

Importance of goods and services tax in india

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ABSTRACT

The multi-staged tax structure has charges from the State and Union governments separately, leading to cascading effect of taxes. There are taxes at different rates and at multiple points. The GST is an indirect tax which means that the tax is passed on till the last stage wherein it is the customer of the goods and services who bears the tax. This is the case even today for all indirect taxes but the difference under the GST is that with streamlining of the multiple taxes the final cost to the customer will come out to be lower on the elimination of double charging in the system. GST is a transparent Tax and also reduces the number of indirect taxes. With GST implemented a business premises can show the tax applied in the sales invoice. Customer will know exactly how much tax they are paying on the product they bought or services they consumed. GST will not be a cost to registered retailers therefore there will be no hidden taxes and the cost of doing business will be lower. This in turn will help business being more competitive. The consumer will get the end-product at cheaper rates because of elimination of multiple taxes and the tax cascade. An attempt is made to spot light the importance of Goods and Services Tax in India.

INTRODUCTION

Goods and Services Tax (GST) is defined as the tax levied when a consumer buys a good or service. It is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services. GST aims to replace all indirect levied on goods and services by the Indian Central and State governments. GST would subsume with a single comprehensive tax, bringing it all under a single umbrella, eliminating the cascading effect of taxes on the production and distribution prices of goods and services.

IMPORTANCE OF GOODS AND SERVICES TAX

The multi-staged tax structure has charges from the State and Union governments separately, leading to cascading effect of taxes. There are taxes at different rates and at multiple points. The Centre has taxes like Income tax, service tax, central sales tax, excise duty and security transaction tax while at the State level it includes VAT or sales tax, octroi, state excise, property tax, entry tax and agriculture tax. These taxes lead to increased tax burden on the Indian products affecting the prices and sales in the domestic as well as international markets. The above scenario of multiple taxes and its cascading effect which is a burden on common man is GST. The framework of proposal has dual GST which means it will have a federal structure. GST will basically have three kinds of taxes namely Central, State and one called integrated GST that will help to tackle inter-state transactions. Under the current GST tax reform, all forms of supply of goods and services like transfer, sale, barter, exchange and rental will have a CGST and SGST.

LEVY OF GST

GST is a consumption-based tax. It is based on the destination / actual or final consumption point of goods and services. GST is collected at each stage of purchase or sale in the supply chain. Manufacturer, wholesaler or retailer have to pay the applicable GST rate and can claim input-GST through tax credit mechanism. But being the last person in the supply chain, consumer will bear this tax. Hence, GST is a last point retail tax.

TYPES OF GST

There are three types of GST.

- SGST – State GST, collected by the State Govt.
- CGST – Central GST, collected by the Central Govt.
- IGST – Integrated GST, collected by the Central Govt.

Present excise duty and service tax will be replaced by CGST at single rate. VAT will be replaced by SGST. IGST is for interstate sales/stock transfers. In case of imports, both CGST and SGST are levied. Rate structure of GST will be same as the rate structure of VAT. There will be a lower rate for essential commodities and relatively higher rate for luxuries.

GST – WORKING PRINCIPLE

In a first of its kind initiative, the GST will be implemented in two components – Central GST or CGST and State GST or SGST. This dual GST will be levied on all the supply of goods and services across the country. Therefore, if there is a sale within the State, then the both CGST and SGST will be charged. However, if the sale is outside the State, then only the Intra-State GST will be levied by the Centre. CGST is doing away with indirect taxes such Central Excise Duty, Service Tax, Addl. Customs Duty, Special Additional Customs duty as well as Additional Excise Duty. These indirect taxes are those that are collected by the Centre. SGST will remove indirect taxes on goods and services which are charged by the State such as VAT, Entertainment Tax, Purchase Tax, Octroi duty, Luxury Tax and Entry Tax. The credits of Input Tax of CGST will be accessible for settling the output of CGST liability at every stage. Likewise, in the States, the credits of SGST taken on the inputs will be made available for clearing the output of SGST's liability at each stage.

BENEFITS OF GST

GST will remove the cascading effect of tax. As a result of which, double taxations will reduce as the Centre and State are working in tandem. In short, we will see crucial step towards reforming the indirect tax system in India. Another benefit is the intra-state business will be cheaper. The tax burden on logistics will reduce and become seamless as companies will have to pay a uniform tax in all states across the country. GST paves the way for India becoming a national market. For international players, this uniform tax structure on indirect tax will help in ease of doing business.

The implementation of GST will also streamline the unorganized players as all stakeholders who have already paid taxes will compliance proofs to claim their set-offs. This will bring in transparency in the system. For the Government, the GST is boon that was long coming. The first benefit would be easier administration, especially as all the indirect taxes are replaced by GST. The coordination between the State and Centre will improve as there is no management of various taxes such as service tax, excise duty, etc. In addition, a robust IT infrastructure set-up will provide a smooth transfer of credit from input tax from one level to the other in the supply chain. For the consumers, who are at the end of the supply chain, will be the biggest beneficiaries, if the companies transfer the relief gain through GST to them.

The consumers will not have to pay more for any goods or services as the hidden taxes are all removed in the GST. This will bring transparency in the grass root level of the supply chain.

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.

CONCLUSION

The introduction of GST is a significant step in the reform of indirect taxation in India. Combining several central and state taxes into single tax would mitigate cascading or double taxation. It facilitates a common national market. The government removed Central Excise duty, Service tax, Countervailing Duty, Special countervailing duty, Value Added Tax (VAT) and Central Sales Tax (CST). Others are Octroi, Entertainment tax, entry tax, purchase tax, luxury tax, advertisement tax, and taxes applicable on lotteries. There will be only GST now. As a result, there are no variations and confusions across the country.

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