



## GST (Good and Service Tax) in India

Sumit Kumar Singh

Guest Faculty, Allahabad Degree College, (Constituent College of Allahabad University) Allahabad, Uttar Pradesh, India

### Abstract

Indian system of taxation of goods and services is characterized by cascading, distortionary tax on production of goods and services which leads to miss-allocation of resources, hampering productivity and slower economic growth. To remove this hurdle, a pure and simple tax system like GST (Goods and Service Tax) is need of the hour in the country. An ideal tax system collects taxes at various stages of manufacturing, supply, wholesale, retailing and lastly at the final consumption. It is based on the add-on value by the manufacturer, supplier and retailer at each stage of the value chain. Tax paid at each stage is based on the amount of value added and not on the entire amount. GST (Goods & Services Tax) is a single tax on the supply of goods and services, right from the manufacturer to the consumer. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages. GST has been envisaged as a more efficient tax system, neutral in its application and distributionally attractive.

**Keywords:** GST, taxation, manufacturer, retailer, consumption

### Introduction

The reform process of India's indirect tax regime was started in 1986 by Vishwanath Pratap Singh, Finance Minister in Rajiv Gandhi's government, with the introduction of the Modified Value Added Tax (MODVAT). Subsequently, Manmohan Singh, and the Finance Minister P V Narasimha Rao, initiated early discussions on a Value Added Tax at the state level. A single common "Goods and Services Tax (GST)" was proposed and given a go-ahead in 1999 during a meeting between the then Prime Minister Atal Bihari Vajpayee and his economic advisory panel, which included three former RBI governors IG Patel, Bimal Jalan and C Rangarajan. Vajpayee set up a committee headed by the then finance minister of West Bengal, Asim Dasgupta to design a GST model.

The Ravi Dasgupta committee was also tasked with putting in place the back-end technology and logistics (later came to be known as the GST Network, or GSTN, in 2017) for rolling out a uniform taxation regime in the country. In 2002, the Vajpayee government formed a task force under Vijay Kelkar to recommend tax reforms. In 2005, the Kelkar committee recommended rolling out GST as suggested by the 12th Finance Commission.

In 2014, the NDA government was elected into power, this time under the leadership of Narendra Modi. With the consequential dissolution of the 15th Lok Sabha, the GST Bill – approved by the standing committee for reintroduction – lapsed. Seven months after the formation of the Modi government, the new Finance Minister Arun Jaitley introduced the GST Bill in the Lok Sabha, where the BJP had a majority. In February 2015, Jaitley set another deadline of 1 April 2017 to implement GST. In May 2016, the Lok Sabha passed the Constitution Amendment Bill, paving way for GST. However, the Opposition, led by the Congress,

demanding that the GST Bill be again sent back to the Select Committee of the Rajya Sabha due to disagreements on several statements in the Bill relating to taxation. Finally in August 2016, the Amendment Bill was passed. Over the next 15 to 20 days, 18 states ratified the GST Bill and the President Pranab Mukherjee gave his assent to it. The Goods and Services Tax was launched at midnight on 1 July 2017 by the President of India, Pranab Mukherjee, and Prime Minister of India, Narendra Modi. The launch was marked by a historic midnight (30 June – 1 July) session of both the houses of parliament convened at the Central Hall of the Parliament.

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.

### What is GST?

The single GST (goods and service taxes) replaced several former taxes and levies which included: central excise duty, services tax, additional customs duty, surcharges, state-level value added tax and Octroi. Other levies which were applicable on inter-state transportation of goods have also been done away with in GST regime. GST is levied on all transactions such as sale, transfer, purchase, barter, lease, or

import of goods and/or services. India adopted a dual GST model, meaning that taxation is administered by both the Union and State Governments. Transactions made within single state are levied with Central GST (CGST) by the Central Government and State GST (SGST) by the State governments. For inter-state transactions and imported goods or services, an Integrated GST (IGST) is levied by the Central Government. GST is a consumption-based tax/destination-based tax, therefore, taxes are paid to the state where the goods or services are consumed not the state in which they were produced. IGST complicates tax collection for State Governments by disabling them from collecting the tax owed to them directly from the Central Government. Under the previous system, a state would only have to deal with a single government in order to collect tax revenue.

### 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 retailer’s level where only the final consumer should bear the tax.”

### Objectives of GST

- One Country – One Tax
- Consumption based tax instead of Manufacturing
- Uniform GST Registration, payment and Input tax Credit
- To eliminate the cascading effect of Indirect taxes on single transaction
- Subsume all indirect taxes at Centre and State Level under
- Reduce tax evasion and corruption
- Increase productivity
- Increase Tax to GDP Ratio and revenue surplus
- Increase Compliance
- Reducing economic distortions

### Salient features of GST

- GST would be applicable on “supply” of goods or services as against the present concept of tax on the manufacture of goods or on sale of goods or on provision of services.
- GST would be based on the principle of destination based consumption taxation as against the present principle of origin based taxation.
- It would be a dual GST with the Centre and the States simultaneously levying it on a common base. The GST to be levied by the Centre would be called Central GST (CGST) and that to be levied by the States [including Union territories with legislature] would be called State GST (SGST). Union territories without legislature would levy Union territory GST (UTGST).
- An Integrated GST (IGST) would be levied on inter-State supply (including stock transfers) of goods or services. This would be collected by the Centre so that the credit chain is not disrupted.
- Import of goods would be treated as inter-State supplies and would be subject to IGST in addition to the applicable customs duties.
- Import of services would be treated as inter-State supplies and would be subject to IGST.
- CGST, SGST /UTGST & IGST would be levied at rates to

be mutually agreed upon by the Centre and the States under the aegis of the GSTC.

- GST would replace the following taxes currently levied and collected by the Centre:
  - a. Central Excise Duty;
  - b. Duties of Excise (Medicinal and Toilet Preparations);
  - c. Additional Duties of Excise (Goods of Special Importance);
  - d. Additional Duties of Excise (Textiles and Textile Products);
  - e. Additional Duties of Customs (commonly known as CVD);
  - f. Special Additional Duty of Customs (SAD);
  - g. Service Tax;
  - h. Cesses and surcharges insofar as they relate to supply of goods or services.
- (ix) State taxes that would be subsumed within the GST are
  - a. State VAT;
  - b. Central Sales Tax;
  - c. Purchase Tax;
  - d. Luxury Tax;
  - e. Entry Tax (All forms);
  - f. Entertainment Tax (except those levied by the local bodies);
  - g. Taxes on advertisements;
  - h. Taxes on lotteries, betting and gambling;
  - i. State cesses and surcharges insofar as they relate to supply of goods or services.
- GST would apply to all goods and services except Alcohol for human consumption.
- GST on five specified petroleum products (Crude, Petrol, Diesel, ATF & Natural gas) would be applicable from a date to be recommended by the GSTC.
- Tobacco and tobacco products would be subject to GST. In addition, the Centre would continue to levy Central Excise duty.
- A common threshold exemption would apply to both CGST and SGST. Taxpayers with an annual turnover of Rs. 20 lakh (Rs. 10 lakh for special category States as specified in article 279A of the Constitution) would be exempt from GST. A compounding option (i.e. to pay tax at a flat rate without credits) would be available to small taxpayers (including to specified category of manufacturers and service providers) having an annual turnover of up to Rs. 50 lakh. The threshold exemption and compounding scheme would be optional.
- The list of exempted goods and services would be kept to a minimum and it would be harmonized for the Centre and the States as well as across States as far as possible.
- Exports would be zero-rated.
- Credit of CGST paid on inputs may be used only for paying CGST on the output and the credit of SGST/UTGST paid on inputs may be used only for paying SGST/UTGST. In other words, the two streams of input tax credit (ITC) cannot be cross utilized, except in specified circumstances of inter-State supplies for payment of IGST. The credit would be permitted to be utilized in

the following manner:

- a. ITC of CGST allowed for payment of CGST & IGST in that order;
- b. ITC of SGST allowed for payment of SGST & IGST in that order;
- c. ITC of UTGST allowed for payment of UTGST & IGST in that order;
- d. ITC of IGST allowed for payment of IGST, CGST & SGST/UTGST in that order.
- e. ITC of CGST cannot be used for payment of SGST/UTGST and vice versa.
  - Accounts would be settled periodically between the Centre and the State to ensure that the credit of SGST used for payment of IGST is transferred by the originating State to the Centre. Similarly the IGST used for payment of SGST would be transferred by Centre to the Destination State. Further the SGST portion of IGST collected on B2C supplies would also be transferred by Centre to the Destination State. The transfer of funds would be carried out on the basis of information contained in the returns filed by the taxpayers.

**Existing indirect tax structure in India**

Central Taxes	State Taxes
Central Excise duty	State VAT / Sales Tax
Additional duties of excise	Central Sales Tax
Excise duty levied under Medicinal & Toilet Preparation Act	Purchase Tax
Additional duties of customs (CVD & SAD)	Entertainment Tax (other than those levied by local bodies)
Service Tax	Luxury Tax
Surcharges & Cesses	Entry Tax (All forms)
	Taxes on lottery, betting & gambling
	Surcharges & Cesses

**Constitution amended to provide concurrent powers to both Centre & States to levy GST (Centre to tax sale of goods and States to tax provision of services)**

**Legislative Framework**

There is single legislation – CGST Act, 2017 – for levying CGST. Similarly, Union Territories without State legislatures [Andaman and Nicobar Islands, Lakshadweep, Dadra and Nagar Haveli, Daman and Diu and Chandigarh] will be governed by UTGST Act, 2017 for levying UTGST. States and Union territories with their own legislatures [Delhi and Pondicherry] have to enact their own GST legislation for levying SGST. Though there would be multiple SGST legislations, the basic features of law, such as chargeability, definition of taxable event and taxable person, classification and valuation of goods and services, procedure for collection and levy of tax and the like would be uniform in all the SGST legislations, as far as feasible. This would be necessary to preserve the essence of dual GST.

**Regulatory Framework of GST**

A new set up by Government of India named as ‘GST Council’. GST Council constituted w.e.f. 12.09.2016

The GST Council consists of:-

- The Union Finance Minister (as Chairman),
- The Union Minister of State in charge of Revenue or Finance, and
- The Minister in charge of Finance or Taxation or any other Minister, nominated by each state government.

All decisions of the GST Council will be made by three fourth majority of the votes cast; the centre shall have one-third of the votes cast, and the states together shall have two-third of the votes cast.

- Threshold limit for exemption to be Rs. 20 lakh (Rs. 10 lakh for special category States)
- Compounding threshold limit to be Rs. 50 lakh – not available to inter-State suppliers, service providers (except restaurant service) & specified category of manufacturers
- Government may convert existing area based exemption schemes into reimbursement based scheme.

**Scope of GST**

GST shall cover all goods and services, except alcoholic liquor for human consumption, for the levy of goods and services tax. In case of petroleum and petroleum products, it has been provided that these goods shall not be subject to the levy of Goods and Services Tax till a date notified on the recommendation of the Goods and Services Tax Council.

Promulgation of GST Council: Proposed Article 279A of the Bill provides for constitution of Goods and Services Tax Council to examine issues relating to goods and services tax and make recommendations to the Union and the States on parameters like rates, exemption list and threshold limits. The Council shall function under the Chairmanship of the Union Finance Minister and will have the State Union Minister as its members. All goods and services are covered under GST Regime except Alcoholic liquor for Human Consumption, Tobacco Products subject to levy of GST and Centre may also levy excise duty GST Council yet to decide the incidence and levy of GST on following;

- Crude Petroleum
- High Speed Diesel (HSD)
- Motor Spirit (Petrol)
- Natural Gas
- Aviation Turbine Fuel

**Benefits of GST**

**(A) Make in India**

- Will help to create a unified common national market for India, giving a boost to Foreign investment and “Make in India” campaign;
- Will prevent cascading of taxes as Input Tax Credit will be available across goods and services at every stage of supply;
- Harmonization of laws, procedures and rates of tax;
- It will boost export and manufacturing activity, generate more employment and thus increase GDP with gainful employment leading to substantive economic growth;
- Ultimately it will help in poverty eradication by generating more employment and more financial resources;
- More efficient neutralization of taxes especially for exports thereby making our products more competitive in

- the international market and give boost to Indian Exports;
- Improve the overall investment climate in the country which will naturally benefit the development in the states;
  - Uniform SGST and IGST rates will reduce the incentive for evasion by eliminating rate arbitrage between neighbouring States and that between intra and inter-State sales;
  - Average tax burden on companies is likely to come down which is expected to reduce prices and lower prices mean more consumption, which in turn means more production thereby helping in the growth of the industries. This will create India as a “Manufacturing hub”.

#### **(B) Ease of Doing Business**

- Simpler tax regime with fewer exemptions;
- Reductions in the multiplicity of taxes that are at present governing our indirect tax system leading to simplification and uniformity;
- Reduction in compliance costs - No multiple record keeping for a variety of taxes- so lesser investment of resources and manpower in maintaining records;
- Simplified and automated procedures for various processes such as registration, returns, refunds, tax payments, etc;
- All interaction to be through the common GSTN portal- so less public interface between the taxpayer and the tax administration;
- Will improve environment of compliance as all returns to be filed online, input credits to be verified online, encouraging more paper trail of transactions;
- Common procedures for registration of taxpayers, refund of taxes, uniform formats of tax return, common tax base, common system of classification of goods and services will lend greater certainty to taxation system;
- Timelines to be provided for important activities like obtaining registration, refunds, etc;
- Electronic matching of input tax credits all-across India thus making the process more transparent and accountable.

#### **(C) Benefit to Consumers**

- Final price of goods is expected to be lower due to seamless flow of input tax credit between the manufacturer, retailer and service supplier;
- It is expected that a relatively large segment of small retailers will be either exempted from tax or will suffer very low tax rates under a compounding scheme- purchases from such entities will cost less for the consumers;
- Average tax burden on companies is likely to come down which is expected to reduce prices and lower prices mean more consumption.

#### **(D) Others**

- Reduction in Cascading of Taxes
- Overall Reduction in Prices
- Common National Market
- Benefits to Small Taxpayers
- Self-Regulating Tax System
- Non-Intrusive Electronic Tax System
- Simplified Tax Regime
- Reduction in Multiplicity of Taxes

- Consumption Based Tax
- Abolition of CST
- Exports to be Zero Rated
- Protection of Domestic Industry – IGST

#### **Conclusion**

Goods and Service Tax, with end-to-end IT-enabled tax mechanism, is likely to bring buoyancy to government revenue. It is expected that the malicious activity of tax theft will go away under Goods and Service Tax regime in order to benefit both governments as well as the consumer. In reality, that extra revenue that the government is expecting to generate won't come from the consumers' pocket but from the reduction of tax theft.

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