



Goods and service tax (GST): India's new vision

Malla Nataraj

Assistant Professor, Department of Commerce, Maharani Women's Arts, Commerce and Management College, Sheshadri, Bangalore, Karnataka, India

Abstract

The present paper deals with the implementation and impact of Goods and Service Tax (GST) in India. Goods and Service tax (GST) is single regime tax system which makes India One Nation One Tax by subsuming both Indirect tax levied by Central government and State government. Currently Concept of Dual GST is implemented in India with Slab rates of 0%, 5%, 12%, and 18% and 28% respectively. Total 160 countries in the world have already implemented GST/VAT out of which France was the first country to implement GST and India being 161 countries to implement Goods and service tax (GST). The research paper explores the concept of GST and analysis of data shows that GST makes the necessary goods cheap while making luxurious goods costlier. 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. It is a comprehensive tax system that will subsume all indirect taxes of states and central governments and unified economy into a seamless national market. It is expected to iron out wrinkles of existing indirect tax system and play a vital role in growth of India. This paper presents an overview of GST concept, explains its features along with its timeline of implementation in India. The paper is more focused on advantages of GST and challenges faced by India in execution.

Keywords: goods and service tax (GST), tax reform, indirect tax, tax, vat

1. Introduction

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. GST was first introduced by France in 1954 and now it is followed by 140 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 and SGST.

GST reform is believed to be biggest ever tax reform since independence. In India, the Indirect tax is being imposed both by Central as well as State government. Both the Central and State government have multiple Kinds of taxes. Many of the Taxes have in existence from pre-independence days. Central Exercise duty is being imposed since more than 75 years. Sales tax is being levied by some States prior to the independence. Most of the taxation system have been there since decades. The youngest among the lost is fastest growing-the Service tax. Even this is being imposed since 1994 and it has been almost 21 years. With the introduction of Goods and Service tax (GST), GST will bring in "ONE NATION ONE TAX" by replacing various taxes levied by Central and State government as well as local authorities.

2. Concept of GST

GST stands for Goods and Service Tax. It is tax on supply of goods and services, or both. Basically it is a destination tax on consumption of goods and services. It will be levied at all the stages right from manufacturing up to the final consumption with credit of taxes at earlier stages available as set off.

However Alcohol for human consumption, Petroleum Products viz. petroleum crude, motor spirit, high speed diesel, natural gas and aviation turbine fuel (ATF) and electricity are outside the purview of GST.

Three types of GST are there:

1. Central Goods and Service Tax (CGST)
2. State Goods and Service Tax (SGST)
3. Integrated Goods and Service Tax (IGST)

Central Goods and Service tax (CGST) is levied by the centre on intra-state supply. It will subsumes various Central indirect taxes and levies such as Central Excise Duty, Additional Excise Duty, Excise duties levied under Medicinal and Toilet Preparation (Excise Duties) Act, 1955 Service Tax, Additional custom duty commonly known as Countervailing Duty, Special Additional Duty on Customs and Central surcharges and Cesses so far as they relate to the supply of goods and services.

3. Objective of Study

1. To study the concept of Goods and Service Tax (GST)
2. To Study the GST model-Internationally
3. To evaluate the advantages and challenges of GST
4. To furnish information for further research work on GST.

4. Research Methodology

The study focuses on extensive study of secondary data collected from various books, governments reports, international and national journals, publications and from various websites which focuses on various aspect of goods and service tax.

5. Literature Review

Dr. R. Vasanthagopal (2011) ^[10] studied “GST in India: A Big Leap in Indirect taxation system” and concluded that switching to seamless GST from current complicated tax system in India will be positive Step in booming Indian Economy. Success of GST will lead to its acceptance by more than 130 countries in world and new preferred form of indirect tax system in Asia also.

Pinki *et al.* (July 2014) ^[12] studied “Goods and Service tax-Panacea for Indirect Tax system in India” and concluded that new NDA government is positive towards implementation of GST and its beneficial for central government, state government and well as for consumers in long run if its implementation is backed by strong IT infrastructure.

Kumar (2014) ^[11] Studied, “Goods and Service tax-Away Forward” and concluded that 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.

Ehtisham Ahmed and Satya Poddar (2009) ^[3] studied, “Goods and Service Tax Reforms and Intergovernmental Consideration in India” 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.

Nitin Kumar (2014) ^[6] studied, “Goods and Service Tax- A Way Forward” and concluded that 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.

6. Why Does India Need The GST?

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. The spread of GST in different countries has been one of the most important developments in taxation over the last six decades, owing to its capacity to raise revenue in the most transparent and neutral manner, more than 150 countries have adopted the GST.

With the increase of international trade in services, the GST has become a preferred global standard. All OECD countries, except the US, follow this taxation structure. The proposed framework In India, the unified tax will take the form of a “dual” GST, to be levied concurrently by both the Centre and states. The unified tax will comprise of a Central GST and a State GST, which will be legislated, levied and administered by the respective levels of government. The same taxable base will be subject to both GSTs. The words “legislate, levy and administer” are key, since the Centre and the state will legislate the respective GST Acts and both will have power to administer the taxes. The proposed tax system will subsume a variety of central and state levies such as Central Excise Duty,

Service Tax and VAT, thereby simplifying the complicated tax structure and reducing compliance costs.

The Bill was introduced in 2014 to the lower house of the Parliament of India by Finance Minister Arun Jaitley. It is defined as any tax on the supply of goods or services that will subsume CENVAT, service tax, central excise duty, additional excise duties, excise duties levied under the Medicinal and Toilet Preparations (Excise Duties) Act, 1955, service tax, additional customs duty (countervailing duty or CVD), special additional duty of customs (SAD), central surcharges and cesses, State VAT, State sales tax, entertainment tax not levied by local bodies, luxury tax, taxes on lottery, betting, and gambling, tax on advertisements, State cesses and surcharges related to supply of goods and services and entry tax not levied by local bodies.

7. Timeline of GST in India

In 2000, an empowered committee was set up by NDA government under the chairmanship of Asim Das Gupta to design GST model. With UPA in power union finance minister, Mr. P.Chidambaram, proclaimed the implementation of GST from April 2010 in budget of 2007 and set up an empowered committee of state Finance ministers to work with center. Therefore, on 10 May 2007 Joint Working Group was set up by empowered committee of state finance ministers which submitted the report in Nov 2007. First detailed discussion paper on structure of GST was introduced by empowered committee in Nov 2009 with the objective of generating a debate and getting the inputs from all stakeholders. It suggested a dual GST Module along with a GST council and finally in March 2011, constitution 115th amendment bill was introduced to draw up laws for implementing GST. It includes the followings:

1. Setting up of GST COUNCIL by the president within 60 days of passage of bill. The council will chaired by union finance minister and its members includes MoS for revenue and finance ministers of states. It will work on GST rates, exemption limits etc.
2. Setting up of a GST Dispute Settlement Authority having three members to resolve dispute arising among states and take action against states.
3. GST Amendment Bill was referred to parliamentary committee on finance for evaluation.

In Aug 2013 the standing committee submitted the report and recommended that proposed Dispute Settlement Authority should be removed and its mechanism should be given to GST Council itself. It also recommended that GST Council should take decision by voting rather than consensus. The representation in the GST Council should be 1/3 from central and rest 2/3 from states. The decision in the council should be passed with more than ¾ vote representatives present. The quorum of council is raised from proposed 1/3 to half by standing committee.

But the proposed 115 amendment bill was lapsed with dissolution of 15th Lok Sabha.

On 19 Dec 2014 after making slight changes in GST Bill, NDA government redefined it in 16th Lok Sabha as 122nd amendment of constitution. On 6 may 2015 it passed in lower house of government.

8. Taxable Person in Goods and Service Tax

GST registration is mandatory for-

1. Any business whose turnover in a financial year exceeds Rs 20 lakhs (Rs 10 lakhs for North Eastern and hill states). If your turnover is supply of only exempted goods/services which are exempt under GST, this clause does not apply.
2. Every person who is registered under an earlier law (i.e., Excise, VAT, Service Tax etc.) needs to register under GST, too.
3. When a business which is registered has been transferred to someone/demerged, the transferee shall take registration with effect from date of transfer.
4. Anyone who drives inter-state supply of goods
5. Casual taxable person
6. Non-Resident taxable person
7. Agents of a supplier
8. Those paying tax under the reverse charge mechanism
9. Input service distributor
10. E-commerce operator or aggregator
11. Person who supplies via e-commerce aggregator
12. Person supplying online information and database access or retrieval services from a place outside India to a person in India, other than a registered taxable person

Table 1: GST rates on Goods and Services

Tax Rate	Goods	Services
0% [nil] Exempted Goods	Jute, Fresh meat, fish chicken, eggs, milk, butter milk, curd, natural honey, fresh fruits and vegetables, flour, besan, bread, prasad, salt, bindi. Sindoor, stamps, judicial papers, printed books, newspapers, bangles, and handloom. Bones and horn cones, bone grist, Bone metal etc, Hoof meal, horn meal, cereal grained hulled, palmyra jiggery, salt all types, kaja, children’s picture, drawing and colouring books, human hair.	Hotels and lodges with traffic below Rs 1000, grandfathering services has been exempted under GST
5%	Apparels below Rs 1000, packaged food items, footwear below rs 500, cream, skimmed milk powder, branded paneer, frozen vegetables, coffee, tea, spices, pizabread, rusk, sabudana, kerosene, medicines, stent, lifeboats, cashew nut, cashew nut in shell, raisin, ice and snow, bio gas, insulin, agarbatti, kites, postage or revenue stamps, stamp-post Marks, first day covers.	Transport services (Railways, Air transport), small restaurants will be under 5 % category because their main input is petroleum, which is outside GST ambit.
12%	Apparel above Rs 1000, frozen meat products, butter, cheese, ghee, fruits in packaged form, animal fat, sausage, juices, bhujia, namkeen, Ayurvedic medicine, toothpowder, agarbatti, colouring books, picture books, umbrella, sewing machine, cell phones, ketchup and sauces, All diagnostic kits and reagents, exercise book and note books, spoons, fork, ladles, skimmers, cake server, fish, Spectacles, corrective, playing cards, Board, and other board games, like ludo.	State-run lotteries, on Ac hotels, Business class air tickets, fertilizers, work contract
18%	Flavored refined sugar, pasta, cornflakes, pastries and cakes, preserved vegetables, jams, sauces, soups, ice cream, instant food mixes, mineral water, tissues, envelopes, tampons, note books, steel products, printed circuits, camera, speakers and Monitors, Kajal Pencil Sticks, Headgear and parts thereof, Aluminum foil, Weighing Machinery, Printers, Electrical Transformer, CCTV, Optical Fiber, Bamboo Furniture, Swimming pools and padding pools, curry paste, mayonnaise and salad dressings, condiments and Mixed seasonings.	AC hotels that serve liquor, telecom services, IT services, branded garments and financial service, Room traffic between Rs 2500-and Rs 7500, restaurants inside five-star hotels.
28%	Chewing gum, molasses, chocolate not containing cocoa, waffles and wafers coated with chocolate, pan masala, aerated water, paint, deodorants, shaving creams, after shave, hair shampoo, dye, sunscreen, Wallpaper, ceramic tiles, water heater, dishwasher, weighing machine, washing machine, ATM, vending machines, vacuum Cleaner, shavers, hair clippers, automobiles, motorcycles, aircraft for personal use, and yachts.	Private-run lotteries authorized by the states, hotels with room tariffs above Rs 7500, 5-star hotels, race club betting, cinema

Positive and Negative Impact of GST on different Goods and Services

Fruits & Vegetables

Fruits and vegetables, fresh and unprocessed fruits and vegetables will attract 0% GST which will have a positive impact on agriculture Industry. However, Dry fruits fresh or dried, peeled or shelled, juices from fruits and vegetables will come under 12% GST which was earlier taxed at 5% making the purchase price higher. While preparation from fruits and vegetable will be taxed at 18% which was earlier taxed under various VAT acts at a rate of 5% making the purchase higher again.

Air Fare

Under the new tax regime, domestic air travel will become cheaper while business class is going to cost little higher.

Table 2: Rates under Old and New Tax regime

Tickets	Rate of Service Tax	GST rate	Differences In (%)
Economy Class	5.6%	5%	+0.6
Business Class	8.4%	12%	-3.6%

Railways Tickets

GST rate on rail transport is 5%. Under the old tax regime service tax was applicable to goods and passengers“. The railways also enjoyed the abatement of 70% which means only 30% of value was taxable under service tax. Thus effective rate is 30% of 15 % = 4.5% of the total fare. After Implementation of GST tickets price will increase slightly due to slight increase in tax rate. However, passengers travelling

for business purpose can claim ITC on rail tickets thus helping business man to reduce their expenses.

Hotels

GST on hotel service will attract different GST rate on basis of Room Tariff

Table 3: Room Tariff and GST rates

Rooms traffic (INR)	GST rate
Less than 1000	0%
1000-2499	12%
2500-7499	18%
More than 7500	28%

Table 4: Comparison of taxes under GST and old regime in (%)

Segment	Excise	CST	VAT	Infrastructure Cess	Luxury Cess	Total Pre GST rate	GST	Cess	Effective GST	Change
Two/Three Wheelers	12.5	2	13.5	NA	NA	30.2	28	0	28	-2.2
Small cars (Length<4m)	12.5	2	13.5	1	NA	30.2	28	1	29	-1.2
Mid segment Cars	24	2	13.5	4	NA	47.3	28	15	43	-4.3
Large Cars (engine>1500CC)	27	2	13.5	4	1	49	28	15	43	-6
Sports Utility vehicles	30	2	13.5	4	1	55.3	28	15	43	-12.3
Commercial vehicles	12.5	2	13.5	NA	NA	30.2	28	0	28	-2.2

Life: Saving Drugs and other formulation

Life saving drugs will attract GST at 5% while other formulation will attract GST at rate of 12 % thus making it more expensive.

9. Conclusion

Goods and service tax is a biggest indirect tax reform in India. It has replaced various types of Indirect tax such as VAT, Service tax, Excise duty, Additional Custom Duty, SAD, Luxury tax etc thus leading to simplified tax regime as compared to earlier complicated tax structure comprising numerous taxes. It is expected that GST will boost economic growth by 2% which will in turn will reduce budget deficit and help the government to allocate more funds for development projects. Thus, a simplify, user -friendly and transparent tax system is required which can be fulfilled by implementation of GST. Its implementation stands for a coherent tax system which will colligate most of current indirect taxes and in long term it will lead to higher output, more employment opportunities and flourish GDP by 1-1.5%. It can also be used as an effective tool for fiscal policy management if implemented successfully due to nation-wide same tax rate. It execution will also results in lower cost of doing business that will make the domestic products more competitive in local and international market. No doubt that GST will give India a world class tax system by grabbing different treatment to manufacturing and service sector. But all this will be subject to its rational design and timely implementation. There are various challenges in way of GST implementation as discussed above in paper. They need more analytical research to resolve the battling interest of various stake holders and accomplish the commitment for a cardinal reform of tax structure in India.

Cereals and other

GST on wheat, rice and other cereals, pulses, flour of pulses, natural honey, chena, and paneer other than those put in a unit container and bearing a registered brand name will be nil. While branded cereals which are put in a unit container bearing a registered brand name under register of trade mark will attract 5% GST.

Electrical appliances

Electrical appliances such as fridge, washing machines, vacuum cleaner will attract 28% GST thus increase in tax burden by 2%-3% as compared to earlier tax regime.

Cars/bikes: GST has positive impact car and bikes

In India, the unified tax will take the form of a “dual” GST, to be levied concurrently by both the Centre and states. The unified tax will comprise of a Central GST and a State GST, which will be legislated, levied and administered by the respective levels of government. The same taxable base will be subject to both GSTs.

Overall GST is helpful for the development of Indian economy as well it will be very much helpful in improving the gross domestic product of the country more than two percent. Now the government of India should take final step to pass the GST bill in parliament with removing all hurdles.

10. References

1. Agogo Mawuli. Goods and Service Tax- An Appraisal”Paper presented at the the PNG Taxation Research and Review Symposium, Holiday Inn, Port Moresby, 2014, 29-30.
2. Dr. Vasanthagopal R. GST in India: A Big Leap in the Indirect Taxation System, International Journal of Trade, Economics and Finance, 2011-2011, 2(2).
3. Ehtisham Ahamad, Satya Poddar. Goods and Service Tax Reforms and Intergovernmental Consideration in India, Asia Research Center, LSE, 2009-2009.
4. Girish Garg. Basic Concepts and Features of Good and Service Tax in India, 2014.
5. [https://en.wikipedia.org/wiki/Goods_and_Services_Tax_\(India\)_Bill](https://en.wikipedia.org/wiki/Goods_and_Services_Tax_(India)_Bill).
6. Background material on GST (Popularly Known as VAT globally) by The Institute of Chartered Accountants of India.
7. The Hindustan Times.
8. GST Ready Reckoner by VS Datey.
9. GST Manual by Taxman.

10. Agogo Mauuli. Goods and Service tax–An Appraisal paper presented at the PNG Taxation Research and Review Symposium, Holiday Inn, Port Moresby, 2014, 29-30.
11. Dr. Vasanthagopal R GST in India: A Big Leap in Indirect Taxation System International Journal of trade, Economics and Finance, 2011-2011, 2(2).
12. Nitin Kumar. Goods and Service Tax – A Forword Global Journal of Multidisciplinary studies, 2014-2014, 3(6).