

## Basic Concepts and Features of Good and Service Tax in India

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**Abstract:** This paper is an analysis of what the impact of Goods and Services Tax will be 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 be detailed discuss in this paper as the background, silent features and the impact of GST in the present tax scenario in India. 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 panel provisions, hence why not start learning GST and avoid the cost of ignorance. The GST is aimed at creating a single, unified market that will benefit both corporate and the economy. Several countries implemented this tax system followed by France, the first country introduced GST. India is a centralized democratic and therefore the GST 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 and SGST.

**Key Words:** GST, CGST, SGST, VAT, GSTIN, PAN, IGST, SEZ

### Impression

The word tax is derived from the Latin word 'taxare' meaning to estimate. A tax is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority" and is any contribution imposed by government whether under the name of toll, tribute, impost, duty, custom, excise, subsidy, aid, supply, or other name." The first known system of taxation was in Ancient Egypt around 3000 BC - 2800 BC in the first dynasty of the Old Kingdom. Records from that time show that the pharaoh would conduct a biennial tour of the kingdom, collecting tax revenues from the people. The period of British rule in India witnessed some remarkable change in the whole taxation system of India. Although, it was highly in favour of the British government and its exchequer but it incorporated modern and scientific method of taxation tools and systems. Broadly, there are two types of Taxes viz. Direct and Indirect taxes. Taxes in India are levied by the Central Government and the State Governments. Some minor taxes are also levied by the local authorities such as Municipality or Local Council. The authority to levy tax is derived from the Constitution of India which allocates the power to levy various taxes between Centre and State.

### Major Milestones in Indirect Tax Reform

- 1974 Report of LK 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

## Goods and Service Tax

Introduction of the Value Added Tax (VAT) at the Central and the State level has been considered to be a major step - an important step forward in the globe of indirect tax reforms in India. If the VAT is a major improvement over the pre-existing Central excise duty at the national level and the sales tax system at the State level, then the Goods and Services Tax (GST) will indeed be an additional important perfection - the next logical step towards a widespread indirect tax reforms in the country. Initially, it was conceptualized that there would be a national level goods and services tax, however, with the release of First Discussion Paper by the Empowered Committee of the State Finance Ministers on 10.11.2009, it has been made clear that there would be a "Dual GST" in India, taxation power - both by the Centre and the State to levy the taxes on the Goods and Services. Almost 150 countries have introduced GST in some form. While countries such as Singapore and New Zealand tax virtually everything at a single rate, Indonesia has five positive rates, a zero rate and over 30 categories of exemptions. In China, GST applies only to goods and the provision of repairs, replacement and processing services. Under the GST scheme, no distinction is made between goods and services for levying of tax. In other words, goods and services attract the same rate of tax. GST is a multi-tier tax where ultimate burden of tax fall on the consumer of goods/services. It is called as value added tax because at every stage, tax is being paid on the value addition. Under the GST scheme, a person who was liable to pay tax on his output, whether for provision of service or sale of goods, is entitled to get input tax credit (ITC) on the tax paid on its inputs.

## Objectives of GST

One of the main objectives of GST is to eliminate the cascading impact of taxes on production and distribution cost of goods and services. The exclusion of cascading effects i.e. tax on tax will significantly improve the competitiveness of original goods and services which leads to beneficial impact to the GDP growth. It is felt that the GST would serve a superior reason to achieve the objective of streamlining indirect tax regime in India which can remove cascading effects in supply chain till the level of final consumers only when all such above mentioned indirect taxes are completely included in GST. It is understood that alcohol, tobacco and petroleum products will not be enclosed by GST as alcohol and tobacco are considered as Sin Goods, and governments do not like to allow free trade on these property.

## 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' and the other one at the state level is 'State GST'. 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.

## Opportunities

***An end to cascading effects:*** This will be the major contribution of GST for the business and commerce. At present, there are different state level and centre level indirect tax levies that are compulsory one after another on the supply chain till the time of its utilization.

***Growth of Revenue in States and Union:*** It is expected that the introduction of GST will increase the tax base but lowers down the tax rates and also removes the multiple point. This, will lead to higher amount of revenue to both the states and the union.

***Reduces transaction costs and unnecessary wastages:*** If government works in an efficient mode, it may be also possible that a single registration and single compliance will suffice for both SGST and CGST provided government produces effective IT infrastructure and integration of such infrastructure of states level with the union.

***Eliminates the multiplicity of taxation:*** One of the great advantages that a taxpayer can expect from GST is elimination of multiplicity of taxation. The reduction in the number of taxation applicable in a chain of transaction will help to clean up the current mess that is brought by existing indirect tax laws.

***One Point Single Tax:*** Another feature that GST must hold is it should be 'one point single taxation'. This also gives a lot of comforts and confidence to business community that they would focus on business rather than worrying about other taxation that may crop at later stage.

***Reduces average tax burdens:*** Under GST mechanism, the cost of tax that consumers have to bear will be certain, and GST would reduce the average tax burdens on the consumers.

***Reduces the corruption:*** It is one of the major problems that India is overwhelmed with. We cannot expect anything substantial unless there exists a political will to root it out. This will be a step towards corruption free Indian Revenue Service.

### **Salient features of the GST Model**

1. The GST shall have two components: one levied by the Centre and the other levied by the States. Rates for Central GST and State GST would be approved appropriately, reflecting revenue considerations and acceptability.
2. The Central GST and the State GST would be applicable to all transactions of goods and services made for a consideration except the exempted goods and services.
3. The Central GST and State GST are to be paid to the accounts of the Centre and the States individually.
4. Since the Central GST and State GST are to be treated individually, taxes paid against the Central GST shall be allowed to be taken as input tax credit (ITC) for the Central GST and could be utilized only against the payment of Central GST.
5. Cross utilization of ITC between the Central GST and the State GST would not be permitted except in the case of inter-State supply of goods and services.
6. Ideally, the problem related to credit accumulation on account of refund of GST should be avoided by both the Centre and the States except in the cases such as exports, purchase of capital goods, input tax at higher rate than output tax etc.
7. To the extent feasible, uniform procedure for collection of both Central GST and State ST would be prescribed\ in the respective legislation for Central GST and State GST.
8. The States are also of the view that Composition/Compounding Scheme for the purpose of GST should have an upper ceiling on gross annual turnover and a floor tax rate with respect to gross annual turnover.
9. The taxpayer would need to submit periodical returns, in common format as far as possible, to both the Central GST authority and to the concerned State GST authorities.
10. Each taxpayer would be allotted a PAN-linked taxpayer identification number with a total of 14/15 digits. This would bring the GST PAN-linked system in line with the prevailing PAN-based system for Income tax, facilitating data exchange and taxpayer compliance.

### **Benefits of GST**

1. GST provide comprehensive and wider coverage of input credit setoff, you can use service tax credit for the payment of tax on sale of goods etc.
2. CST will be removed and need not pay. At present there is no input tax credit available for CST.
3. Many indirect taxes in state and central level included by GST, You need to pay a single GST instead of all.
4. Uniformity of tax rates across the states.
5. Ensure better compliance due to aggregate tax rate reduces.
6. By reducing the tax burden the competitiveness of Indian products in international market is expected to increase and there by development of the nation.
7. Prices of goods are expected to reduce in the long run as the benefits of less tax burden would be passed on to the consumer.
11. Indirect taxes included under GST

***The following indirect taxes from state and central level is going to integrated with GST***

- ❖ State taxes
  - VAT/Sales tax
  - Entertainment Tax (unless it is levied by local bodies)
  - Luxury tax
  - Taxes on lottery, betting and gambling
  - State cesses and surcharges in so far as they relate to supply of goods and services
  - Entry tax not on in lieu of octroi
  - Purchase tax (This is not sure still under discussion)
- ❖ Central Taxes
  - Central Excise Duty
  - Additional Excise Duty
  - The Excise Duty levied under the medical and Toiletries Preparation Act
  - Service Tax
  - Additional Customs Duty, commonly known as countervailing Duty (CVD)
  - Special Additional duty of customs- (SAD)
  - Surcharges
  - Cesses - the above taxes dissolve under GST; instead only CGST & SGST exists

**Impact of Goods and Service Tax**

***Food Industry:*** The application of GST to food items will have a significant impact on those who are living under subsistence level. But at the same time, a complete exemption for food items would drastically shrink the tax base. Food includes grains and cereals, meat, fish and poultry, milk and dairy products, fruits and vegetables, candy and confectionary, snacks, prepared meals for home consumption, restaurant meals and beverages. Even if the food is within the scope of GST, such sales would largely remain exempt due to small business registration threshold. Given the exemption of food from CENVAT and 4% VAT on food item, the GST under a single rate would lead to a doubling of tax burden on food.

***FMCG Sector:*** Despite of the economic slowdown, India's Fast Moving Consumer Goods has grown consistently during the past three - four years reaching to \$25 billion at retail sales in 2008. Implementation of proposed GST and opening of Foreign Direct Investment are expected to fuel the growth and raise industry's size to \$95 Billion by 201835.

***Rail Sector:*** There have been suggestions for including the rail sector under the GST umbrella to bring about significant tax gains and widen the tax net so keep overall GST rate low. This will have the added benefit of ensuring that all inter - state transportation of goods can be tracked through the proposed Information technology (IT) network.

***Financial Services:*** In most of the countries GST is not charged on the financial services. Example, In New Zealand most of the services covered except financial services as GST. Under the service tax, India has followed the approach of bringing virtually all financial services within the ambit of tax where consideration for them is in the form of an explicit fee.

***Information Technology enabled services:*** To be in sync with the best International practices, domestic supply of software should also attract G.S.T. on the basis of mode of transaction. Hence if the software is transferred through electronic form, it should be considered

as Intellectual Property and regarded as a service. And if the software is transmitted on media or any other tangible property, then it should be treated as goods and subject to G.S.T.

**Impact on Small Enterprises:** There will be three categories of Small Enterprises in the GST regime. Those below threshold need not register for the GST. Those between the threshold and composition turnovers will have the option to pay a turnover based tax or opt to join the GST regime. Those above threshold limit will need to be within framework of GST. Possible downward changes in the threshold in some States consequent to the introduction of GST may result in obligation being created for some dealers. In this case considerable assistance is desired. In respect of Central GST, the position is slightly more complex. Small scale units manufacturing specified goods are allowed exemptions of excise up to Rs.1.5Crores.

## Conclusion

GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. GST is leviable on all supply of goods and provision of services as well combination thereof. All sectors of economy whether the industry, business including Govt. departments and service sector shall have to bear impact of GST. All sections of economy viz., big, medium, small scale units, intermediaries, importers, exporters, traders, professionals and consumers shall be directly affected by GST. One of the biggest taxation reforms in India is the Goods and Service Tax. Experts said that, GST is likely to improve tax collections and boost India's economic development by breaking tax barriers between States and integrating India through a uniform tax rate. Under GST, the taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions.

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