An over view on GOODS AND SERVICE TAX (GST)

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Abstract

GST also known as the Goods and Services Tax is defined as the giant indirect tax structure designed to support and enhances the economic growth of a country. More than 150 countries have implemented GST so far. However, the idea of GST in India was mooted by Vajpayee government in 2000 and the constitutional amendment for the same was passed by the Loksabha on 6th May 2015 and it came into effective from 1st July 2017. It would be interesting to understand about one of the significant indirect tax reforms in the country after independence.

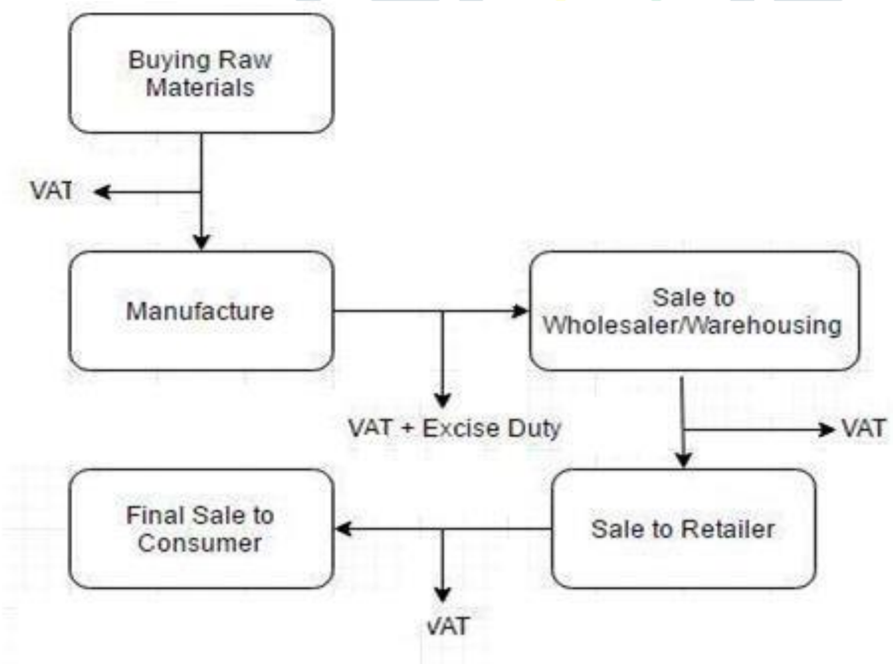
Keywords: CGST, SGST, IGST, cascading effect, input tax credit

Introduction

GST is an Indirect Tax which has replaced many Indirect Taxes in India. The Goods and Service Tax Act was passed in the Parliament on 29th March 2017. The Act came into effect on 1st July 2017; Goods & Services Tax Law in India is a comprehensive, multi- stage, destination-based tax that is levied on every value addition.

In simple words, Goods and Service Tax (GST) is an indirect tax levied on the supply of goods and services. This law has replaced many indirect tax laws that previously existed in India.GST is one indirect tax for the entire country.

So, before Goods and Service Tax, the pattern of tax levy was as follows:



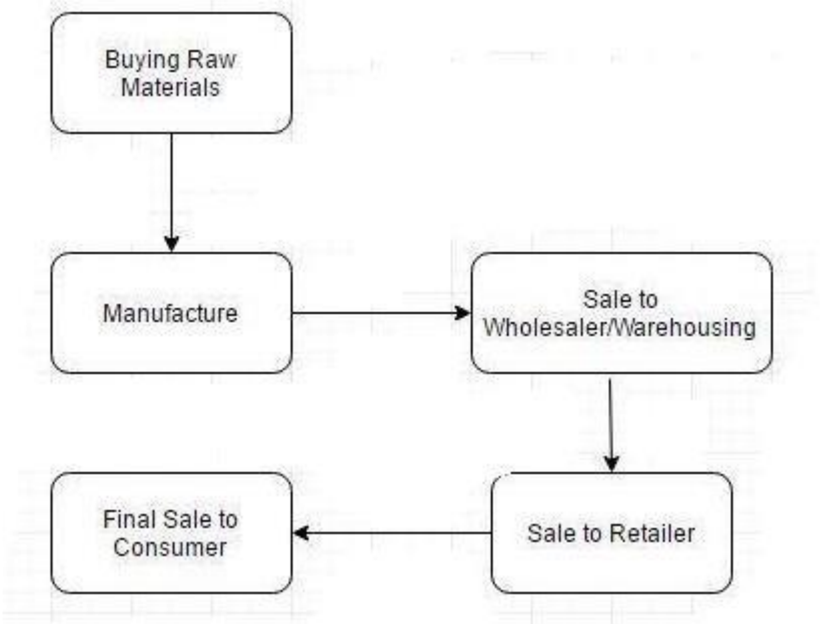
Under the GST regime, the tax is levied at every point of sale. In the case of intra-state sales, Central GST and State GST are charged. Inter-state sales are chargeable to Integrated GST.

Multi-stage

There are multiple change-of-hands an item goes through along its supply chain: from manufacture to final sale to the consumer.

Let us consider the following case:

- Purchase of raw materials
- Production or manufacture
- Warehousing of finished goods
- Sale to wholesaler
- Sale of the product to the retailer
- Sale to the end consumer



Goods and Services Tax is levied on each of these stages which make it a multi-stage tax.

Value Addition

The manufacturer who makes biscuits buys flour, sugar and other material. The value of the inputs increases when the sugar and flour are mixed and baked into biscuits.
The manufacturer then sells the biscuits to the warehousing agent who packs large quantities of biscuits and labels it. That is another addition of value after which the warehouse sells it to the retailer.

The retailer packages the biscuits in smaller quantities and invests in the marketing of the biscuits thus increasing its value.

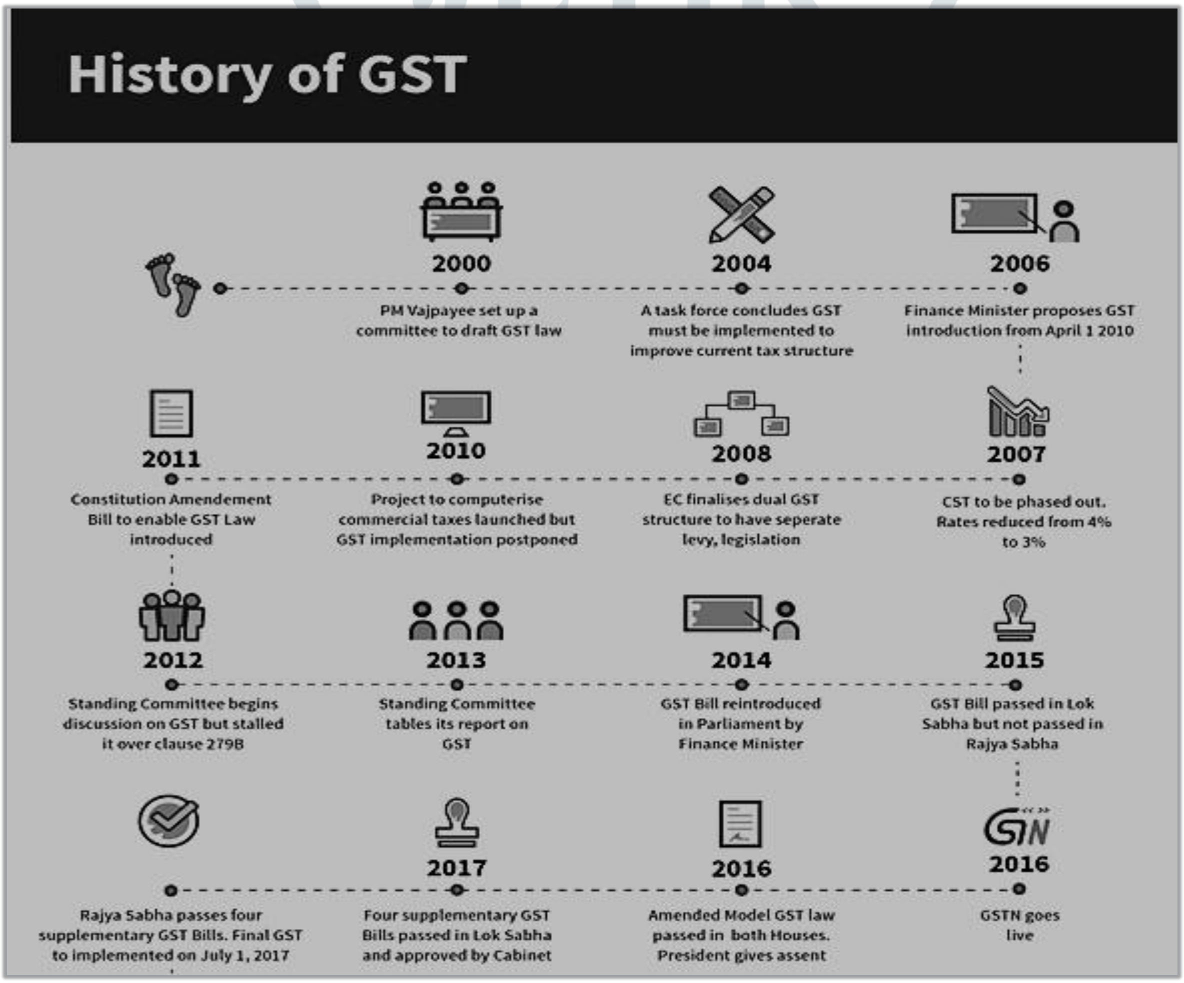
GST is levied on these value additions i.e. the monetary value added at each stage to achieve the final sale to the end customer.

Destination-Based-

Consider goods manufactured in Maharashtra and are sold to the final consumer in Karnataka. Since Goods & Service Tax is levied at the point of consumption. So, the entire tax revenue will go to Karnataka and not Maharashtra.

2. Journey of GST in India

The GST journey began in the year 2000 when a committee was set up to draft law. It took 17 years from then for the Law to evolve. In 2017 the GST Bill was passed in the Loksabha and Rajyasabha. On 1st July 2017 the GST Law came into force.



3. Advantages of GST

GST has mainly removed the Cascading effect on the sale of goods and services. Removal of cascading effect has impacted the cost of goods. Since the GST regime eliminates the tax on tax, the cost of goods decreases. GST is also mainly technologically driven. All activities like registration return filing, application for refund and response to notice needs to be done online on the GST Portal; this accelerates the processes. Following are the advantages of GST.

- Removing cascading tax effect.
- Higher threshold for registration.
- Composition scheme for small business.
- Online simpler procedure under GST.
- Lesser compliances.
- Defined treatment for e-commerce.
- Increased efficiency in logistics.
- Regulating the unorganised sector

4. What are the components of GST?

There are 3 taxes applicable under this system: CGST, SGST & IGST.

- **CGST:** Collected by the Central Government on an intra-state sale (Eg: transaction happening within Maharashtra)
- **SGST:** Collected by the State Government on an intra-state sale (Eg: transaction happening within Maharashtra)
- **IGST:** Collected by the Central Government for inter-state sale (Eg: Maharashtra to Tamil Nadu)

In most cases, the tax structure under the new regime will be as follows:

Transaction	New Regime	Old Regime	
Sale within the State	CGST + SGST	VAT + Central Excise/Service tax	Revenue will be shared equally 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) in case of inter-state sales. The Centre will then share the IGST revenue based on the destination of goods.

Illustration:

- Let us assume that a dealer in Gujarat had sold the goods to a dealer in Punjab worth Rs. 50,000. The tax rate is 18% comprising of only IGST.

  In such case, the dealer has to charge Rs. 9,000 as IGST. This revenue will go to the Central Government.

- The same dealer sells goods to a consumer in Gujarat worth Rs. 50,000. The GST rate on the good is 12%. This rate comprises of CGST at 6% and SGST at 6%.

  The dealer has to collect Rs. 6,000 as Goods and Service Tax. Rs. 3,000 will go to the Central Government and Rs. 3,000 will go to the Gujarat government as the sale is within the state.

5. Tax Laws before GST

In the earlier indirect tax regime, there were many indirect taxes levied by both state and centre. States mainly collected taxes in the form of Value Added Tax (VAT). Every state had a different set of rules and regulations. Interstate sale of goods was taxed by the Centre. CST (Central State Tax) was applicable in case of interstate sale of goods. Other than above there were many indirect taxes like entertainment tax, octroi and local tax that was levied by state and centre. This led to a lot of overlapping of taxes levied by both state and centre. For example, when goods were manufactured and sold, excise duty was charged by the centre. Over and above Excise Duty, VAT was also charged by the State. This lead to a tax on tax also known as the cascading effect of taxes. The following is the list of indirect taxes in the pre-GST regime:

- Central Excise Duty
- Duties of Excise
- Additional Duties of Excise
- Additional Duties of Customs
- Special Additional Duty of Customs
- Cess
- State VAT
- Central Sales Tax
- Purchase Tax
- Luxury Tax
- Entertainment Tax
- Entry Tax
- Taxes on advertisements
- Taxes on lotteries, betting, and gambling

CGST, SGST, and IGST have replaced all the above taxes. However, the chargeability of CST for Inter-state purchase at a concessional rate of 2%, by issue and utilisation of c-Form is still prevalent for certain Non-GST goods such as: (i) Petroleum crude; (ii) High-speed diesel; (iii) Motor spirit (commonly known as petrol); (iv) Natural gas; (v) Aviation turbine fuel; and (vi) Alcoholic liquor for human consumption. in respect of following transactions only:

- Resale
- Use in manufacturing or processing
- Use in the telecommunication network or in mining or in the generation or distribution of electricity or any other power

6. What changes has GST brought in?

In the pre-GST regime, every purchaser including the final consumer paid tax on tax. This tax on tax is called Cascading Effect of Taxes.

GST has removed this cascading effect as the tax is calculated only on the value-addition at each stage of the transfer of ownership.

This indirect tax system under GST has improved the collection of taxes as well as boosted the development of Indian economy by removing the indirect tax barriers between states and integrating the country through a uniform tax rate.

Illustration:

Based on the above example of biscuit manufacturer along with some numbers, let's see what happens to the cost of goods and the taxes in the earlier and GST regimes.

Tax calculations in earlier regime:

Action	Cost	10% Tax	Total
Manufacturer	1,000	100	1,100
Warehouse adds a label and repacks @ 300	1,400	140	1,540
Retailer advertises @ 500	2,040	204	2,244
Total	1,800	444	2,244

Along the way, the tax liability was passed on at every stage of the 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.

Tax calculations in current regime:

Action	Cost	10% Tax	Actual Liability	Total
Manufacturer	1,000	100	100	1,100
Warehouse adds label and repacks @ 300	1,300	130	30	1,430
Retailer advertises @ 500	1,800	180	50	1,980
Total	1,800		180	1,980

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 the end, every time an individual is able to claim the input tax credit, the sale price is reduced and the cost price for the buyer is reduced because of lower tax liability. The final value of the biscuits is therefore reduced from Rs. 2,244 to Rs. 1,980, thus reducing the tax burden on the final customer.

GST regime also brought a centralised system of waybills by the introduction of "E-way bills". This system was launched on 1st April 2018 for Inter-state movement of goods and on 15th April 2018 for intra-state movement of goods in a staggered manner. Under the e-way bill system, manufacturers, traders & transporters are now able to generate e-way bills for the goods transported from the place of its origin to its destination on a common portal with ease. Tax authorities are also benefitted as this system has reduced time at check -posts and help reduce tax evasion.

Conclusion

Almost 18 years has taken to see the implementation of GST in Indian. Confusions and complexities were expected and will happen. India, at some point, had to comply with such regime. Though the structure might not be a perfect one but once in place, such a tax structure will make India a better economy favourable for foreign investments. Until now India was a union of 29 small tax economies and 7 union territories with different levies unique to each state. It is a much accepted and appreciated regime because it does away with multiple tax rates by Centre and States. And if you are doing any kind of business then you should register for GST as it is not only going to help Indian government but will help you also to track your business weekly as in GST you have to make your business activity statement each week.GST has been a major transition in the Indian tax framework. It has evolved significantly from the time of its inception. It is expected that Government's pro-active measures and industry's active participation, will make it a truly "Good and Simple Tax" in the times to come

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