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Research Paper

Goods and Services Tax (GST) G-Goods; S-Services; T-Tax

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I. INTRODUCTION

A tax is a compulsory contribution enforced by legislative authority to support the government. The tax system in India is a three tier system based on the Central, State and the Local Governments. These local bodies mostly include the local councils and the municipalities. As per the Constitution of India, the government has the right to levy taxes on individuals and organizations. However, the constitution states that no one has the right to levy or charge taxes except the authority of law.

There are broadly two types of tax viz. direct tax or indirect tax. The indirect tax system in India is quite complicated. There are several taxes levied by the Centre and the Statesgovernments at different stages of transfer of goods and services. These multiple taxes cause a cascading effect on tax and lead to high compliance cost for assesses as well as the government.

Goods and services tax will obligate both the Central and State governments to levy tax on a common base. It aims to replace the current complex structure of several indirect taxes into a single tax to be levied on the product or service which is sold.It is being considered as the biggest indirect tax reform post independence and possesses strong potential to lead the economic integration of India.

This article covers the various aspects related to Goods and Services tax to be implemented by the Government of India. It highlights the meaning,why GST is required, important features of the proposed GST, its effect on Indian economy and emerging issues related to GST system.

The Concept

The Good and Services Tax, as the name suggests is the tax levied on manufacturing, selling and consumption of goods and services. It is a single, comprehensive tax that will subsume all other smaller indirect taxes like service tax, value added tax, excise duty etc.This tax is levied at a national level, thus it will eradicate the difference of Centre and State level taxes.

The main function of GST is to break the current fiscal benefits between States and transform India into a uniform market. Thus it focuses on a unified tax rate to be levied on goods and services across the country. It is a tax system which createsa value addition at each stage of supply of goods and services. It will provide continuous chain of set-of benefits from the manufacturing to retail outlet. It is going to be a destination based tax where the ultimate final consumer has to bear the tax.

It is a very popular concept in most of the developed countries. More than 140 countries across globehave adopted GST system as it has capacity toraise revenue in most transparent and neutral manner. GST has become a preferred global standard with the increase of international trade in services. All OECD (Organization of Economic Co-operation and Development) countries, except the US, follow this taxation structure.

Let us understand this with the help of a FMCG product. A toothpaste manufacturer procures raw materials of Rs 100 lakh per batch. The manufacturer keeps his operating profits at Rs 60 lakh and incurs a processing cost of Rs 30 lakh. This makes the selling price of the tooth paste as Rs 200 lakhs (100+tax@10% as procurement of raw material+ 30 as processing cost + 60 as profit margin). As per the current system total tax paid by the manufacturer in this case would be Rs 30 lakh(Rs10 lakh on procurement + Rs 20 lakhs on sales). With the GST framework in place, the total tax of the producer will be Rs 20 lakhs. The producer had initially paid an input tax of Rs 10 lakhs. When he sells his batch for Rs 200 lakhs, he gets a tax credit of 10 lakhs. Thus, he pays 20 lakhs in the form of taxes for the final transaction. This adds up to just Rs 30 lakhs for the producer. Hence, GST reduces the tax burden on producers as tax paid on inputs is deducted fromthe tax payable on the output produced.The reduction of such taxes would lower the overall production cost and increase the output of the economy as a whole.

Need For GST

The overlapping taxes levied by the Centre and the State separately have created lot of complexity in the current indirect tax system.It has become imperative for the emerging economic environment to replace the existing multiple tax structures of Centre and State taxes with the GST system.Increasingly, services are used or consumed in production and distribution of goods and vice versa. Separate taxation of goods and services often requires splitting of transaction values into value of goods and services for taxation, which leads to greater complexities, administration and compliances costs.

Say for example, Mr. Akhil sells goods worth Rs 100 lakh to Mr. Bikram after charging 10% sales tax. Mr Bikram re-sells these goods (which cost him Rs 110 lakh) to Mr. Chandu after charging 10% sales tax again. Thus purchase price for Mr Chandu for same goods is Rs 121 lakh (110 + tax@10%). When Mr Bikram was computing his sales tax liability, he also included the sales tax paid on previous purchase, which is how it becomes tax on tax.

Another example is loss of business due to multiple barriers in India due to which logistic efficiency of our country is very low. Trucks have to wait in long queues to get the permit to enter in different states. Our trucks travel on an average of just 260 kms in a day as compared to the average of 440 kms in a day in European nations and 660 kms in America. Once GST is implemented, time taken to transfer the goods from one State to another will reduce and thus improve logistic movement in a more efficient way. It is expected that businesses will be affected significantly once GST comes into picture.

The multiplicity of taxes at the State and Central levels highlights the discrepancy in our taxation system. Firstly, there is no uniformity of tax rates and structure across States. Secondly, there is cascading of taxes due to 'tax on tax'. No credit of excise duty and service tax paid at the stage of manufacture is available to the traders while paying the State level sales tax or VAT, and vice-versa. Further, no credit of State taxes paid in one State can be availed in other States. Hence, the prices of goods and services get artificially inflated to the extent of this 'tax on tax'.

Integration of various taxes into a GST system would make it possible to give full credit for inputs taxes collected. GST, being a destination-based consumption tax based on VAT principle, would also greatly help in removing economic distortions and will help in improvising tax compliances and development of a common national market. GST will pave the way for Centre to tax sale of goods and the States to tax provision of services. The implementation of GST will help create a common market and reduce this cascading effect of tax on the cost of goods and services.

Benefits Of GST In India

As per the current system a manufacturer needs to pay tax when finished product moves out of factory and it is again taxed at the retail outlet when sold. Under GST, the tax burden will be divided equally between manufacturing and services, through a lower tax rate, increasing the tax base and minimising exemptions. It will help and build a transparent and corruption free tax administration. GST will be levied only at the last point in supply chain.

- **Centre and the States:**GST would promote exports, raise employment and boost growth. Thus, it is expected that implementing GST will generate a gain of $15 billion a year. Also, it will divide the tax burden equally between manufacturing and services. Under the new system, sale within the state shall be divided among SGST (which goes to the State) and CGST (for the Centre). A transaction of sale from one state to another shall have only one type of tax which goes to the Centre. For example a railway passenger buys a ticket to travel from a station in State A to travel to State B. The Railways should pass on the amount to the State A, but the Railways might have paid taxes to State A on inputs bought there. These taxes must be deducted from what is collected on tickets bought from within State A. It would be of great benefit to the taxmen and the Railways, if GST on Railway Services were made a purely Central tax whose proceeds could be shared with the states. The same could be validfor telecom services.

- **For the Companies:** GST will reduce the overall tax burden on companies. This will reduce cost of production and make exporters more competitive and aggressive. In the GST system, tax will be charged on the manufacturing cost and will be collected at the point of sale, hence every company gets a deduction on the taxes already paid by its suppliers. This will reduce the price of the product which in turn will increase consumption and thus help companies. GST will be beneficial for multinationals as well.They operate in unorganized sector;GST will simplify the indirect tax structure to one general rate that can be paid by all companies.

- **For the Individuals:**The biggest benefit to consumers will be the lower cost of goods and services. It is expected that dealers might pass on the benefits of the reduced tax to the consumers. Also, consumers have to pay one single tax for rendering services rather than paying taxes under different names. For example, currently food bill in a restaurant has four five different categories of taxes levied by the hotel. This also differs from hotel to hotel as how they present their bill, after GST there will be only one rate throughout the industry.

- **Reduce tax on tax effect:** GST will be creating common unified market for goods and services; this will reduce the cascading effect of tax on the cost of goods and services. This is going to impact tax structure, tax computation, credit utilization and reporting etc., leading to a complete overhaul and improvisation of the current indirect tax system. The broadening of tax base will result in better tax compliance and a robust IT infrastructure.
- **For the Economy:** The simplification of tax structure will reduce cost of production and inflation in the economy. This will make the Indian trade and industry more competitive, in both domestic as well as international markets. This seamlesstransfer of payments and input tax credits in Indian market will attract lot of business from across the globe and thus contribute significantly to the growth of the economy. Experts say that the GST can be instrumental in helping the GDP to grow by 2 percent.

Constitution Amendment Bill 2014

GST is considered as the biggest reform proposed in the tax regime of the country. Such a major change calls for a constitutional amendment, which requires a bill to be passed in both the houses of Parliament. The Constitution (One Hundred and Twenty-Second Amendment) Bill 2014 was introduced in the Lok Sabha by Finance Minister Arun Jaitley in December 2014. This bill seeks to amend the Constitution of India to make the introduction of Goods and Services Tax (GST) in the country a smoother and convenient process. The proposed amendments in the Constitution will bestow powers to the Parliament and the State legislatures to make laws for levying GST on the supply of goods and services.

Salient Features Ofthe Proposed GST

The empowered committee has proposed dual GST system for imposing tax. Under this dual system, GST will have two components i.e. CGST (Central Goods and Services Tax) and a SGST (State Goods and Services Tax). These would be levied on taxable value of transaction. All goods and services barring few exceptions will be brought into the GST base. Moreover, there will be no distinction between goods and services, whether as an input or as a finished product. The salient features of the proposed GST regime approved by the Lok Sabha are as follows:

- **Subsume central indirect taxes:**GST will subsume various central indirect taxes like the Central Excise Duty, additional excise duties, Countervailing Duty, Service Tax, central surcharges etc. It also subsumes State value added tax (VAT), entertainment tax, octroi and entry tax, purchase tax, luxury tax, etc. It will become easy and comfortable to do business as all the hidden taxes will be eliminated.

- **Role of final consumer:** Under GST system of tax, it is the final consumer who has to ultimately pay the tax on goods or services purchased. However, the consumer will bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages. Thus prices of the product will reduce making goods and services cheaper for consumers. This also implies that all SGST collected will ordinarily accrue to the State where the consumer of the goods or services sold resides.

- **The GST Council**: The task of this council is to optimize the tax collection for goods and services by the Centre and the State. It will be the body that decides which taxes to be levied by the Centre, States and local bodies will go into the GST; which goods and services will be subjected to GST; and the basis and the rates at which GST will be applied. The GST Council will consist of the Union Finance Minister as Chairman, the Union Minister of State of Finance and the Finance Minister of each State. Participation from Centre and State representatives will confer simultaneous power upon Parliament and the State Legislatures to make laws governing goods and services tax. It is further provided that every decision of the Council shall be taken by a majority of not less than three-fourths of the weighted votes of the members present and voting in accordance with the following principles:—

1. The vote of the Central Government shall have a weightage of one-third of the total votes cast.
2. The votes of all the State Governments taken together shall have a weightage of two-thirds of the total votes cast in that meeting.

- **Items excluded from GST:**The proposed bill covers all the goods and services in the GST regime barring products like alcohol for human consumption, tobacco, petroleum crude, diesel, petrol, natural gas, aviation turbine fuel etc.

- **Tax on inter-state trade:** An additional tax not more than 1% to be levied on inter-state trade in goods. This tax will be levied and collected by the Centre on supply of goods in the course of inter-state trade or commerce.This tax will be levied for two years, or for a longer period as recommended by the GST Council. The central government may exempt certain goods from such additional tax.The Centre will directly assign the tax collected to the states from where the supply originates.The GST Bill proposes that the central government will have the exclusive power to levy and collect GST on imports or interstate trade or commerce of goods and services. This will be known as Integrated GST (IGST).The IGST mechanism has been designed to ensure seamless flow of input tax credit from one State to another. A central law will prescribe the manner in which the IGST will be shared between the centre and states, based on the recommendations of the GST Council.

- **Settlement for disputes:**Both, Parliament and state legislatures will have the power to make laws on the taxation of goods and services. A law made by Parliament in relation to GST will not override a state law on GST. In case of any conflict of interest, a Dispute Settlement Authority will be set up to look into the disputes between the States and the Centre. Appeals from the authority would directly lie with the Supreme Court.Further, the GST Council may decide the mechanism for resolving disputes arising out of its recommendations.

- **Compensation for loss:** One of the biggest apprehensions for GST regime is loss of revenue between the State and Centre. This ongoing struggle has been taken care by parliament while introducing the new tax structure. The Centre will make full compensation for a period of five years to the States for any loss of revenue arising on account of implementation of the Goods and Services Tax. This compensation is a great help extended to the States for the transition phase.

Current Scenario Of GST In India

There are lot of contradiction and objections going around regarding final terms of this bill. Since it requires huge change in the modus-operandi of our taxation structure, it will take good amount of time and efforts from the government to enforce it. The GST constitutional amendment bill was passed in the Lok Sabha in May 2015 but was held up in the Rajya Sabha due to objections being raised by the Opposition regarding the Bill. The Bill was also placed before a Rajya Sabha select committee, which made its recommendations regarding changes to the Bill. The Cabinet cleared these changes in July.

GST bill was supposed to be passed andimplemented by April 2016. Current Government has already missed this deadline as they could not arrive at any consensus with the States and other concerned authorities. Central government requires two-third majority of the members present and voting to get this bill passed in the Rajya Sabha.

After Rajya Sabha, the bill needs to be passed in at least 15 states legislatures by a way of simple majority. Then it will be sent to the President for his approval. Post President’s approval, legislature bill will be put in the parliament and state legislatures and after its approval there, it will become a law.

GST Network, an IT backbone of GST, which will facilitate online registration, tax payment and return filing, has to be launched. The States will frame their respective GST Legislations to enable them to implement GST. It will be in line with the Central GST Legislation.

Emerging Issued related to GST

Drafting rules and regulation for GST might take time as there are several issues under consideration. The most important hurdle for this new tax structure is concern of the States and the Centre on the loss of revenue. The Constitution Amendment Bill seems to come out with an alternative to pass this obstacle like Centre to compensate State for few initial years of implementation of GST reform.

Disagreement upon rate of GSTis also creating obstacle as States have different opinion for GST. Less developed States presume a heavy fall in tax collection and their IT and administrative infrastructure is also not that strong to support this new system. However, Centre feels that all the States will be able to recover losses and earn profit in the long run.

The empowered committee is likely to finalize the rate of GST which is expected to be in the range of 14-27 percent. Currently, services are taxed at 10% and combined indirect tax on most of the goods is around 20%. A negative impact on real estate market is estimated as it would add 8% to the cost of new house and reduce demand by 12%.

II. CONCLUSION

Goods and services tax is a comprehensive tax levied on manufacturing, selling and consumption of goods and services at a national level. Through a tax credit mechanism, this tax will be collected on value added goods and services at each stage of sale or purchase in the supply chain. GST tax system will help us overcome shortcomings present in the current tax regime and provide a seamless flow of credit across the whole supply chain.

An ideal GST regime intends to create a harmonised system of taxationby subsuming all indirect taxes under one tax. It seeks to addresschallenges with the current indirect tax regime by broadening the taxbase, eliminating cascading of taxes, increasing compliance, andreducing economic distortions caused by inter-state variations in taxes.This system allows the set off of GST paid on the procurement of goods and services against the GST payable on the supply of goods and services. The consumer who buys goods or service has to bear this tax as he is the last person to end this supply chain. It is being assumed that GST will bring a significant impact on the trade, industry, consumers and overall Indian economy.

As per connoisseurs, since GST aims to break tax barriers between States and integrate India through a uniform tax rate, this will probably improve tax collections and take economic development of India to another level. It is acting as a joint venture between the Centre and 29 States of India. It would be really hard job for Centre to align all the States together to make this joint venture successful.However, it will take some years for GST to start showing its positive results, although experts say results can be much higher and good than expected.

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