Goods and Service Tax in India – A study of overview, challenges, way forward & It's Impact on Manufacturing Industry with reference to Pune district

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Abstract

India has witnessed substantial reforms in Indirect taxes over the past two decades and is on the verge of another major reform initiative which will bring this process to a culmination. The objective of this study is to find out the impact of tax systems on the profitability of the organization and growth of the revenue in India and the state of Maharashtra. The past experience in Maharashtra and elsewhere have shown that half baked reforms in the name of VAT have done more harm than good in evolving a tax system required for a competitive environment. It is important to assess how this scenario changes from Sales tax to VAT and VAT to GST. Sales tax can be levied either by the Central or State Government. State sales taxes that apply on sales made within a State have rates that range from 4 to 15 per cent. Sales tax is also charged on works contracts in most states and the value of contracts subject to tax and the tax rate vary from state to state.

Keyword: CENVAT, Multi-Stage sales tax

Introduction

VAT is a multi-point sales tax with set-off for tax paid on purchases. It is collected in installments at each transaction stage in the production distribution system. It does not have cascading effect due to the system of distribution or credit mechanism. VAT is a tax on consumption. The final and total burden of the tax is fully and exclusively borne by the domestic consumer of goods and services. Value added tax is, therefore a multi-stage sales tax levied as a proportion of value added. In simple terms, VAT is tax on sale of commodity at every point in the series of sales by business firms which the provision of set-off tax already paid on inputs as well as on previous purchases. Unlike a retailer sales tax or the present sales tax or the present tax scheme, which are essentially single point taxes, VAT is charged and collected at each stage of the production/delivery of goods and services. VAT is an acronym for Value Added Tax. It is basically known as a tax on consumption because its ultimate effect is borne by the consumer it is also known as Goods and Service Tax (GST). In European Union it is known as VAT while in Australia, Canada, New Zealand and Singapore it is known as GST. In Japan it is known as Consumption Tax. However, most of the states in India, from April 01, 2005, have supplemented the sales tax with the new Value Added Tax (VAT). VAT in India is classified under the following tax slabs:

GOODS AND SERVICE TAX:

Introduction of Goods and Services Tax (GST) in India is a certainty and its impact on the retail sector is equally crucial to examine. It is believed that traders, including retailers, would be one of the biggest beneficiaries of this harmonized system of taxation. Although retail sector has succeeded in evolving as an organized revenue generating sector, it still continues to be fraught with some inherent challenges posed by the current indirect tax regime.

CENVAT credit of input taxes - Inability to offset the input excise duty (on procurement of goods) and service tax (on procurement of services viz rentals, freight, advertisement, other business related services) against the output tax (possible only value added tax), leads to cascading of taxes. Given that the output VAT can be (currently) discharged only through utilizing the input VAT, the input service tax (largely on account of rentals) becomes a cost in the system. The ability to pass on this additional cost to the final consumers depends on market dynamics and therefore, may lead to reduction in margins. This issue of inability to offset the input taxes should get resolved once GST is introduced in India. This is for the reason that under GST, in the form in which it is currently contemplated, taxes on services would be available for set off against taxes on goods.

Taxable Turnover:

Means "taxable turnover" as the turnover on which the dealer becomes liable to pay tax. Such turnover has to be determined by allowing the deductions prescribed in Rule 6 from the "total turnover" as defined in section 2(1)(u-2). Such turnover should, however, not include the turnover of purchase or sale in the course of inter-state trade or commerce or in the course of export of goods outside India, or in the course of import of goods into India.

Total turnover:

Means the aggregate turnover in all goods of a dealer at all places of business in the State, whether or not the whole or any portion of such turnover is liable to tax, including the turnover of purchase or sale in the course of interstate trade or commerce or in the course of export of the goods out of the territory of India or in the course of import of the goods into the territory of India;

Declared goods:

Goods, which are of special importance in inter-State trade or commerce as per section 14 of the CST Act, are called declared goods. The rate of tax on any sale or purchase of such goods inside the State shall not exceed four percent and such tax shall not be levied at more than one stage. The rate of tax and point of levy are specified in the Fourth Schedule. The law envisages refund of tax in cases where such tax paid goods are subsequently sold in the course of inter-state trade or commerce.

Methods of Computation of VAT:

There are several methods to calculate the 'value added' to the goods for levy of tax. The three commonly used methods are:

(a) Addition method,

(b) Invoice method and

(c) Subtraction method.

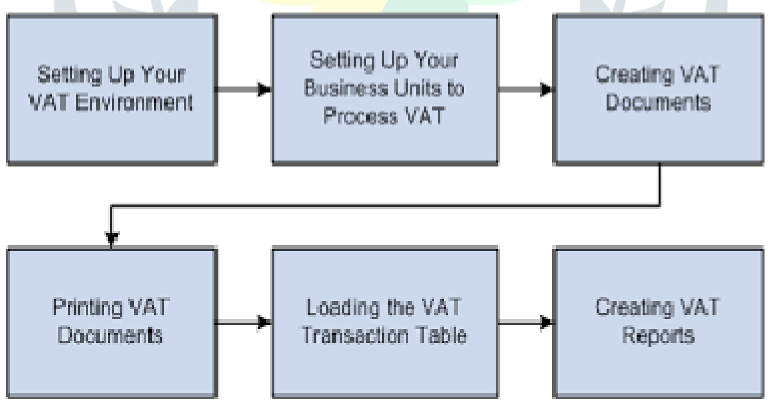

Figure 1 Methods of computation of VAT

VARIANTS OF VAT:

VAT has three varints, viz., (a) gross product variant, (b) income variant and (c) consumption variant. These variants are presented in a schematic diagram given below:

Variants of VAT with regards to credit for VAT paid on inputs–

Gross Product Variant	Income Variant	Consumption Variant
Credit of VAT paid on all inputs except VAT paid on purchase of Capital Assets.	Credit of VAT paid on all inputs. VAT paid on purchase of capital assets is available in proportion to the depreciation on such assets.	Credit of VAT paid on all inputs including VAT paid on purchase of Capital Assets is available in the year of purchase.

Most of the states in India follow the Consumption Variant

Figure 2 Different variants of VAT

The gross product variant allows deductions for taxes on all purchases of raw materials and components, but no deduction is allowed for taxes on capital inputs. That is, taxes on capital goods such as plant and machinery are not deductible from the tax base in the year of purchases and tax on the depreciated part of the plant and machinery is not deductible in the subsequent years. The income variant of VAT on the other hand allows for deductions on purchases of raw materials and components as well as depreciation on capital goods.

CONCEPTS AND MEANING OF GOODS AND SERVICE TAX:

The Goods and Services Tax (GST) is a comprehensive value added tax (VAT) on the supply of goods or services. France was the first country to introduce this value added tax system in 1954 devised by a public servant. In India, due to non consensus between central and state government, the proposal is to introduce a Dual GST regime i.e. Central and State GST**.**

Dual GST:- Many countries in the world have a single unified GST system i.e. a single tax applicable throughout the country. However, in federal countries like Brazil and Canada, a dual GST system is prevalent whereby GST is levied by both the federal and state or provincial governments. In India, a dual GST is proposed whereby a Central Goods and Services Tax (CGST) and a State Goods and Services Tax (SGST) will be levied on the taxable value of every transaction of supply of goods and services.

Impact on Prices of Goods and Services:-The GST is expected to foster increased efficiencies in the economic system thereby lowering the cost of supply of goods and services. Further, in the Indian context, there is an expectation that the aggregate incidence of the dual GST will be lower than the present incidence of the multiple indirect taxes in force.

Conclusion

Indian business scenario manufacturing industry is the playing significant role, in business world. In the world every country has the sum of financial or aid to the manufacturing industry. Some companies feel like that Agriculture crop within the duration. Manufacturing sector is economic growth of nation. When the country focus on manufacturing industry that the country overcomes technological barriers. It can be concluded from the above discussion that GST will provide relief to producers and consumers by providing wide and comprehensive coverage of tax credit set-off. More than 150 countries have implemented GST. Efficient formulation of GST will lead to resource and revenue gain for both Centre and States. It can be further concluded that GST have a positive impact on Indian sectors and industry.

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