# AN OVERVIEW OF GOODS AND SERVICES TAX IN INDIA

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## Global scenario and GST

More than 150 countries have introduced GST/National VAT in some form. It has been a part of the tax system in Europe for the past 50 years and is the preferred form of the indirect tax in the Asia-Pacific region. There are different models of GST currently in force, each with its own peculiarities. While country such as Singapore virtually taxes everything at a single rate, some countries have more than one rate (a zero rate, certain exemptions and higher and lower rates). In some countries it is recoverable only on goods used in the production process and specified services. The standard GST rates in most of the countries ranges between 15-20%. In Scandinavian countries (north Europe) where social security coverage is higher, it ranges between 22-25 percent. *Chirashree Das Gupta*[1]. in his article stated that out of the 160 or so countries which have adopted or are in the process of complying with a VAT/ GST regime, the reasons for adoption have been varied. In Europe, the question of a common market was important as it was an amalgam of markets separated by boundaries of the nation – states but with a relatively homogenous consumption structure. Even within that, the transition economies of Europe, where the consumption base was much more heterogeneous compared to other countries of Europe, the VAT/GST regime came as a conditionality to join the EU. In Latin America, the introduction of the VAT/GST regime was a part of integration into the global economy, and not creation of homogenous markets within countries. It is only in the 'developing' economies of Asia and Africa that the economic rationale for the VAT/GST regime has been based on the 'efficiency' argument

## GST- Indian scenario

India has witnessed substantial reforms in indirect taxes over the past two decades with the replacement of several tax systems. Introduction of the Value Added Tax (VAT) at the Central and the State level has been considered to be a major step – an important step forward – in the globe of indirect tax reforms in India. If the VAT is a major improvement over the pre-existing Central excise duty at the national level and the sales tax system at the State level, then the Goods and Services Tax (GST) will indeed be an additional important perfection – the next logical step – towards a widespread indirect tax reforms in the country. The Goods and Services Tax that encompasses both goods and services will restructure the nation's tax implementation capability with technological sophistication and will affect potentially 2-2.5 million tax entities. This is an unprecedented step in modern global tax history. The objective of the GST is to broaden the taxation on base with a greater reliance on general consumption taxes as a source of revenue, but it broadens the dissent of the public too [2].

As it's apparent from the name itself, GST is comprehensive tax which will be levied on both goods and services. Introduction of GST would be a significant step in the field of indirect tax reforms in India. By amalgamating a large number of central and state taxes into a single tax and allowing set –off of prior stage taxes, it would mitigate the ill effects of cascading and pave the way for a common national market accordingly. Goods and Services Tax (GST) has been emerged as an indirect taxation in India merging most of the existing taxes into single system of taxation. It was introduced as The Constitution (One Hundred and First Amendment) Act 2016, following the passage of Constitution 122nd Amendment Bill. The Indian Constitution ordains that without the authority of a valid law enacted by a competent legislature, no tax can be levied or collected [3]

## Dual GST

1 India is a federal country where both the Centre and the States have been assigned the powers to levy and collect taxes through appropriate legislation. Both the levels of Government have distinct responsibilities to perform according to the division of powers prescribed in the Constitution for which they need to raise resources. A dual GST will, therefore, be in keeping with the Constitutional requirement of fiscal federalism. Dr Gopakumar [4] in his article *"GST: Some Critical Issues with regard to Event and Levy", GST Fiscal Centralism in a Federal Polity* had enumerated in detail the legal aspects of GST. According to him GST in India is designed as a tax on the supply of goods or services levied at all levels of supply . On the intrastate / local supply, the Union and the appropriate State shall levy Central GST (CGST) and State GST (SGST) respectively on the same event and on the same tax base. On the interstate or import supply the Union shall levy Integrated GST (IGST). The dealer shall be eligible for crediting the input tax against the output tax and the net tax payable by him shall be the difference between the input tax and output tax.. It means that whatever be the input tax of a dealer, whether it is CGST, SGST or IGST he shall be entitled to set off it against the output tax whether it is CGST or SGST or IGST , ie a central or state levy.

## Salient features of GST

i. The GST is applicable on the supply of goods or services as against the present concept of tax on the manufacture and sale of goods or provision of services. It is a destination based consumption tax.

ii. It is a dual GST with the Centre and State simultaneously levying it on a common tax base. The GST to be levied on the inter-State supply of goods and services is called Integrated GST (IGST) and that to be levied on intra-State/ local supply of goods and services is called state GST (SGST) and Central GST ( CGST)

iii. The GST would apply to all goods other than alcoholic liquor for human consumption and five Petroleum products, viz. petroleum crude, petrol, high diesel, natural gas and aviation turbine fuel.

iv. Tobacco and tobacco products would be subject to GST in addition, the centre excise duty on these products.

v. Tax Payers shall be allowed to take credit of taxes paid on inputs (input tax credit) and utilize the same for payment of output tax. However, no input tax credit on account of CGST shall be utilized towards payment of SGST and vice versa. The credit of IGST would be permitted to be utilized for the payment of IGST, CGST and SGST in that order.

vi. Exports shall be treated as zero-rated supply. No tax is payable on export goods but credit of input tax related to the supply shall be admissible to exporters.

vii. Import of goods and services would be treated as Inter – state supplies and would be subject to IGST in addition to the applicable customs duties.

In the case of interstate supplies, the main issue is regarding levy of GST on stock transfer. Currently, interstate stock transfer is not taxable and the Consignment Tax, notwithstanding article 269 and entry 92B of List I, has not been imposed so far due to the absence of parliamentary enactment. But, in the GST regime the supply of goods as interstate stock transfer would be levied with GST for ensuring a seamless input tax credit mechanism.

## GST a Subsumed Tax System

GST would replace most indirect taxes currently in place such as

| Central Taxes | State Taxes |
|---|---|
| Central Excise Duty | Sales Tax & Value-added tax<br>Octroi and Entry tax |
| Service tax | Purchase tax |
| Countervening Duty (CVD) | Luxury tax, Entertainment tax (other than the tax levied by the local bodies) |
| Special Additional Duty of Customs (SAD) | Taxes on lottery, betting and gambling State cesses and surcharges |
| Excise duty under the Medicinal and Toilet Preparations (Excise Duties) Act, 1955] | Central Sales tax (levied by the Centre and collected by states) |

| Central Taxes | State Taxes |
|---|---|
| Central surcharges and cesses (relating to supply of goods and services) | State surcharges & Cesses (relating to supply of goods ) |

## Significance of GST

i. Introduction of GST would result in abolition of multiple types of taxes on goods and services.
ii. Reduces effective rates of tax to one or two floor rates.
iii. Reduces compliance cost and increases voluntary compliance.
iv. Removes cascading effect of taxation and removes distortion in the economy.
v. Enhances manufacturing and distribution efficiency, reduces cost of production of goods and services, increases demand and production of goods and services.
vi. As it is neutral to business processes, business models, organization structure, geographic location and product substitutes, it will promote economic efficiency and sustainable long-term economic growth.
vii. GST will give competitive edge in international market for goods and services produced in India, leading to increase in exports.
viii. GST reduces litigation, harassment and corruption in tax governance
ix. GST will result in widening tax base and increased revenue to the Centre and State Govts
x. GST reduces administrative cost for the Government in tax Governance

According to CP Chandrasekhar [5] One aspect of the rationalization that is sought to be achieved through the transition the GST is that not only should the number of VAT rates be reduced to a very few, but that these rates should be the same across states so as to create a common indirect tax regime within a single market[10].

## Difference between Present Tax Structure and GST Structure

The indirect Tax structure prior to GST and after GST are explained with the help of a table given below.

| Issues | Prior to GST | After GST |
|---|---|---|
| Broad scheme | There were separate laws for separate levy. For e.g. Central Excise Act, 1944, respective State VAT laws, CST Act, Luxury Tax Act etc | There is only one legal frame work because GST shall subsume the central & state indirect taxes though CGST Act SGST Acts and IGST Acts were enacted separately as per constitutional provisions |

| Issues | Prior to GST | After GST |
|---|---|---|
| Tax rates | There were separate rates. For e.g. Excise rate @ 12.50 % ,VAT ranging from 1% to 14.5 % and Service Tax rate @ 15%. | The IGST rate and the CGST & SGST rates are uniform across the States for local supplies and all interstate supplies |
| Point of levy | Levied at all point of manufacture /sale points | Levied at all supply points |
| Collection of tax by the States | Origin –based ,ie the State where the sale take place | Destination –based, ie the State where the delivery of goods take place |
| Cascading effect | Cascading effect existed because credit of CST and excise duty were not allowed to take credit/ set off | This situation will not arise as CST concept is being eliminated with introduction of IGST and the credit mechanism |
| Tax burden | Under present scenario, tax burden on tax payer is high due to the existence of multiplicity of taxes | Under this, tax burden is expected to reduce since all taxes are integrated which make it possible the burden to be split equitably between manufacturing , trading and services |
| Cost Burden on Consumers | Due to presence of cascading effect, certain taxes become part of cost/ price of the products | As GST mechanism removes such effect by providing credit all levels of supply , cost burden is reduced to that extent |
| Taxing Power of the Government | At present, there is no such power to both Centre and State to tax on same subject matter | Both Centre and State are vested with the power to make law on GST by virtue of insertion of Article 246A in the Constitution |
| Compliance | Tax compliance is complex because of multiplicity of laws and related procedural formalities | Tax compliance is easier as only uniform tax procedures for compliance of CGST,SGST & IGST laws |
| Transparent Tax Administration | Presently, tax is levied at 3 stages in broad manner i.e. 1. When product moves out of factory. 2. At retail outlet and 3. On availing Services from Service Providers ( Excise duty + VAT +Service tax) | GST is the only tax levied from raw material supply to final destination of consumption with a provision for Input tax credit at all stages of supply. This brings more transparency in tax administration. |

## LIMITATIONS OF EXISTING TAX STRUCTURE

- Multiplicity of Taxes
- Separate Registration, Return and Tax
- Complex Tax procedures
- Complex Tax Governance
- Department Oriented
- Tax on Tax ( No input tax credit for Excise & CST)
- Inter-State barriers & Check posts
- More scope for Evasion-different Tax base for different states
- Different Tax Rates in different States
- No real time data flow& no exchange of tax data between the states
- Pendency in completing Assessments
- No common IT based Data Base

## GST Governance

For successful adoption of GST framework in India, establishment of GST institutions is very important. Given federal structure of India, the character of the institutions should be neutral and both Centre and State government should have equal space (opportunities) in these institutions to propagate the spirit of cooperative federalism. Accordingly, for ensuring the hassle –free tax governance, an independent Company is incorporated in the name of **GST Network company (GSTN).** This company is incorporated on 28/03/2013 as Section 25, non-Government, Private Limited company with:

- 49% shareholding with Government (24.5 % central government and 24.5% with all states put together)
- 51% shareholding with private financial institutions where no one can have more than 11% (HDFC, LIC Housing, ICICI Bank, etc

## The major functions of the GSTN company are:

- Facilitating registration;
- Facilitating return filing & Forwarding the returns to Central and State authorities;
- Computation and settlement of IGST between the respective States
- Matching of tax payment details with banking network;
- Providing various MIS reports to the Central and the State Governments based on the tax payer returns
- Providing analysis of tax payers' profile;

## GST Council

The amended Article 279A in the Constitution had provided for the formation of a Council to be called the Goods and Services Tax Council(GSTC) which would be the highest body to examine and make recommendations on issues related to GST to Central as well as State Governments. The GST Council has already been constituted accordingly comprising the Union Finance Minister as the Chairman of the Council), the Minister of State (Revenue) and the State Finance/Taxation Ministers as the members to make recommendations to the Union and the States on:

i. the taxes, cesses and surcharges levied by the Centre, the States and the UT`s which may be subsumed under GST;
ii. the goods and services that may be subjected to or exempted from the GST;
iii. the date on which the GST shall be levied on petroleum crude, high speed diesel, motor sprit (commonly known as petrol), natural gas and aviation turbine fuel;
iv. provide model GST laws, principles of levy, apportionment of IGST and the principles that govern the place of supply;
v. the threshold limit of turnover below which the goods and services may be exempted from GST;
vi. the rates including floor rates with rate bands of GST;
vii. any special rate or rates for a specified period to raise additional resources during any natural calamity or disaster;
viii. special provision with respect to the North East States, J&K, Himachal Pradesh and Uttarakhand; and
ix. any other matter relating to the GST, as the Council may decide.

## GST Compensation

Due to a shift from origin based to destination based indirect tax structure, some States might face drop in revenue in the initial years of implementation of GST. To help the States in this transition phase, the Centre has committed to compensate all their losses for a period of 5 years. Accordingly, clause 19 has been inserted in the Constitution Amendment Act, 2016 to provide for compensation to States by law, on the recommendation of the Goods and Services Tax Council, for loss of revenue arising on account of implementation of the goods and services tax for a period of five years and accordingly GST Compensation Act, 2017 has been passed. However, according to Dr. Prabhat Patnaik [6], the GST proposal constitutes a blow against the federal nature of the Indian polity. This aspect oddly has scarcely been discussed, all attention being focused on whether the states will be better or worse off in terms of revenue, compared to their present situation. And here the Centre has promised to make good any revenue loss for a period of five years. The real point however is not revenue loss compared to the present situation, but the constitutional powers of the state governments. It is these powers that the proposed GST is threatening to abrogate.

## GST tax rates

The rates of GST are as follows:

i. **Special rate – high value goods ,Gold, Diamond etc( 3% )**
ii. **Merit rate - essential goods or services ( 5% )**
iii. **Standard rate - goods or services in general ( 12% & 18 %)**
iv. **Higher rate – Super Luxury & demerit Goods ( 28% + Cess)**
v. **Nil rate - exempted goods**
vi. **Zero Rate- for Exports**
vii. **Single Threshold exemption for Goods & Services and for both components of GST ( SGST & CGST )- Rs.20 Lakhs**
viii. **Compounding scheme like existing Presumptive Tax for taxpayers having taxable turnover up to Rs 150 lakhs**

## GST BENEFITS

### The following are some of the GST benefits in a larger perspective

- Ease of doing business
- Ease of Tax Governance
- Ease of Tax compliance
- Dealer friendly tax mechanism
- Return data reconciliation by dealers only
- Real time data flow
- Real time self-Assessments
- Uniform Tax rate & procedures in all States
- Less dept intervention –Front end tax governance by IT Platform (GSTN)
- Less scope for Tax Evasion_ All Events are taxable
- Less Statutes ( only CGST_IGST_& SGST ACTS)
- No cascading –seamless flow of Input tax credit
- No Check posts- Only E-way bill mechanism

### References

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