



GST: One nation, one tax, one market

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Abstract

The Goods and Services Tax (GST) is a vast concept that simplifies the giant tax structure by supporting and enhancing the economic growth of a country. GST is an indirect tax system which replaces taxes like service tax, excise duty, Value Added Tax, turnover tax, etc. GST is a value added tax to be levied on both goods and services, at both the centre and state level. This is a single tax which will be levied on the product or service which is sold. The Goods and Services Tax has revolutionized the Indian taxation system. The GST Act was passed in the Lok Sabha on 29th March, 2017, and came into effect from 1st July, 2017. This paper highlights the impact of GST on the Indian tax system. GST will improve the collection of taxes as well as boost the development of Indian economy by removing the indirect tax barriers between states and integrating the country through a uniform tax rate. Before GST, tax on tax was calculated and tax was paid by every purchaser including the final consumer. The taxation on tax is called the cascading effect of taxes. GST avoids the cascading effect as tax is calculated only on the value added at each transfer of ownership. The GST seeks to create a national market for goods and services by subsuming multiple taxes at the national and state level, thereby creating a paradigm of one nation, one tax, one market.

Keywords: goods and services tax, tax system in India, GST in India

Introduction

The GST is likely to change the whole scenario of current indirect tax system. It is considered as biggest tax reform since 1947. In the summer of 2016, the Indian Congress approved the Goods and Services Tax (GST) legislation to simplify the current multilayered federal, state, and local indirect tax structure. The GST bill will unify at least ten types of indirect taxes into one tax to be collected at the state and federal levels. The GST, countrywide single taxation system which has been in the making for 15 years, was launched by President Pranab Mukherjee and Prime Minister Narendra Modi by pressing a button in an hour – long special function in Parliament attended by MPs, state finance ministers, GST Council members and other dignitaries. Under the existing structure, at each point of sale, additional taxes are applied to the after – tax value of each good and service.

The main purpose for the GST is to eliminate this compounding effect by fixing the final tax rate, where goods will fall into one of four rate categories of 5, 12, 18, and 28 %. This paper presents an overview of GST concept, explain its features. The paper is more focused on benefits of GST.

About GST

The concept of Goods and Services Tax popularly known as GST. The GST will have a dual structure, which means it will have two components – the Central GST and the State GST. GST is expected to simplify tax administration, ensure 'Ease of Doing Business' and promote 'Make in India'.

GST is an indirect tax which will subsume almost all the indirect taxes of central government and states governments

into a unified tax. As the name suggests it will be levied on both goods and services at all the stages of value addition. It has dual model including central goods and service tax (CGST) and state goods and service tax (SGST). CGST will subsume central indirect taxes like central excise duty, service tax, central sales tax and special additional duty on customs, whereas indirect taxes of state governments like state vat, luxury tax, tax on lottery and gambling will be replaced by SGST. Integrated goods and service tax (IGST) also called interstate goods and service tax is also a component of GST. It is not an additional tax but it is a system to examine the interstate transactions of goods and services and to further assure that the tax should be received by the importer state as GST is a destination based tax (Sehrawat M, and Dhanda U, 2015) ^[1].

The implementation of GST in India help in removing economic distortion by current indirect tax system and expected to encourage unbiased tax structure which is indifferent to geographical locations ^[2].

Features of GST

- Applicable to all transactions – GST would be applicable to all transactions of goods and service.
- Taking and utilization of credit – If the recipient of goods or services is a registered dealer, he will normally be able to claim a credit for the amount of GST he has paid, provided he holds a proper tax invoice. The rules for taking and utilization of credit for the Central GST and the State GST would be aligned.
- Cross utilization of ITC – Cross utilization of ITC between

the Central GST and the State GST would not be allowed except in the case of interstate supply of goods.

- Registration – Dealers will have to register for GST. These dealers will include the suppliers, manufacturers, service providers, wholesalers and retailers.
- Periodical returns – The tax payer would need to submit common format for periodical returns, to both the Central and to the concerned State GST authorities.
- Exempted Goods and Services – Under GST certain goods and services may be declared as exempted goods and services.

GST brings benefits for all

Common Man Friendly

1. Huge number of items are either tax exempt or in 5% tax bracket.
2. Maximum benefits to the poor and the common man.
3. Level playing field for small traders in any part of the country.
4. It would bring down the prices of goods and services.

Advantages for Trade and Industry

1. Common procedures for registration, duty payment, return filing and refund of taxes.
2. Seamless flow of tax credit from manufacturer/ supplier to user/ retailer to eliminate cascading of taxes.
3. More efficient neutralization of taxes to make our exports more competitive internationally.
4. Benefit of exemption / composition scheme for a large segment of small scale suppliers to make their products cheaper.

Benefits to Economy

1. To create a unified common national market.
2. To make India a manufacturing hub.
3. To boost investments and exports.
4. To generate more employment by increased economic activity.

Simplified tax structure

1. Reduction in multiplicity of taxes now leviable on goods and services, leading to simplification.
2. Simpler tax regime with fewer exemptions.
3. Harmonization of laws, procedures and rates of tax across the country.
4. Common system of classification of goods and services to ensure certainty in tax administration.

Creating One Economic India

1. Freedom of movement of goods and services.
2. Consumers to benefit by increased competition.
3. Level-playing field for producers & consumers across the country.
4. Strengthening the sense of nationhood and unity.

In the biggest GST so far, tax rates on over 200 items, ranging from chewing gum to chocolates, to beauty products, wrist watches, cut from November 15, 2017 to provide relief to consumers and businesses amid an economic slowdown. As

many as 178 items of daily use shifted from the top tax bracket of 28 % to 18 %, while a uniform 5% tax was prescribed for all restaurants, both air – conditioned and non-AC, Finance Minister Arun Jaitley said after the GST council meeting. Currently, 12% GST on food bill is levied in non – AC restaurants and 18% in air – conditioned once. All these got input tax credit, a facility to set off tax paid on inputs with final tax. Restaurants in starred – hotels that charge Rupees 7500 or more per day room tariff will be levied 18% GST, but the ITC is allowed for them. The restaurants in hotels charging less than Rupees 7500 room tariff will charge 5% GST, but will not get ITC.

Only luxury and sin goods are now in the highest tax bracket and items of daily use have been shifted to 18% bracket ^[3]. Prices for several groceries, household and personal care products will come down after the Goods and Services Tax (GST) Council slashed taxes on several consumer goods segments from existing 28%. “ The decision of moving daily essentials items to 18% GST rate will result in higher consumption, as the benefits of lower GST rates will be passed on to the end consumer and will make these items more affordable,” said Vivek Gambhir, Managing Director, Godrej Consumer Products. Some things get even less taxing – 2 items moved to 12% from 28%, 13 items to 12% from 18%, 8 items moved from 12% to 5%, 6 items moved from 18% to 5% and 6 items from 5% to nil from November 15 ^[4].

One Nation, One Tax

The GST has been limping ever since its premature and hasty birth 4 months ago. Some kind of surgery was performed in Guwahati; even this exercise to make the GST regime people – friendly will not do because what is needed is a complete revamp and not just patchwork. This time, the GST Council, under the leadership of FM Jaitley, has shifted high visibility items of common use such as chocolates, shaving creams, granite etc. to lower slabs. The GST seeks to create a national market for goods and services by subsuming multiple taxes at the national and state level, thereby creating a paradigm of “one nation, one tax, one market”.

Ehtisham Ahmed and Satya Poddar (2009) studied and found that GST introduction will provide simpler and transparent tax system with increase in output and productivity of economy in India. But the benefits of GST are critically dependent on rational design of GST ^[5].

Conclusion

Under GST regime the burden of taxation will be allocated fairly between manufacturing and services via lower tax rate resulting in increased tax base and minimized exemptions. It is anticipated to help in establishing an effective and transparent tax administration. It is expected to remove the cascading effect of taxes and help in establishing of common national market. GST becomes a reality today building a new India through One Nation, One Tax, One Market.

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