

Gst – an over view

Dr.A.KHALEELUR RAHMAN

*Associate Professor of Commerce,
Jamal Mohamed College (Autonomous), Tiruchirappalli - 20*

P.GANESH

*Ph.D. Research Scholar,
Jamal Mohamed College, Tiruchirappalli-20*

Abstract: This paper is an analysis of what the impact of GST (Goods and Services Tax) will be on Indian Tax Scenario and Explaining about taxation schemes, CGST, SGST, IGST, Tax rates, Effects, What are the taxes that replaces GST, When will be GST implementation, Registration process of GST, impact of GST tax, Documents requirements for GST, How will help GST to India and common Man, Why GST is important, What is The paper highlights the background, Prospectus and challenges in Implementation of Goods and services Tax (GST) in India. Finally, the paper examines and draws out a conclusion.

Key Words: GST (Goods and Services Tax), Indian Tax Scenario, Indian economy.

What is a 'Goods and Services Tax - GST

The Goods and Services Tax (GST) is a value-added tax levied on most goods and services sold for domestic consumption. The GST is paid by consumers, but it is remitted to the government by the businesses selling the goods and services. In effect, GST provides revenue for the government.

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.

Taxation scheme

A single GST replaced several existing taxes and levies which include: central excise duty, services_tax, additional customs duty, surcharges, state-level value_added_tax and Octroi. Other levies which were applicable on inter-state transportation of goods have also been done away with in GST regime.

GST is levied on all transactions such as sale, transfer, purchase, barter, lease, or import of goods and/or services. India adopted a dual GST model, meaning that taxation is administered by both the Union and State Governments. Transactions made within a single state will be levied with Central GST (CGST) by the Central Government and State GST (SGST) by the government of that state. For inter-state transactions and imported goods or services, an Integrated GST (IGST) is levied by the Central Government. GST is a consumption-based tax, therefore, taxes are paid to the state where the goods or services are consumed not the state in which they were produced. IGST complicates tax collection for State Governments by disabling them to collect the tax owed to them directly from the

Central Government. Under the previous system, a state would have to only deal with a single government in order to collect tax revenue.

GST tax Rates

The GST is imposed at different rates on different items. The rate of GST is 18% for soaps and 28% on washing detergents. GST on movie tickets is based on slabs, with 18% GST for tickets that cost less than Rs. 100 and 28% GST on tickets costing more than Rs.100. The rate on under-construction property booking is 12%.

Effects and impacts

The introduction of the GST increased the costs of most consumer goods and services in India including food, hotel charges, insurance and cinema tickets. Upon its introduction in the country, GST led to a number of protests by the business community, primarily due to an increase in overall taxes and hence the prices of goods.

Check posts across the country were abolished ensuring free and fast movement of goods. The Central Government had proposed to insulate the revenues of the States from the impact of GST, with the expectation that in due course, GST will be levied on petroleum and petroleum products. The central government had assured states of compensation for any revenue loss incurred by them from the date of GST for a period of five years. However, no concrete laws were made to support such action.

What are the taxes that GST replaces?

The GST replaces numerous different indirect taxes such as:

1. Central Excise Duty
2. Service Tax
3. Countervailing Duty
4. Special Countervailing Duty
5. Value Added Tax (VAT)
6. Central Sales Tax (CST)
7. Octroi
8. Entertainment Tax
9. Entry Tax
10. Purchase Tax
11. Luxury Tax
12. Advertisement taxes
13. Taxes applicable on lotteries.

When will be GST Implemented?

Government may not be able to meet the initial GST implementation date of 1st April 2017. Its widely assumed that GST rollout will start only after 1 July 2017.

What will become costlier and cheaper?

According to experts, these items could become costlier:

- Cigarette prices likely to go up as GST rate for tobacco will be higher than current duties
- Commercial vehicles such as trucks will become costlier
- Mobile phone calls may get costlier as service tax will go up
- Textile and branded jewellery may become costlier

And these could become cheaper:

- Auto: Prices of entry-level cars, two-wheelers, SUVs may fall
- Car batteries likely to get cheaper
- Paint, cement prices likely to fall
- Movie ticket prices likely to fall as entertainment tax will come down
- Electronics items like fans, lighting, water heaters, air coolers, etc. will get cheaper

What is the registration process for GST in India?

GST registration process will be online through a portal maintained by Central Government of India. Govt. will also appoint GSPs (GST Suvidha Providers) to help businesses with the registration process.

Based on the information provided by GST, registration process looks like this:

1. The applicant will need to submit his PAN, mobile number and email address in Part A of Form GST REG-01 on the GSTN portal or through Facilitation centre (notified by board or commissioner).
2. The PAN is verified on the GST Portal. Mobile number and E-mail address are verified with a one-time password (OTP). Once the verification is complete, applicant will receive an application reference number on the registered mobile number and via E-mail. An acknowledgement should be issued to the applicant in FORM GST REG-02 electronically.
3. Applicant needs to fill Part- B of Form GST REG-01 and specify the application reference number. Then the form can be submitted after attaching required documents.
4. If additional information is required, Form GST REG-03 will be issued. Applicant needs to respond in Form GST REG-04 with required information within 7 working days from the date of receipt of Form GST REG-03.
5. If you have provided all required information via Form GST REG-01 or Form GST REG-04, the registration certificate in Form GST REG -06 for the principal place of business as well as for every additional place of business will be issued to the applicant. If the person has multiple business verticals within a state he can file a separate application for the registration in Form GST REG-01 for each business verticals. If the details submitted are not satisfactory, the registration application is rejected using Form GST REG-05. The applicant who is required to deduct TDS or collect TCS shall submit an application in Form GST REG - 07 for registration. If he is no longer liable to deduct or collect tax at source then the officer may cancel and communicate the cancel of registration.

Documents required for GST registration:

- PAN card of the Company
- Proof of constitution like partnership deed, Memorandum of Association (MOA) /Articles of Association (AOA), certificate of incorporation.
- Details and proof of place of business like rent agreement or electricity bill
- Cancelled cheque of your bank account showing name of account holder, MICR code, IFSC code and bank branch details
- Authorized signatory like List of partners with their identity and address proof in case of partnership firm or List of directors with their identity and address proof in case of company.

When Goods and Services Tax is implemented, there will be 3 kinds of applicable Goods and Services Taxes:

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

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 in India and common Man?

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 tax and input, 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.

Conclusion

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.

While there will be initial transition challenges, GST will bring in much clarity in many areas of business. One of the areas is accounting and bookkeeping.

While the number of accounts is more apparently under GST, once you go through the accounting you will find it is much easier for record keeping. One of the biggest advantages a trader will have is that he can set off his input tax on service with his output tax on the sale.

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