Journal of Management and Science ISSN: 2249-1260 | e-ISSN: 2250-1819

DOI:10.26524/jms.2017.36

"An overview on goods & service tax"

M. Kalpana, M.Com. B.Ed
Lecturer in commerce
Dravidian University

INTRODUCTION

Tax on sale or purchase of goods within a State as per Entry List II of Seventh Schedule of the Constitution is a State subject, and accordingly, VAT was been introduced by the concerned States, in place of turnover taxes. The introduction of VAT ensured that credit of taxes paid on the inputs were available to a tax payer while discharging his output tax liability. This helped in minimizing cascading of taxes at the State level and in increasing compliance because of the in-built mechanism of transfer of input tax credit. VAT led to a simplification of taxes at the State level.

Presently, the Constitution empowers the Central Government to levy excise duty on manufacturing and service tax on the supply of services. Similarly, it empowers the State Governments to levy sales tax or value added tax (VAT) on the sale of goods. This exclusive division of fiscal powers has led to a multiplicity of indirect taxes in the country. Further, central sales tax (CST) is levied on intra-State sale of goods by the Central Government, but collected and retained by the exporting States. In addition, many States also levy an entry tax on the entry of goods in local areas.

This multiplicity of taxes at the State and Central levels has resulted in a complex indirect tax structure in the country that is ridden with hidden costs for the trade and industry. Firstly, there is no uniformity of tax rates and structure across States. Secondly, there is cascading of taxes due to _tax on tax‘. No credit of excise duty and service tax paid at the stage of manufacture is available to the traders while paying the State level sales tax or VAT, and vice-versa. Further, no credit of State taxes paid in one State can be availed in other States. Hence, the prices of goods and services get artificially inflated to the extent of this _tax on tax‘.

The introduction of GST would mark a clear departure from the scheme of distribution of fiscal powers envisaged in the Constitution. The proposed dual GST envisages taxation of the same taxable event, i.e., supply of goods and services, simultaneously by both the Centre and the States. Therefore, both Centre and States will be empowered to levy GST across the value chain from the stage of manufacture to consumption. The credit of GST paid on inputs at every stage of value addition would be available for the discharge of GST liability on the output, thereby ensuring GST is charged only on the component of value addition at each stage. This would ensure that there is no _tax on tax‘ in thecountry.

GST will simplify and harmonies the indirect tax regime in the country. It is expected to reduce cost of production and inflation in the economy, thereby making the Indian trade and industry more competitive, domestically as well as internationally. It is also expected that introduction of GST will foster a common or seamless Indian market and contribute significantly to the growth of the economy.

Further, GST will broaden the tax base, and result in better tax compliance due to a robust IT infrastructure. Due to the seamless transfer of input tax credit from one stage to another in the chain of value addition, there is an in-built mechanism in the design of GST that would incentivize tax compliance by traders.

What is GST? How does it work?

GST is one indirect tax for the whole nation, which will make India one unified common market.

GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. 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.

What are the benefits of GST?

The benefits of GST can be summarized as under:

- **For business and industry**
  - ❖ Easy compliance: A robust and comprehensive IT system would be the foundation of the GST regime in India. Therefore, all tax payer services such as registrations, returns, payments, etc. would be available to the taxpayers online, which would make compliance easy and transparent.
  - ❖ Uniformity of tax rates and structures: GST will ensure that indirect tax rates and structures are common across the country, thereby increasing certainty and ease of doing business. In other words, GST would make doing business in the country tax neutral, irrespective of the choice of place of doing business.
  - ❖ Removal of cascading: A system of seamless tax-credits throughout the value-chain, and across boundaries of States, would ensure that there is minimal cascading of taxes. This would reduce hidden costs of doing business.
  - ❖ Improved competitiveness: Reduction in transaction costs of doing business would eventually lead to an improved competitiveness for the trade and industry.
  - ❖ Gain to manufacturers and exporters: The subsuming of major Central and State taxes in GST, complete and comprehensive set-off of input goods and services and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports. The uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cost.

- **For Central and State Governments**
  - ❖ Simple and easy to administer: Multiple indirect taxes at the Central and State levels are being replaced by GST. Backed with a robust end-to-end IT system, GST would be simpler and easier to administer than all other indirect taxes of the Centre and State levied so far.
  - ❖ Better controls on leakage: GST will result in better tax compliance due to a robust IT infrastructure. Due to the seamless transfer of input tax credit from one stage to another in the chain of value addition, there is an in-built mechanism in the design of GST that would incentivize tax compliance by traders.
  - ❖ Higher revenue efficiency: GST is expected to decrease the cost of collection of tax revenues of the Government, and will therefore, lead to higher revenue efficiency.

For the consumer

- ❖ Single and transparent tax proportionate to the value of goods and services: Due to multiple indirect taxes being levied by the Centre and State, with incomplete or no input tax credits available at progressive stages of value addition, the cost of most goods and services in the country today are laden with many hidden taxes. Under GST, there would be only one tax from the manufacturer to the consumer, leading to transparency of taxes paid to the final consumer.Relief in overall tax burden: Because of efficiency gains and prevention of leakages, the overall tax burden on most commodities will come down, which will benefit consumers.

Taxes at the Centre and State level are being subsumed into GST?

At the **Central** level, the following taxes are being subsumed:

1. Central Excise Duty,
2. Additional Excise Duty,
3. Service Tax,
4. Additional Customs Duty commonly known as Countervailing Duty, and
5. Special Additional Duty of Customs.

At the **State** level, the following taxes are being subsumed:

1. Subsuming of State Value Added Tax/Sales Tax,
2. Entertainment Tax (other than the tax levied by the local bodies), Central Sales Tax (levied by the Centre and collected by the States),
3. Octroi and Entry tax,
4. Purchase Tax,
5. Luxury tax, and
6. Taxes on lottery, betting and gambling.

The major chronological events that have led to the introduction of GST?

GST is being introduced in the country after a 13 year long journey since it was first discussed in the report of the Kelkar Task Force on indirect taxes. A brief chronology outlining the major milestones on the proposal for introduction of GST in India is as follows:

1. In 2003, the Kelkar Task Force on indirect tax had suggested a comprehensive Goods and Services Tax (GST) based on VAT principle.
2. A proposal to introduce a National level Goods and Services Tax (GST) by April 1, 2010 was first mooted in the Budget Speech for the financial year 2006-07.
3. Since the proposal involved reform/ restructuring of not only indirect taxes levied by the Centre but also the States, the responsibility of preparing a Design and Road Map for the implementation of GST was assigned to the Empowered Committee of State Finance Ministers (EC).
4. Based on inputs from Govt of India and States, the EC released its First Discussion Paper on Goods and Services Tax in India in November, 2009.
5. In order to take the GST related work further, a Joint Working Group consisting of officers from Central as well as State Government was constituted in September, 2009.
6. In order to amend the Constitution to enable introduction of GST, the Constitution (115th Amendment) Bill was introduced in the Lok Sabha in March 2011. As per the prescribed procedure, the Bill was referred to the Standing Committee on Finance of the Parliament for examination and report.
7. Meanwhile, in pursuance of the decision taken in a meeting between the Union Finance Minister and the Empowered Committee of State Finance Ministers on 8th November, 2012, a ‗Committee on GST Design', consisting of the officials of the Government of India, State Governments and the Empowered Committee was constituted.
8. This Committee did a detailed discussion on GST design including the Constitution (115th) Amendment Bill and submitted its report in January, 2013. Based on this Report, the EC recommended certain changes in the Constitution Amendment Bill in their meeting at Bhubaneswar in January 2013.

9. The Empowered Committee in the Bhubaneswar meeting also decided to constitute three committees of officers to discuss and report on various aspects of GST as follows:-

(a) Committee on Place of Supply Rules and Revenue Neutral Rates;
(b) Committee on dual control, threshold and exemptions;
(c) Committee on IGST and GST on imports.

1. The Parliamentary Standing Committee submitted its Report in August, 2013 to the Lok Sabha. The recommendations of the Empowered Committee and the recommendations of the Parliamentary Standing Committee were examined in the Ministry in consultation with the Legislative Department. Most of the recommendations made by the Empowered Committee and the Parliamentary Standing Committee were accepted and the draft Amendment Bill was suitably revised.
2. The final draft Constitutional Amendment Bill incorporating the above stated changes were sent to the Empowered Committee for consideration in September 2013.
3. The EC once again made certain recommendations on the Bill after its meeting in Shillong in November 2013. Certain recommendations of the Empowered Committee were incorporated in the draft Constitution (115th Amendment) Bill. The revised draft was sent for consideration of the Empowered Committee in March, 2014.
4. The 115th Constitutional (Amendment) Bill, 2011, for the introduction of GST introduced in the Lok Sabha in March 2011 lapsed with the dissolution of the 15th Lok Sabha.
5. In June 2014, the draft Constitution Amendment Bill was sent to the Empowered Committee after approval of the new Government.
6. Based on a broad consensus reached with the Empowered Committee on the contours of the Bill, the Cabinet on 17.12.2014 approved the proposal for introduction of a Bill in the Parliament for amending the Constitution of India to facilitate the introduction of Goods and Services Tax (GST) in the country. The Bill was introduced in the Lok Sabha on 19.12.2014, and was passed by the Lok Sabha on 06.05.2015. It was then referred to the Select Committee of Rajya Sabha, which submitted its report on 22.07.2015.

GST be administered in India?

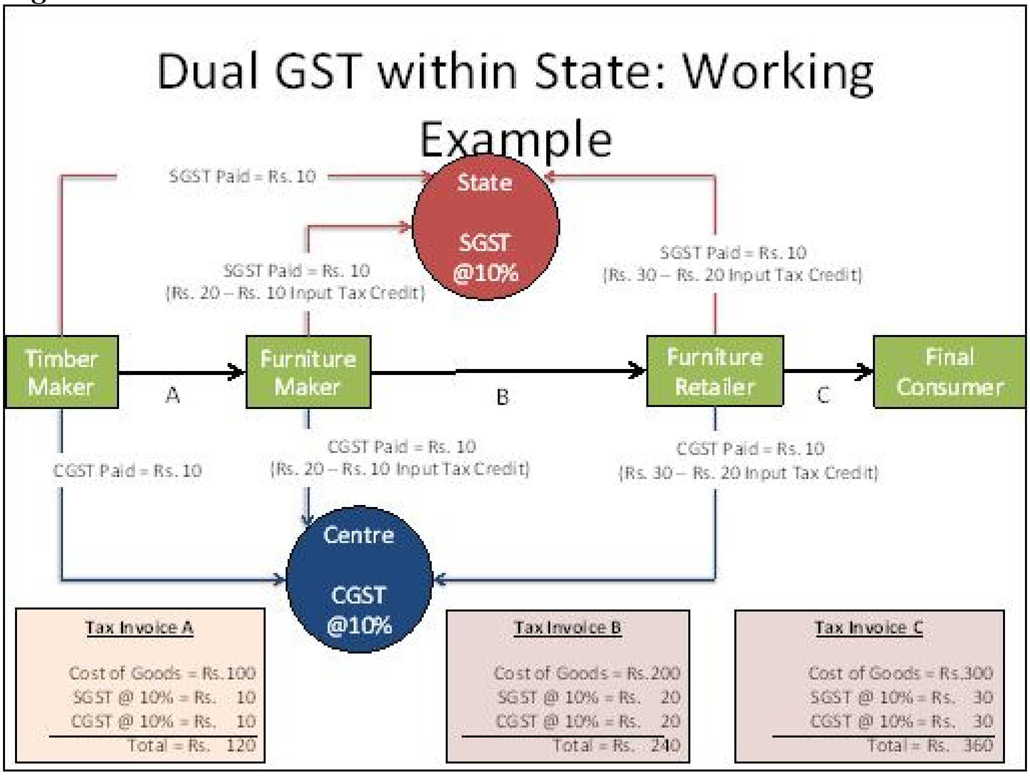
Keeping in mind the federal structure of India, there will be two components of GST – Central GST (CGST) and State GST (SGST). Both Centre and States will simultaneously levy GST across the value chain. Tax will be levied on every supply of goods and services. Centre would levy and collect Central Goods and Services Tax (CGST), and States would levy and collect the State Goods and Services Tax (SGST) on all transactions within a State. The input tax credit of CGST would be available for discharging the CGST liability on the output at each stage. Similarly, the credit of SGST paid on inputs would be allowed for paying the SGST on output. No cross utilization of credit would be permitted.

a particular transaction of goods and services be taxed simultaneously under Central GST (CGST) and State GST (SGST)?

The Central GST and the State GST would be levied simultaneously on every transaction of supply of goods and services except on exempted goods and services, goods which are outside the purview of GST and the transactions which are below the prescribed threshold limits. Further, both would be levied on the same price or value unlike State VAT which is levied on the value of the goods inclusive of Central Excise.

A diagrammatic representation of the working of the Dual GST model within a State is shown in Figure 1 below.

Figure 1: GST within State



Utilization of credits between goods and services be allowed under GST regime?

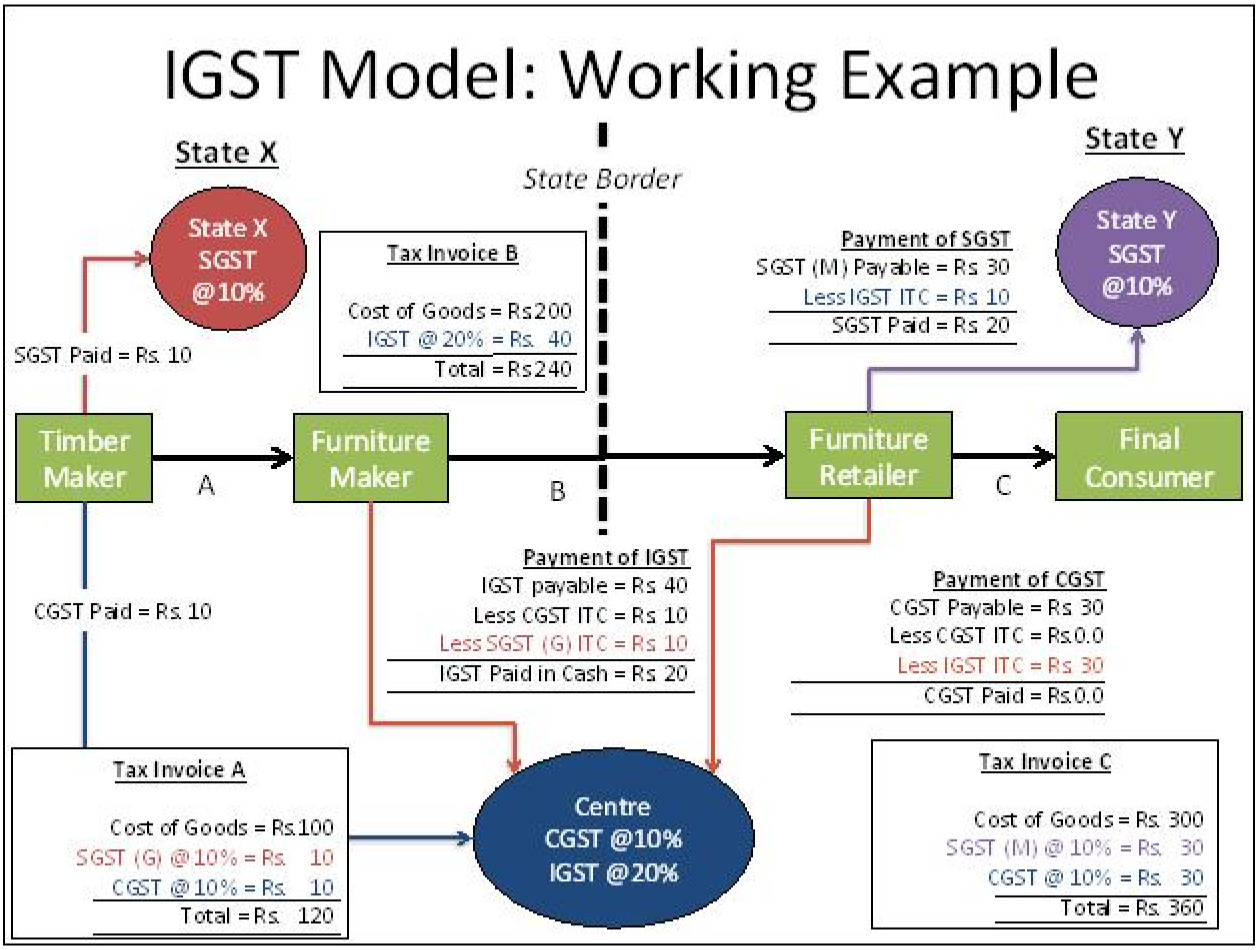
Cross utilization of credit of CGST between goods and services would be allowed. Similarly, the facility of cross utilization of credit will be available in case of SGST. However, the cross utilization of CGST and SGST would not be allowed except in the case of inter-State supply of goods and services under the IGST model which is explained in answer to the next question.

Inter-State Transactions of Goods and Services be taxed under GST in terms of IGST method?

In case of inter-State transactions, the Centre would levy and collect the Integrated Goods and Services Tax (IGST) on all inter-State supplies of goods and services under Article 269A (1) of the Constitution. The IGST would roughly be equal to CGST plus SGST. The IGST mechanism has been designed to ensure seamless flow of input tax credit from one State to another. The inter-State seller would pay IGST on the sale of his goods to the Central Government after adjusting credit of IGST, CGST and SGST on his purchases (in that order). The exporting State will transfer to the Centre the credit of SGST used in payment of IGST. The importing dealer will claim credit of IGST while discharging his output tax liability (both CGST and SGST) in his own State. The Centre will transfer to the importing State the credit of IGST used in payment of SGST.Since GST is a destination-based tax, all SGST on the final product will ordinarily accrue to the consuming State.

A diagrammatic representation of the working of the IGST model for inter-State transactions is shown in Figure 2 below.

Figure 2



will IT be used for the implementation of GST?

For the implementation of GST in the country, the Central and State Governments have jointly registered Goods and Services Tax Network (GSTN) as a not-for-profit, non-Government Company to provide shared IT infrastructure and services to Central and State Governments, tax payers and other stakeholders. The key objectives of GSTN are to provide a standard and uniform interface to the taxpayers, and shared infrastructure and services to Central and State/UT governments.

GSTN is working on developing a state-of-the-art comprehensive IT infrastructure including the common GST portal providing frontend services of registration, returns and payments to all taxpayers, as well as the backend IT modules for certain States that include processing of returns, registrations, audits, assessments, appeals, etc. All States, accounting authorities, RBI and banks, are also preparing their IT infrastructure for the administration of GST.

There would no manual filing of returns. All taxes can also be paid online. All mis-matched returns would be auto-generated, and there would be no need for manual interventions. Most returns would be self-assessed.

imports be taxed under GST?

The Additional Duty of Excise or CVD and the Special Additional Duty or SAD presently being levied on imports will be subsumed under GST. As per explanation to clause (1) of article 269A of the Constitution, IGST will be levied on all imports into the territory of

India. Unlike in the present regime, the States where imported goods are consumed will now gain their share from this IGST paid on imported goods.

major features of the proposed registration procedures under GST?

The major features of the proposed registration procedures under GST are as follows:

- **Existing dealers**: Existing VAT/Central excise/Service Tax payers will not have to apply afresh for registration under GST.

1. **New dealers**: Single application to be filed online for registration under GST. Unified application to both tax authorities.
2. Each dealer to be given unique ID GSTIN.
3. Deemed approval within three days.

The registration number will be PAN based and will serve the purpose for Centre and State. Post registration verification in risk based cases only.

major features of the proposed returns filing procedures under GST?

The major features of the proposed returns filing procedures under GST are as follows:

1. **Common return** would serve the purpose of both Centre and State Government.
2. There are eight forms provided for in the GST business processes for filing for returns. Most of the average tax payers would be using only four forms for filing their returns. These are return for supplies, return for purchases, monthly returns and annual return.
3. **Small taxpayers**: Small taxpayers who have opted composition scheme shall have to file return on quarterly basis.
4. Filing of returns shall be completely online. All taxes can also be paid online.

Present status & conclusion

India's biggest tax reform is now a reality. A comprehensive dual Goods and Services Tax (GST) has replaced the complex multiple indirect tax structure from 1 July 2017.
The concept of GST was visualized for the first time in 1999. On 8 August 2016, the Constitutional Amendment Bill for roll out of GST was passed by the Parliament, followed by ratification of the bill by more than 15 states and enactment of the bill in early September. The GST Council consisting of representatives from the Central as well as state Government, met on eighteen occasions in last ten months and cleared –

- GST laws,
- GST Rules,
- Tax rate structure including Compensation Cess,
- Classification of goods and services into different rate slabs,
- Exemptions,
- Thresholds,
- Tax administration

On 12 April 2017, the Central Government enacted four GST Bills:

- Central GST (CGST)
- Integrated GST (IGST)
- Union Territory GST (UTGST)
- Bill to Compensate States

In a short span of time, all the states (excluding Jammu and Kashmir) approved their State GST (SGST) laws. Union territories with legislature, i.e., Delhi & Puducherry, have adopted SGST Act and the balance 5 Union territories without legislatures have adopted UTGST Act. The government has also notified GST rules, tax rates on goods and services, exemption list and categories of services on which reverse charge is applicable.

The second phase of enrolment process for migrating existing taxpayers to the proposed tax regime through GST common portal has already commenced from 1 June 2017. GST Network, an IT backbone of GST, has also carried out the test run of its Portal. GSTN has released offline utility for GSTR-1.

Return filing procedure for the first two months of GST implementation is relaxed. Tax would be payable for the first two months based on a simple return Form GSTR – 3B containing a summary of outward and inward supplies. This form is required to be submitted before the 20th of the succeeding month.

However, invoice details in regular GSTR-1 would also have to be filed for the month of July and August 2017, as per the timelines given below:

Return for month	GSTR – 1		GSTR – 2 (auto populated from GSTR-1)		GSTR – 3B
	Due date	Extended date	Due date	Extended date	
July 2017	10 August	1—5 September	11—15 August	6—10 September	20 August
August 2017	10 September	16—20 September	11—15 September	21—25 September	20 September

In the last one year, our country has witnessed historic and impactful economic reforms and policy making. In fact, India was one of the very few economies undertaking transformational reforms. There were two tectonic policy initiatives, namely, passage of the Constitution Amendment Bill for GST and the progress for its implementation; and demonetisation of high denomination bank notes.‖- Union Budget 2017: speech of Finance Minister Arun Jaitley

Goods services tax which is believed to be one of the major reform in Indian tax regime as well big step in business arena of Indian economy was introduced by 122nd Constitution Amendment (GST) Bill, 2014‖ by Central Government in December 2014 [as the earlier 115th Constitution Amendment (GST) Bill, 2011 bill lapsed)] and was passed in Rajya Sabha on 3rd August 2016 and in Lok Sabha on 8 August 2016.

GST is termed as a destination based consumption tax and covers all the current forms of indirect tax laws such as VAT, Service tax, Excise Duty which will be subsumed under a single term GST. Clause 366(12A) of the Constitution Bill defines GST as ―goods and services tax‖ means any tax on supply of goods, or services or both except taxes on the supply of the alcoholic liquor for human consumption. Further the clause 366(26A) of the Bill defines ―Services‖ means anything other than Goods. Thus it can be said that GST is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level. The proposed tax will be levied on all transactions involving supply of goods and services, except those which are kept out of its purview.

Till now the GST council has conducted 10 meetings in which the issues raised on GST Model law have been discussed. The 10th meeting of GST council held on 18th February 2017 ratified the draft law for compensation to states while it could not ratify the three enabling laws — Integrated GST (IGST), State GST (SGST) and Central GST (CGST) draft laws because of some contentious issues that cropped up and are now expected to be ratified by the GST Council in its next meeting, on March 4 and 5 in New Delhi. It is expected that a fourth law, for Union Territories, would also be drafted on the lines the SGST draft law, and would be cleared by Parliament.

Draft GST model law which was presented on 14 June 2016 was replaced by Revised draft GST law on 26 November 2016. The expert committee under Arvind Subramanian had recommended a standard rate of 17-18% for most commodities, a lower rate of 12% for commodities more commonly consumed, and a higher rate of 40% for luxury products like cars, and demerit goods like tobacco and paan masala. The Union finance ministry proposal to the GST council increased the number of rates to four i.e. 6%, 12%, 18% and 26%, plus cesses on some of the commodities in the 26% slab. The GST council, in its wisdom, worsened the situation by widening the spread, lowering the lowest rate to 5% and increasing the highest to 28%.

Hon‘ble Finance minister stated GST as one of major consideration in the budget 2017. That is the reason no major changes is made in Indirect taxes the budget 2017. Mr Adhia, Revenue Secretary stated that talks are being done with states and authorities over fast implementation of GST. The government wants to roll out GST from 1st July 2017.

The government despite the pressure to delay it is endeavoring to achieve the consent of states in order to implement GST as soon as possible. Recently, the central board of excise and customs (CBEC) launched a GST app to facilitate a smooth transition to the new indirect tax regime for taxpayers. Various economists believe that GST will bring fatal result to Indian economy while some believe that it will boost Indian economy by a great hike. International monetary fund on 22 February 2017 stated that continued progress on reforms and adoption of the GST could raise India‘s medium-term economic growth to above 8%. While for a layman to whom Indirect taxes and its calculations seems to be mindboggling issues can only HOPE for ACCHE DIN as promised by our Hon‘ble Prime Minister.

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