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Study on goods & service tax with present scenario

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The President of India approved the Constitution Amendment Bill for Goods and Services Tax (GST) on 8 September 2016, following the bill's passage in the Indian parliament and its ratification by more than 50% of state legislatures. This law will replace all indirect taxes levied on goods and services by the central government and state government and implement GST by April 2017. The implementation of GST will have a far-reaching impact on almost all the aspects of the business operations in India. With more than 140 countries now adopting some form of GST, India has long been a stand-out exception.

GST is a value-added tax levied at all points in the supply chain, with credit allowed for any tax paid on input acquired for use in making the supply. It would apply to both goods and services in a comprehensive manner, with exemptions restricted to a minimum.

In keeping with the federal structure of India, it is proposed that the GST will be levied concurrently by the central government (CGST) and the state government (SGST). It is expected that the base and other essential design features would be common between CGST and SGSTs for individual states. The inter-state supplies within India would attract an integrated GST (IGST), which is the aggregate of CGST and the SGST of the destination state.

The following are the salient features of the proposed GST system:

- The power to make laws in respect of supplies in the course of inter-state trade or commerce will remain with the central government. The states will have the right to levy GST on intrastate transactions, including on services.
- The administration of GST will be the responsibility of the GST Council, which will be the apex policy-making body for GST. Members of GST Council will comprise central and state ministers in charge of the finance portfolio.
- The threshold for levy of GST is a turnover of Rs. 1 million. For a taxpayer who conducts business in a northeastern state of India the threshold is Rs. 500,000.
- The central government will levy IGST on inter-state supply of goods and services. Import of goods will be subject to basic customs duty and IGST.
- GST is defined as any tax on supply of goods and services (other than on alcohol for human consumption).
- Central taxes such as central excise duty, additional excise duty, service tax, additional custom duty and special additional duty, as well as state-level taxes such as VAT or sales tax, central sales tax, entertainment tax, entry tax, purchase tax, luxury tax and octroi will be subsumed in GST.
- A provision will be made for removing imposition of entry tax/ octroi across India.

- Entertainment tax, imposed by states on movies, theatre, etc., will be subsumed in GST, but taxes on entertainment at panchayat, municipality or district level will continue.
- Stamp duties, typically imposed on legal agreements by states, will continue to be levied.

The key benefits associated with GST are:

- Offers a wider tax base, necessary for lowering tax rates and eliminating classification disputes
- Eliminates the multiplicity of taxes and their cascading effects
- Rationalizes the tax structure and simplifies compliance procedures
- Automates compliance procedures to reduce errors and increase efficiency.

GST would be levied on the basis of the destination principle. Exports would be zero-rated, and imports would attract tax in the same manner as domestic goods and services. In addition to the IGST in respect of supply of goods, an additional tax of up to 1% has been proposed to be levied by the central government. The revenue from this tax is to be assigned to the origin states. This tax is proposed to be levied for the first two years or a longer period, as recommended by the GST Council. With GST, it is anticipated that the tax base will be comprehensive, as virtually all goods and services will be taxable, with minimum exemptions. GST would bring in a modern tax system to ensure efficient and effective tax administration. It will bring in greater transparency and strengthen monitoring, thus making tax evasion difficult. While the process of implementation of GST unfolds in the next few months, it is important for industry to understand the impact and opportunities offered by this reform. GST will affect all industries, irrespective of the sector. It will impact the entire value chain of operations, namely procurement, manufacturing, distribution, warehousing, sales and pricing.

Meaning and knowing of GST?

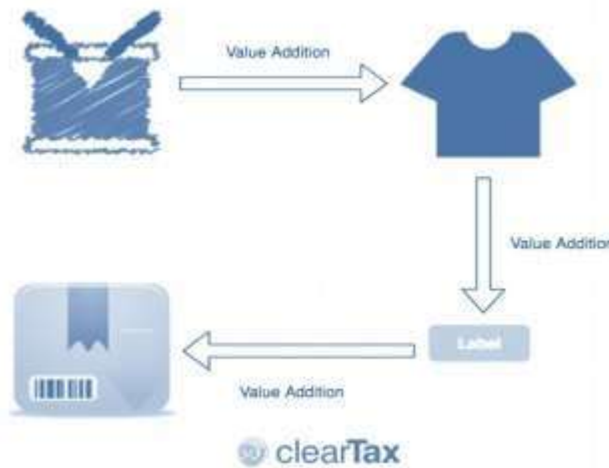
Goods & Services Tax Law in India is a **comprehensive**, **multi-stage**, **destination-based tax** that will be levied on every **value addition**.

To understand this, we need to understand the concepts under this definition. Let us start with the term ‗Multi-stage‘. Now, there are multiple steps an item goes through from manufacture or production to the final sale. Buying of raw materials is the first stage. The second stage is production or manufacture. Then, there is the warehousing of materials. Next, comes the sale of the product to the retailer. And in the final stage, the retailer sells you – the end consumer – the product, completing its life cycle.

So, if we had to look at a pictorial description of the various stages, it would look like:

Goods and Services Tax will be levied on each of these stages, which makes it a multi-stage tax. How? We will see that shortly, but before that, let us talk about _Value Addition'.

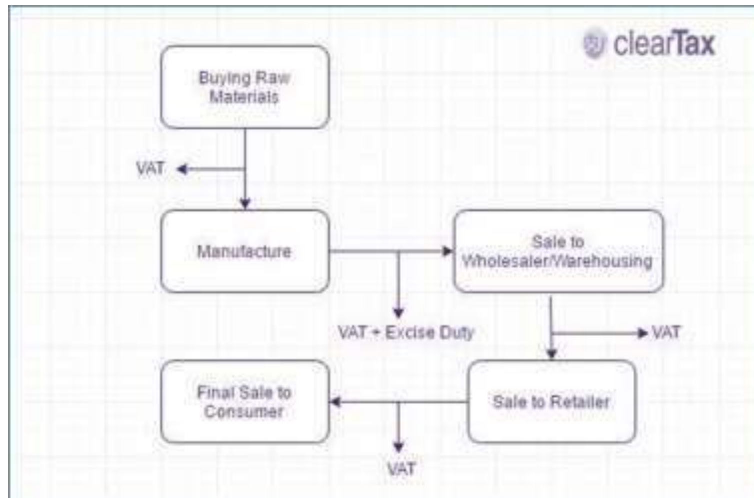
Let us assume that a manufacturer wants to make a shirt. For this he must buy yarn. This gets turned into a shirt after manufacture. So, the value of the yarn is increased when it gets woven into a shirt. Then, the manufacturer sells it to the warehousing agent who attaches labels and tags to each shirt. That is another addition of value after which the warehouse sells it to the retailer who packages each shirt separately and invests in marketing of the shirt thus increasing its value.



GST will be levied on these value additions – the monetary worth added at each stage to achieve the final sale to the end customer.

There is one more term we need to talk about in the definition – **Destination-Based**. Goods and Services Tax will be levied on all transactions happening during the entire manufacturing chain. Earlier, when a product was manufactured, the centre would levy an Excise Duty on the manufacture, and then the state will add a VAT tax when the item is sold to the next stage in the cycle. Then there would be a VAT at the next point of sale.

So, earlier the pattern of tax levy was like this:



Now, Goods and Services Tax will be levied at every point of sale. Assume that the entire manufacture process is happening in Rajasthan and the final point of sale is in Karnataka. Since Goods & Services Tax is levied at the point of consumption, so the state of Rajasthan will get revenue in the manufacturing and warehousing stages, but lose out on the revenue when the product moves out Rajasthan and reaches the end consumer in Karnataka. This means that Karnataka will earn that revenue on the final sale, because it is a destination-based tax and this revenue will be collected at the final point of sale/destination which is Karnataka.

Why is Goods and Services Tax so Important?

So, now that we have defined GST, let us talk about why it will play such a significant role in transforming the current tax structure, and therefore, the economy.

Currently, the Indian tax structure is divided into two – Direct and Indirect Taxes. Direct Taxes are levies where the liability cannot be passed on to someone else. An example of this is Income Tax where you earn the income and you alone are liable to pay the tax on it. In the case of Indirect Taxes, the liability of the tax can be passed on to someone else. This means that when the shopkeeper must pay VAT on his sale, he can pass on the liability to the customer. So, in effect, the customer pays the price of the item as well as the VAT on it so the shopkeeper can deposit the VAT to the government. This means that the customer must pay not just the price of the product, but he also pays the tax liability, and therefore, he has a higher outlay when he buys an item.

This happens because the shopkeeper has paid a tax when he bought the item from the wholesaler. To recover that amount, as well as to make up for the VAT he must pay to the government, he passes the liability to the customer who has to pay the additional amount. There is currently no other way for the shopkeeper to recover whatever he pays from his own pocket during transactions and therefore, he has no choice but to pass on the liability to the customer.

Goods and Services Tax will address this issue after it is implemented. It has a system of Input Tax Credit which will allow sellers to claim the tax already paid, so that the final liability on the end consumer is decreased.

How does GST work?

A nationwide tax reform cannot function without strict guidelines and provisions. The GST Council has devised a fool proof method of implementing this new tax regime by

dividing it into three categories. Wondering how they work? Let our experts explain this to you in detail.

When Goods and Services Tax is implemented, there will be 3 kinds of applicable Goods and Service Taxes: CGST, SGST & IGST.

CGST: where the revenue will be collected by the central government
SGST: where the revenue will be collected by the state governments for intra-state sales
IGST: where the revenue will be collected by the central government for inter-state sales
In most cases, the tax structure under the new regime will be as follows:

Transaction	New Regime	Old Regime	Comments
Sale within the state	**CGST + SGST**	**VAT + Central Excise/Service tax**	**Revenue will now be shared between the Centre and the State**
Sale to another State	**IGST**	**Central Sales Tax + Excise/Service Tax**	**There will only be one type of tax (central) now in case of inter-state sales.**

Example

A dealer in Maharashtra sold goods to a consumer in Maharashtra worth Rs. 10,000. The Goods and Services Tax rate is 18% comprising CGST rate of 9% and SGST rate of 9%. In such cases the dealer collects Rs. 1800 and of this amount, Rs. 900 will go to the central government and Rs. 900 will go to the Maharashtra government.

Now, let us assume the dealer in Maharashtra had sold goods to a dealer in Gujarat worth Rs. 10,000. The GST rate is 18% comprising of CGST rate of 9% and SGST rate of 9%. In such case the dealer has to charge Rs. 1800 as IGST. This IGST will go to the Centre. There will no longer be any need to pay CGST and SGST.

How will GST help India and common man?

The basis of Goods and Services Tax is the seamless flow of Input Tax Credit (ITC) along the entire value addition chain. At every step of the manufacturing process, businesses will have the option to claim the tax already paid in the previous transaction. Understanding this process is crucial for businesses. A detailed explanation here.

To understand this, let us first understand what is Input Tax Credit. It is the credit an individual receives for the tax paid on the inputs used in manufacturing the product. So, if there is a 10% tax that the individual must submit to the government, he can subtract the amount he has paid in taxes at the time of purchase and submit the balance amount to the government.

Let us understand this with a hypothetical numerical example.

Say a shirt manufacturer pays Rs. 100 to buy raw materials. If the rate of taxes is set at 10%, and there is no profit or loss involved, then he has to pay Rs. 10 as tax. So, the final cost of the shirt now becomes Rs (100+10=) 110.

At the next stage, the wholesaler buys the shirt from the manufacturer at Rs. 110, and adds labels to it. When he is adding labels, he is adding value. Therefore, his cost increases by say Rs. 40. On top of this, he has to pay a 10% tax, and the final cost therefore becomes Rs. (110+40=) 150 + 10% tax = Rs. 165.

Now, the retailer pays Rs. 165 to buy the shirt from the wholesaler because the tax liability had passed on to him. He has to package the shirt, and when he does that, he is adding value again. This time, let‘s say his value add is Rs. 30. Now when he sells the shirt, he adds this value (plus the VAT he has to pay the government) to the final cost. So, the cost of the shirt becomes Rs. 214.5 Let us see a breakup for this:

Cost = Rs. 165 + Value add = Rs. 30 + 10% tax = Rs. 195 + Rs. 19.5 = Rs. 214.5

So, the customer pays Rs. 214.5 for a shirt the cost price of which was basically only Rs. 170 (Rs 110 + Rs. 40 + Rs. 30). Along the way the tax liability was passed on at every stage of transaction and the final liability comes to rest with the customer. This is called the **Cascading Effect of Taxes** where a tax is paid on tax and the value of the item keeps increasing every time this happens.

Action	Cost	10% Tax	Total
Buys Raw Material @ 100	**100**	**10**	**110**
Manufactures @ 40	**150**	**15**	**165**
Adds value @ 30	**195**	**19.5**	**214.5**
Total	**170**	**44.5**	**214.5**

In the case of Goods and Services Tax, there is a way to claim credit for tax paid in acquiring input. What happens in this case is, the individual who has paid a tax already can claim credit for this tax when he submits his taxes.

In our example, when the wholesaler buys from the manufacturer, he pays a 10% tax on his cost price because the liability has been passed on to him. Then he adds value of Rs. 40 on his cost price of Rs. 100 and this brings up his cost to Rs. 140. Now he has to pay 10% of this price to the government as tax. But he has already paid one tax to the manufacturer. So, this time what he does is, instead of paying Rs (10% of 140=) 14 to the government as tax, he subtracts the amount he has paid already. So, he deducts the Rs. 10 he paid on his purchase from his new liability of Rs. 14, and pays only Rs. 4 to the government. So, the Rs. 10 becomes his input credit.

When he pays Rs. 4 to the government, he can pass on its liability to the retailer. So, the retailer pays Rs. (140+14=) 154 to him to buy the shirt. At the next stage, the retailer adds value of Rs. 30 to his cost price and has to pay a 10% tax on it to the government. When he adds value, his price becomes Rs. 170. Now, if he had to pay 10% tax on it, he would pass on the liability to the customer. But he already has input credit because he has paid Rs.14 to the wholesaler as the latter‘s tax. So, now he reduces Rs. 14 from his tax liability of Rs. (10% of 170=) 17 and has to pay only Rs. 3 to the government. And therefore, he can now sell the shirt for Rs. (140+30+17) 187 to the customer.

Action	Cost	10% Tax	Actual Liability	Total
Buys Raw Material	**100**	**10**	**10**	**110**

Manufactures @ 40	140	14	4	154
Adds Value @ 30	170	17	3	187
Total	170		17	187

In the end, every time an individual was able to claim input tax credit, the sale price for him reduced and the cost price for the person buying his product reduced because of a lower tax liability. The final value of the shirt also therefore reduced from Rs. 214.5 to Rs. 187, thus reducing the tax burden on the final customer.

So essentially, Goods & Services Tax is going to have a two-pronged benefit. One, it will reduce the cascading effect of taxes, and second, by allowing input tax credit, it will reduce the burden of taxes and, hopefully, prices.

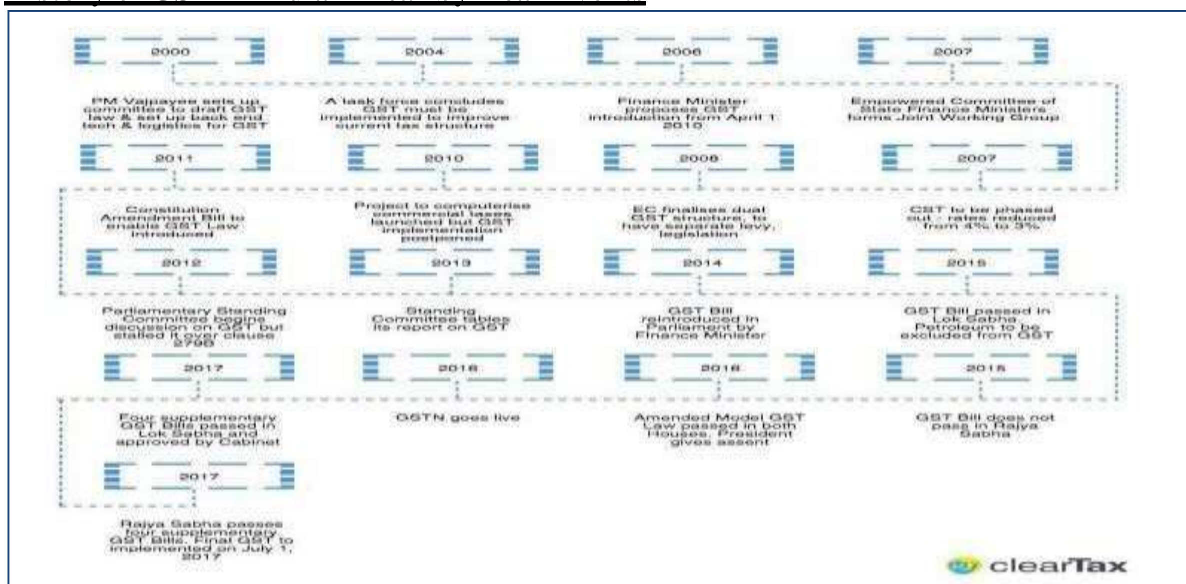
GST Law in India – A Detailed History

GST is not a new phenomenon. It was first implemented in France in 1954, and since then many countries have implemented this unified taxation system to become part of a global whole. Now that India is adopting this new tax regime, let us look back at the how and when of the Goods and Services Tax and its history in the nation.

France was the world‘s first country to implement GST Law in the year 1954. Since then, 159 other countries have adopted the GST Law in some form or other. In many countries, VAT is the substitute for GST, but unlike the Indian VAT system, these countries have a single VAT tax which fulfills the same purpose as GST.

In India, the discussion on GST Bill was flagged off in the year 2000, when the then Prime Minister Atal Bihari Vajpayee brought the issue to the table.

History of GST in India – Year by Year Events



Impact of GST on SSI

Small scale industries play a significant role in the overall growth of an economy. This industry is mainly specialized in the production of consumer commodities. SSIs generate huge employment due to the utilization of labour power for the production of goods. In a developing country like India where unemployment is a major problem; these industries pave the way for employment of skilled and non-skilled persons. The implementation of GST is certainly going to affect this sector and the employees associated with it.

Any tax-regime should ensure such an environment in which the proper growth of small scale industries may be assured. The First Discussion Paper (FDP) produced by the Empowered committee of state finance ministers and report of the thirteenth finance commission‘s Task Force have provided some important suggestions with respect to this sector.

Imposition of CGST and SGST as per abovesaid reports on turnover of goods and services are as under:

Turnover of goods	Turnover of services	Applicable taxes(according to FDP)
Below 10 lakhs	Below 10 lakhs	Both SGST and CGST are not applicable
Between 10 lakhs and 150 lakhs	Between 10 lakhs and ‗Y‘ figure	Only SGST
Above 150 lakhs	Above ‗Y‘ figure	Both SGST and CGST

But the Task Force is of the view that the small dealers (including service providers) and manufacturers should be exempted from the purview of both CGST and SGST if their annual aggregate turnover (excluding both CGST and SGST) of all goods and services does not exceed Rs.10 lakhs. However, those below the threshold limit may be allowed to register voluntarily to facilitate sales to other registered manufacturers / dealers, so that the cascading effect or tax may be avoided, if desired.

Further, the Task Force has suggested that to reduce administrative and compliance burden, small dealers with annual aggregate turnover of goods and services between 10 lakhs to 40 lakhs may be allowed to opt for a compounded levy of one percent, each towards CGST and SGST. However, no input credit should be allowed against the compounded levy or purchases made from exempt dealers. Although the compound levy scheme will make the day to day working easier, yet the cascading effect of tax will not be removed by the compounded levy. So the compound levy scheme should not be compulsory.

At present the small scale industries are entitled to exemptions from payment of CENVAT in respect of their turnover upto 1.5 crore. However, there is no such threshold exemption in respect of state level VAT. As per the recommendations of Department of Revenue (DOR), the threshold for goods and services should be common between the Centre and the State, on one hand and between goods and services, on the other. Also the DOR has suggested that the annual turnover threshold could be Rs. 10 lakhs or even more than that. This threshold exemption should not apply to dealers and service providers who undertake

inter-state supplies. This would not be in the favour of small dealers, as it will restrict their growth or force them to get registered. Hence a provision of threshold limit should be there to allow the small dealers to indulge in inter-state sale.

Summary & Conclusion

The idea behind having one consolidated indirect tax to subsume multiple currently existing indirect taxes is to benefit the Indian economy in a number of ways:

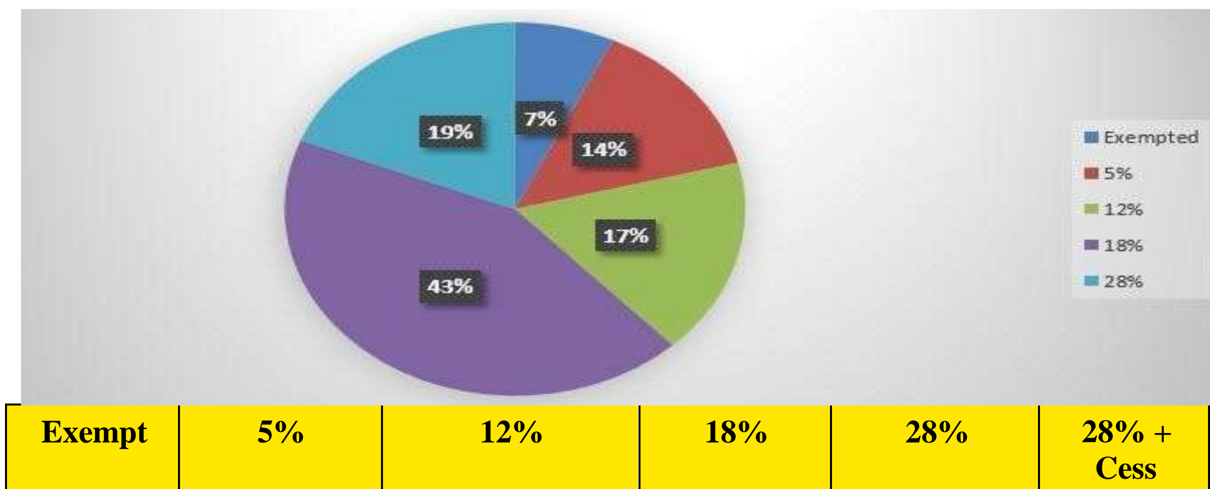
- It will help the country‘s businesses gain a level playing field
- It will put us on par with foreign nations who have a more structured tax system
- It will also translate into gains for the end consumer who not have to pay cascading taxes any more
- There will now be a single tax on goods and services

In addition to the above

- The Goods and Services Tax Law aims at streamlining the indirect taxation regime. As mentioned above, GST will subsume all indirect taxes levied on goods and service, including State and Central level taxes. The GST bill mechanism is an advancement on the VAT system, the idea being that a unified GST Law will create a seamless nationwide market.
- It is also expected that Goods and Services Tax will improve the collection of taxes as well as boost the development of Indian economy by removing the indirect tax barriers between states and integrating the country through a uniform tax rate.

→ Based on the above discussion, we can say that the different bodies have not reached on any consensus while the DOR seems nearer to the suggestions of the task force. As SSIs absorb surplus amount of labour in the economy and helps the system in scaling down the extent of unemployment as well as poverty; every measure should be taken in the forthcoming GST to protect it.

Rate classification for goods



Exempt	5%	12%	18%	28%	28% + Cess

Food grains Cereals Milk Jaggery Common Salt	Coal Sugar Tea & Coffee Drugs & Medicine Edible Oil	Fruit Juices Vegetable Juices Beverages containing milk Jams	Kitchenware Hair Oil Soap Toothpaste Glass fibre	Air conditioner Refrigerators	Small cars (1% / 3% cess) Luxury cars (15% cess)

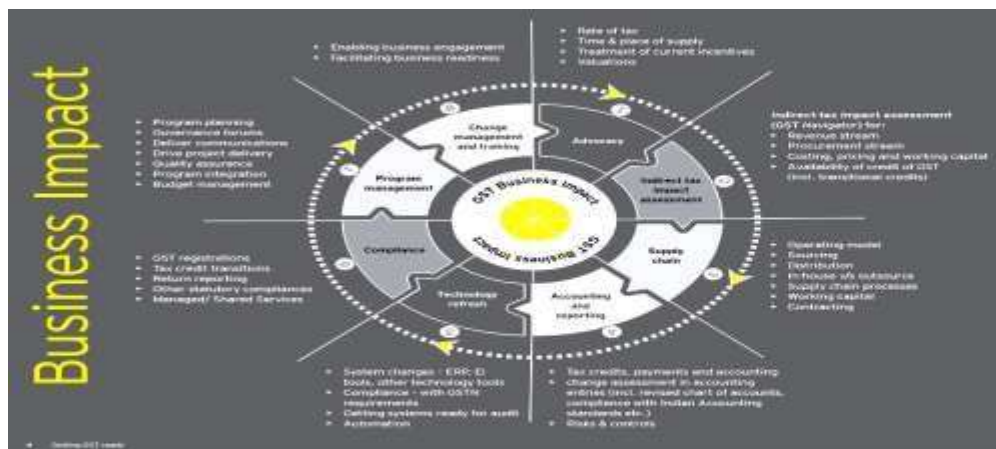
Rate classification for services

Exempt	5%	12%-18%	28%
Education Healthcare Residential accommodation Hotel/ Lodges with tariff below INR 1000	Goods transport Rail tickets (other than sleeper class) Economy class air tickets Cab aggregators Selling space for advertisements in print media	Works contract Business Class air travel Telecom services Financial services Restaurant services Hotel/ Lodges with tariff between INR 1000 and 7500	Cinema tickets Betting Gambling Hotel/ Lodges with tariff above INR 7500

Only rates of select goods and services have been mentioned here

- GST rate on pearls, precious or semi-precious stones, diamonds (other than rough diamonds), precious metals (like gold and silver), imitation jewellery, coins – 3%
- GST rate on rough diamonds – 0.25%

<u>Business impact of GST</u>



GST is a destination-based tax that replaces the earlier Central taxes and duties such as Excise Duty, Service Tax, Counter Veiling Duty (CVD), Special Additional Duty of Customs (SAD), central charges and cesses and local state taxes, i.e., Value Added Tax (VAT),

Central Sales Tax (CST), Octroi, Entry Tax, Purchase Tax, Luxury Tax, state cesses and surcharges and Entertainment tax (other than the tax levied by the local bodies).

A well-designed GST in India is expected to simplify and rationalize the current indirect tax regime, eliminate tax cascading and put the Indian economy on high-growth trajectory. The GST levy may potentially impact both manufacturing and services sector for the entire value chain of operations, namely procurement, manufacturing, distribution, warehousing, sales, and pricing.

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