and other property based on the need, location, geography and resources of each state.

d) With respect to Rates of taxation

It is true that a tax rate should be devised in accordance with the state's necessity of funds. Whenever states feel that they need to raise greater revenues to fund the increased expenditure, then, ideally, they should have power to decide how to increase the revenue.

e) With respect to tax management and Infrastructure

It depends on the states and the union how they are going to make GST a simple one. Success of any tax reform policy or managerial measures depends on the inherent simplifications of the system, which leads to the high conformity with the administrative measures and policies.

10. Conclusion

GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. GST is leviable on all supply of goods and provision of services as well combination thereof. All sectors of economy whether the industry, business including Govt. departments and service sector shall have to bear impact of GST. All sections of economy viz., big, medium, small scale units, intermediaries, importers, exporters, traders, professionals and consumers shall be directly affected by GST. One of the biggest taxation reforms in India – the Goods and Service Tax is all set to integrate State economies and boost overall growth. GST will create a single, unified Indian market to make the economy stronger. Experts say that GST is likely to improve tax collections and Boost India's economic development by breaking tax barriers between States and integrating India through a uniform tax rate. Under GST, the taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions.

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