UNDERSTAND THE DIFFERENCE BETWEEN GST AND VAT

Dr. T. Vasanthi, M.A., M.Phil., Ph.D.

Abstract

GST and VAT are both counter approach taxation systems by the government to charge taxes on goods and services across the nation. The old tax system, i.e. value added tax, was the method of applying taxes on goods while the goods and services tax is set to change this course of action towards consumers. In this article, let us understand the concept of VAT, GST and differences between VAT and GST and their implications.

Introduction

GST and VAT are both counter approach taxation systems by the government to charge taxes on goods and services across the nation. The old tax system, i.e. value added tax, was the method of applying taxes on goods while the goods and services tax is set to change this course of action towards consumers. In this article, let us understand the differences between VAT and GST and their implications.

Concept of VAT

Value Added Tax (VAT) was one of the indirect taxes which have been subsumed by GST. As a taxation concept, VAT replaced Sales Tax. Although the concept of VAT was introduced in April 1, 2005, it was implemented in 2014 and applied to the sale of goods. Similarly, service tax applied to services. VAT was introduced to make India a single integrated market. On June 2, 2014, VAT was implemented in all states and union territories of India, except Andaman and Nicobar Islands and Lakshadweep Islands.

Disadvantages of VAT

- Different states had their own version of VAT law
- Rate of VAT was different in different states
- Cascading effect of taxes was prominent under the VAT regime
- It was not possible to claim Input Tax Credit (ITC) on service under VAT

Concept of GST

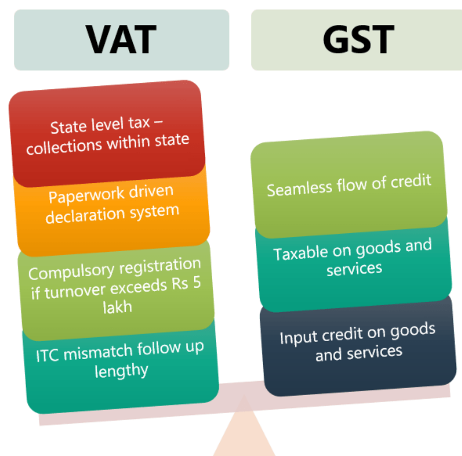
Designed to be a single, comprehensive, destination-based taxation concept that will unify the entire country in terms of how the tax is collected, GST has revolutionized the Indian taxation system. The Goods and Services Tax (GST) intends to further eliminate the concept of “tax on tax”.

Benefits of implementation of GST:

- Removal of cascading effect of tax
- Simple online procedure
- Lesser compliances
- Defined treatment for e-commerce companies

The Difference between GST and VAT

The Goods and Services Tax (GST), which has replaced the Central and State indirect taxes such as VAT, excise duty and service tax, was implemented on July 1, 2017. GST has eliminated the cascading effect of taxes on the economy. Let us get a deeper understanding of cascading effect of taxation.



The cascading effect of tax

Cascading effect is when there is tax on tax levied on a product at every step of the sale. The tax is levied on a value which includes tax paid by the previous buyer, thus, making the end consumer pay "tax on already paid tax." Value Added Tax (VAT) is impacted the Indian economy.

Number of key differences between VAT and GST are listed below:

Applicability

VAT is applicable only on the sale of goods while GST is applicable both on goods and services.

Taxable event

A key difference between VAT and GST is that the taxable event in case of VAT is the sale of goods. However, in case of GST it is the supply of goods or services.

Tax distribution between state and centre

VAT laws and tax rates were different in each state and each of them kept the whole share of collected tax with themselves. However, under the GST regime, both SGST and CGST is collected from the supply of goods and services and later bifurcated by the central and state governments.

Table showing difference between VAT and GST

Point of Difference	**VAT**	**GST**
Applicability	Goods	Both goods and services
Taxable event	Sale of goods	Supply of goods and services
Tax b/w state and central govt.	The whole share of tax collected goes to the state which collects it	Collected tax is bifurcated b/w state and central govt.
Calculation of input credit	Net tax liability = VAT on output – VAT on input	Net tax liability = GST on output – GST on input
Input tax credit	Cannot be claimed for services	Can be claimed for both goods as well as services
Tax on services	Not applicable	Applicable
Return filing	20th of succeeding month	10th, 15th and 20th of succeeding month
Registration	Mandatory if turnover exceeds Rs 5 lakh (varies from state to state)	Mandatory if turnover exceeds Rs 20 lakh
Mode of payment of tax	Offline	Online if the amount exceeds Rs 10,000
Tax distribution between state and centre	Under VAT the revenue was collected by the seller state	Under GST the revenue is collected by consumer state
Flow of credit	Excise duty paid was not available to be claimed as credit	Seamless flow of credit

Let us look at an example:

Consider a consultant providing services to his clients.

Under VAT regime:

The consultant charged 15% service tax on services of Rs 70,000. So, his output tax was Rs 70,000 * 15% = Rs 10,500.

Then, if he purchased office supplies for Rs. 25,000 paying 5% as VAT : Rs 25,000 *5% = Rs 1,250.

He had to pay Rs 10,500 output service tax without getting any deduction of Rs 1,250 VAT already paid on stationery.

His total tax outflow is Rs 11,750.

Under GST :

GST on service of Rs 70,000 @18% = Rs 12,600

Subtract GST on office supplies (Rs 25,000*5%) = Rs 1,250

Net GST to pay = Rs 11,350

Conclusion

In view of the key difference between GST and VAT, it is obvious that in many ways GST is an improvement over the VAT regime. However currently there are a few products such as petrol, diesel and alcohol for human consumption that are not included in GST. As GST evolves further, we can expect additional goods and services to be included under GST. What's more the rationalization of rates under GST is expected to continue in the near future which will help improve indirect tax collection across India. By implementing GST on goods and services, the Indian government is looking at improving the economy by eliminating the cascading system of tax and streamlining the business process in India.

References

https://cleartax.in/s/differences-between-gst-a

https://tax2win.in/guide/differences-between-gst-and-vat

https://www.hrblock.in/gst/vat-vs-gst

https://www.paisabazaar.com/tax/difference-between-gst-and-vat/

https://yourstory.com/mystory/7ee4a4600e-what-is-the-difference