GOODS AND SERVICE TAX

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ABSTRACT

Given the channel of the Constitution (122nd) Amendment Bill, 2014 for Goods and Services Tax (GST) in the Lok Sabha on 6th May, 2015, the Government of India seems dedicated to substitute all the indirect taxes levied on goods and services by the Centre and States and implement GST by 2016. With GST, it is predictable that the tax base will be all-inclusive, as nearly all goods and services will be taxable, with minimum exemptions.

Keywords: Goods; Services Tax

INTRODUCTION

GST will be a game changing reform for Indian economy by developing a common Indian market and dropping the cascading effect of tax on the cost of goods and services. It will blow the Tax Structure, Tax Incidence, Tax Computation, Tax Payment, Compliance, Credit Utilization and Reporting leading to a complete overhaul of the current indirect tax system. GST will have a far reaching impact on nearly all the aspects of the operations of business in the country, for instance, pricing of products and services; supply chain optimization; IT, accounting and tax conformity systems. The GST bills include amendment to the Arbitration and Conciliation Act, a legislation to set up commercial courts and bankruptcy code.

The GST is a broad based and a single comprehensive tax levied on goods and services consumed in an economy and which will replace all other indirect taxes which are currently in place. It will be a multi-stage tax where the ultimate burden shall lie on the consumer.

GST is a value added tax, levied at all points in the supply chain with credit allowed for any tax paid on inputs acquired for use in making the supply. It will apply to all taxable supplies of goods or services (as against manufacture, sale or provision of service) made for a consideration except –

- Exempted goods or services – common list for CGST & SGST
- Goods or services outside the purview of GST
- Transactions below threshold limits

More than 100 countries across the world have introduced GST or Federal VAT in one form or the other. The GST rate in various countries ranges from as low as 5% in Taiwan to as high as 25% in Denmark. India is expecting to have a dual GST model. It will comprise of a Central GST and a State GST. The Centre and the States will each legislate, levy and administer the Central GST and State GST, respectively.

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 primary reason for introducing the Bill is to pave the way for the centre to tax sale of goods and the states to tax provision of services. The Bill further proposes that the central government will have the exclusive power to levy GST on
imports and inter-state trade. Introduction of GST would thus rationalize the tax content in product price, enhance the ability of business entities to compete globally, and possibly trickle down to benefit the ultimate consumer.

**Example:** - A product whose base price is Rs.100 and after levying excise duty @ 12% value of the product is Rs. 112. On sale of such goods VAT is levied @ 12.5% and value to the ultimate consumer is Rs. 126. In the proposed GST system on base price of Rs.100 CGST and SGST both will be charged, say @ 8% each, and then the value to the ultimate consumer is Rs. 116. So, in such a case the industry can better compete in global environment.

Indicating that the Goods and Services Tax (GST) Bill may not go through in the current session of Parliament, Finance Minister Arun Jaitley,

on 19 December, 2015, said the GST Bill was being delayed for "collateral reasons". "A delayed GST is better than a flawed GST," he added .The GST Bill is stuck in the Rajya Sabha where the ruling NDA government does not have a majority as well as stiff opposition by the Congress. Concluding this, the government had planned to roll out GST from April 1, 2016.

**OBJECTIVE OF THE STUDY**

The objective of this study is to make aware about Goods and Service Tax (GST) going to be in practice from April 1, 2016.

**RESEARCH METHODOLOGY**

The paper is based on the secondary data. The data is collected from the published corporate reports, journals, websites etc.

**Features of GST**

Main features of GST can be highlighted as follows:

- Taxation is based on Destination
- Apply to all stages of the value chain
- Apply to all taxable supplies of goods or services (as against manufacture, sale or provision of service) made for a consideration except –
- Exempted goods or services – common list for CGST & SGST
- Goods or services outside the purview of GST
- Transactions below threshold limits
- Dual GST having two concurrent components –
- Central GST levied and collected by the Centre
- State GST levied and collected by the States.
- CGST and SGST on intra-State supplies of goods or services in India.
- IGST (Integrated GST) on inter-State supplies of goods or services in India – levied and collected by the Centre.
- IGST applicable to:
  - Import of goods and services
  - Inter-state stock transfers of goods and services
  - Export of goods and services – Zero rated.
All goods or services likely to be covered under GST except:
- Alcohol for human consumption - State Excise plus VAT
- Electricity - Electricity Duty
- Real Estate - Stamp Duty plus Property Taxes
- Petroleum Products (to be brought under GST from date to be notified on recommendation of GST Council)
- Tobacco Products under GST with Central Excise duty.

**Need of GST**

This is a single tax which will be levied on the product or service which is sold. In other words, multiple taxes like CENVAT, central sales tax, state sales tax, octroi, etc will not exist and will be replaced by GST. This comprehensive tax covers all stages from manufacture to sale. The tax will be levied only on the value added at each stage of the life cycle. It is based on the value that the producers, suppliers and retailers individually add to the product.

However, the current tax regime is unfairly skewed against most producers. Let's outline and simplify the current system of taxes to see how it operates: Assume there is a soap manufacturer that procures raw materials at 500 lakhs per batch. The manufacturer keeps his operating profits at 100 lakhs and encumbers a processing cost of 50 lakhs. The flow would look something like this:

Value of the Product
- Procurement of Raw materials (500 lakhs + 10% Tax)
- Processing costs (50 lakhs)
- Selling Price = 550 + 50 + 100 = 700 lakhs
- Profit margin = (100 lakhs)

The producer has to pay tax in this case i.e. 120 Lakhs (50 lakhs on procurement and 70 lakhs on sales). Now if you have a GST framework in place, the total tax that the producer pays is 70 lakhs. How? If he sell his batch for 700 lakhs, he gets a tax credit of 50 lakhs. Thus, he pays 20 lakhs in the form of taxes for the final transaction. This adds up to just 70 lakhs for the producer.

Every dealer has to submit one single GST return consisting information about all his purchases/sales at Invoice level along with line item. Accordingly necessary records, registers are to be maintained and consolidation for return will require automation and standard procedures.

**Destination Principle**

The GST structure would follow the destination principle. Accordingly, imports would be subject to GST, while exports would be zero-rated. In the case of inter-State transactions within India, the State tax would apply in the State of destination as opposed to that of origin.
Exempted Goods And Services

1. Alcohol for human consumption - State Excise plus VAT
2. Electricity - Electricity Duty
3. Real Estate - Stamp Duty plus Property Taxes
4. Petroleum Products (to be brought under GST from date to be notified on recommendation of GST Council)

Advantages of GST

- Simpler tax structure
- Increased tax revenues
- Competitive pricing
- Boost to exports as foreign price competitive products
- Tax base broadening and increased revenue to the Centre and State.
- Harmonization of Centre and State tax administrations, which would reduce duplication and compliance costs.
- Introduction of GST would result in abolition of multiple types of taxes on goods and services.
- It reduces effective rates of tax to one or two floor rates.
- Reduces compliance cost and increases voluntary compliance.
- Removes cascading effect of taxation and also distortion in the economy.
- Enhances manufacturing and distribution efficiency, reduces cost of production
- Gives competitive edge in international market for goods and services produced in a country, leading to increased exports.
- Reduces litigation, and corruption.
- Reduces administrative cost for the Government

Challenges in GST- Lesson from Present System

- Legacy issues which will use resources
- Non Harmonization of Tax rates
- Lack of automation
- Lack of Procedural Manuals
- Lack of Skilled officials
- Double Registration- Handling old Registration
- Poor Quality of tax Returns
- No System for 100% Scrutiny of Tax Returns and Tax Audit
- Lack of Cross Verifications with other tax administrations
- Lack of mechanism to control Evasion
- Impact on Prices
Industry Expectation

a. Low compliance cost  
b. Simple business processes  
c. Less requirement of automation initially  
d. Minimal ITC refund cases  
e. Exemptions instead of exclusions from GST  
f. Seamless flow of input credit  
g. Seamless flow of information between, supplier, buyer and tax administration  
h. Need for IT portal or agency like TINXSYS, NSDL  
i. Automation of process by way of e-registrations, e-returns, e-payment  
j. No requirement of verifications during interstate movement of Goods  
k. Zero rating of supplies to exporters  
l. Administrative efficiency in case of assessment and adjudication  
m. Ease of compliance  
n. Self-policing

CONCLUSION

The Indian government describes the GST as “a further significant improvement – the next rational step - towards a comprehensive indirect tax reforms in the country.” Indeed, it has the potential to be the single most important scheme in the fiscal history of India. It can pave the way for upgrading of tax administration - make it simpler and more see-through – and noteworthy enhancement in voluntary compliance.

Opportunities for a deep-seated reform present themselves only occasionally and thus need to be pursued strongly as and when they do become available. As the choices made today would not be reversible in the near future, one needs a longer-term outlook. Achieving the correct choice is then a political economy balancing act that takes into account the technical options and the differing needs and constraints of the main partners. Fortunately, there is a very substantial consensus among all stakeholders in the country for a genuine reform. In the circumstances, an incremental or timid response would be neither politically expedient, nor would it serve the needs of India of the 21st century.

REFERENCES