



Basic concepts and features of goods and service tax in India

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Abstract

This paper is an analysis of what will be the impact of GST (Goods and Services Tax) on Indian Tax Scenario. Here stated with a brief description of the historical scenario of Indian taxation and its tax structure. Then the need arose for the change in tax structure from traditional to GST model. GST has been discussed in detail as the background, silent features and the impact of GST in the present tax scenario in India. The Goods and Services Tax (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. Ignorance of law is no excuse but is liable to penal provisions, hence why not start learning GST and avoid the cost of ignorance. Therefore, we all need to learn it whether willingly or as compulsion. The goods and services tax (GST) is aimed at creating a single, unified market that will benefit both corporate and the economy. The changed indirect tax system GST-Goods and service tax is planned to execute in India. Several countries implemented this tax system followed by France, the first country introduced GST. Goods and service tax 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. The GST Implementation is not yet declared by government and the drafting of GST law is still under process and a clear picture will be available only after announcement of Implementation. India is a centralized democratic and therefore the GST law will be implemented parallel by the Central and State Governments as CGST and SGST respectively. The objective will be to maintain a commonality between the basic structure and design of the CGST, SGST and IGST between individual states and Centre at large. In this article, I have started with the introduction, in general of GST and have tried to highlight the objectives of the proposed GST. Thereafter, I have discussed the possible challenges and threats; and then, opportunities that GST brings before us to strengthen our free market economy.

Keywords: GST, CGST, SGST, VAT, Input Credit, free market economy

Introduction

The introduction of Goods and Services Tax (GST) would be a very significant step in the field of indirect tax reforms in India. By amalgamating a large number of Central and State taxes into a single tax, it would mitigate cascading or double taxation in a major way and pave the way for a common national market. From the consumer point of view, the biggest advantage would be in terms of a reduction in the overall tax burden on goods, which is currently estimated to be around 25%-30%. Introduction of GST would also make Indian products competitive in the domestic and international markets. Studies show that this would have a boosting impact on economic growth. Last but not the least, this tax, because of its transparent and self-policing character, would be easier to administer.

History of GST

GST was first recommended by Kelkar Task Force on implementation of Fiscal Reforms and Budget Management Act 2004 but the First Discussion Paper on Goods and Services Tax in India was presented by the Empowered Committee of State Finance Ministers dtd.10th Nov.10th, 2009. December 2014, the Constitution (122nd Amendment) Bill, 2014 was introduced in Lok Sabha. The Bill was passed by Lok Sabha in May 2015 and referred to a Select Committee of Rajya Sabha for examination. Now passed by both the

houses and ascended by President of India, it will come to effect from 1.07.2017. Earlier this bill was opposed by many states who are manufacturing states like Maharashtra, Gujarat, Andhra Pradesh as tax revenue will be collected by Consuming state and not by producing state and there will be huge loss of Revenue to such states, later on term that such loss for first five years will be Reimbursed by Government of India they supported the bill.

Major milestones in Indirect Tax reform:

- 1974 Report of L K Jha Committee suggested VAT.
- 1986 Introduction of a restricted VAT called MODVAT.
- 1991 Report of the Chelliah Committee recommends VAT/GST and recommendations accepted by Government.
- 1994 Introduction of Service Tax.
- 1999 Formation of Empowered Committee on State VAT.
- 2000 Implementation of uniform floor Sales tax rates Abolition of tax related incentives granted by States.
- 2003 VAT implemented in Haryana in April.
- 2003-2004 significant progress towards CENVAT.
- 2005-06 VAT implemented in 26 more states.
- 2007 First GST stuffy released By Mr. P. Shome in January.
- 2007 F.M. Announces for GST in budget Speech.

- 2007 CST phase out starts in April 2007 2007 Joint Working Group formed and report submitted.
- 2008 EC finalises the view on GST structure in April 2008.

Concept of GST: “One Nation One Tax”

Instead of having as many as thirteen taxes like Excise duty, Sale tax, VAT, CST, Entry Tax, Service Tax or VAT of each state etc., One comprehensive and all Inclusive tax system for entire nation.

Definition of GST

GST is a tax on goods and services with value addition at each stage having Comprehensive and continuous chain of set of benefits from the producer’s / Service provider’s point up to the retailers level where only the final consumers should bear the tax.”

Structure of administration

GST Council as apex body under the chairman ship of Finance Minister Government of India, State Finance Minister etc.

Challenges

- **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.
- **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.
- **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.
- **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.
- **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.

Inter-state transactions and the IGST mechanism

The Centre would levy and collect the Integrated Goods and Services Tax (IGST) on all inter-State supply of goods and services. The IGST mechanism has been designed to ensure seamless flow of input tax credit from one State to another. The inter-State seller would pay IGST on the sale of his goods to the Central Government after adjusting credit of GST, CGST and SGST on his purchases (in that order). The exporting State will transfer to the Centre the credit of SGST used in payment of IGST. The importing dealer will claim credit of IGST while discharging his output tax liability (both CGST and SGST) in his own State. The Centre will transfer to the importing State the credit of IGST used in payment of SGST.

Benefits of GST

To Business and industry

- a. Easy compliance: With use of IT compliance will be much more easier as now they have to file one return instead of separate returns of each of the taxes.
- b. Uniformity in tax rates and structure across the country.
- c. Removal of cascading effect.

To the state

- a) Higher revenue
- b) Easy to control over leakages
- c) Simple to administer
- d) To the end user i.e. consumer
- e) Single and transparent tax
- f) Reduction in overall tax burden

The registration process

- Apply form is REG-01: fill all the dealers and attach the required documents.
- After uploading the same an acknowledgement will be generated in REG-02 Form.
- Authorities either rejected the application in REG-05 after given the opportunity of being heard or give notice in REG-03 for additional information for additional information.
- Assessee can fill the additional information in REG-04 in the proper time which is mention in notice.
- If authority is satisfied then he can give the registration certificate in form REG-06.

The return process

- The taxpayer must fill the GSTR-01 form in case of Sales Register on or before 10th day of the month.
- In the case of Purchase Register he will be filling GSTR-02 on or before 15th day of the month.
- After that monthly Return will be available i.e. GSTR-03 on or before 20th day of the month.
- While the GSTR-09 for an annual return which will be file on or before 31st December at the end of the F.Y.

Disadvantages of GST

1. Higher tax burden for manufacturing SMEs

Small businesses in the manufacturing sector will bear most of the brunt of GST implementation. Under the existing excise laws, only manufacturing business with a turnover more than Rs. 1.50 crores have to pay excise duty. However, under GST the turnover limit has been reduced to Rs. 20 lakh thus increasing the tax burden for many manufacturing SMEs.

2. Increase in operating costs

Most small businesses do not employ professionals and prefer to pay taxes and file returns on their own to save costs. For GST though, as it is a completely new tax system, they will require professional assistance. While this will benefit the professionals, the small businesses will have to bear the additional costs of hiring experts.

Also, businesses will need to train their employees in GST compliance increasing their overhead expenses.

3. Change in business software

Most businesses use accounting Software's or ERPs for filing tax returns which have excise, VAT, and service tax already incorporated in them. The change to GST will require them to change their ERPs, too, leading to increased costs of purchasing new software and training employees.

4. GST will be implemented during the middle of the year

The tentative GST implementation date is 1st July 2017. So, for the fiscal year 2017-18 business will follow the old tax structure for the first 3 months, and GST for the rest of the time. It is impossible to cross over from one tax structure to the other in just a day, and hence businesses will end up running both tax systems in parallel, resulting in more confusion and compliance issues.

5. Increase in taxes will increase prices

Currently, some sectors like the textile industry are exempted from taxes or pay low tax. GST has only 4 proposed tax rates of 5%, 12%, 18%, 28%. Thus, for many sectors the tax burden will increase which in turn will increase the price of the final goods.

6. Petroleum products are not part of GST yet

Petroleum products are being kept outside the scope of GST as of now. States will levy their own taxes on this sector. Tax credit for inputs will therefore not be available to related industries like the plastic industry which are heavily dependent on petroleum products. Petrol and diesel are required to run factory machinery and unavailability of input tax credit on petroleum products will most probably push up the final price of all manufactured goods.

7. Registration in different states

GST requires businesses to register in all the states they are operating in. This will increase the burden of compliances.

Conclusion

Change is definitely never easy. It is important to take a leaf from global economies that implemented GST and overcame the teething troubles to experience the advantages of having a

unified tax system, easy input credits, and reduced compliances.

Once GST is implemented, most of the current challenges of this move will be a story of the past. India will become a single market where goods can move freely and there will lesser compliances to deal with for businesses.

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