# GOODS AND SERVICE TAX - AN OVERVIEW

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## ABSTRACT

GST is new indirect tax regime applicable with effect from 1st July 2017, with the motto 'one nation, one tax, one market'. It is consumption based tax system and is applicable for all supply of goods and services. The system of GST is born by amalgamating a large number of indirect taxes of central and state government. The main aim of GST is to mitigate the effect of tax cascading and tax pyramiding. Goods and service tax law while having unique principles, has significant element of prior central and state laws, and is also inspired by VAT/GST legislation of EU, Malaysia, Australia etc, along with international VAT/GST guidelines of OECD.

This paper is intended to give a bird's- eye view to the present indirect tax system and its impact on commoner. This study is a theoretical one and it is based on secondary data.

There were many hurdles faced by the country for introduce the system of GST. One of the main barriers in the introduction stage is that the urge to amend the constitution. Through the 101st constitution amendment, GST become a matter of concurrent jurisdiction of the centre and states. Thus with effect from 1st July 2017, the indirect tax system in the country was unified and streamlined in the form of a single goods and service tax.

## KEY WORD

GST – Goods and Service Tax.

## INTRODUCTION

The tax system of India is categorized into two: - direct tax and indirect tax. Direct tax is the tax which is charged by the government directly from the individuals and organizations. Indirect tax is a system of levying tax on manufacture and sale of goods and services. Goods and Service Tax in India is coming under the category of indirect tax. GST is based on value added principle. It is a multi stage, comprehensive and destination based tax system.

On 1st July 2017 India witnessed the transition of whole country towards the new indirect tax regime – Goods and Service Tax (GST). It follows a unique ideology of 'one tax, one nation and one market'. GST replace all indirect multiple taxes levied by the central and state government. The introduction of GST is a very significant step in the field of indirect tax in India. This article is meant for provide an awareness regarding the present system of indirect tax.

### 1.1 Threshold limit for GST registration:-

- Every supplier of goods –for all states excluding special category states - aggregate turnover exceeds 40 lakhs .
- Every supplier of goods – for special category states - aggregate turnover exceeds 20 lakhs.
- Every supplier of services –for all states excluding special category states - aggregate turnover exceeds 20 lakhs .

- Every supplier of services – for special category states - aggregate turnover exceeds 10 lakhs.

**1.2 Rates of GST**

- Exempted supplies or zero rated supplies
- Taxable at the rate of 0.25%
- Taxable at the rate of 3%
- Taxable at the rate of 5%
- Taxable at the rate of 12%
- Taxable at the rate of 18%
- Taxable at the rate of 28%
- Tax deducted at source (TDS) 2%
- Tax collected at source (TCS) 1%
- Composite tax (1% for traders and 5% for restaurant business)

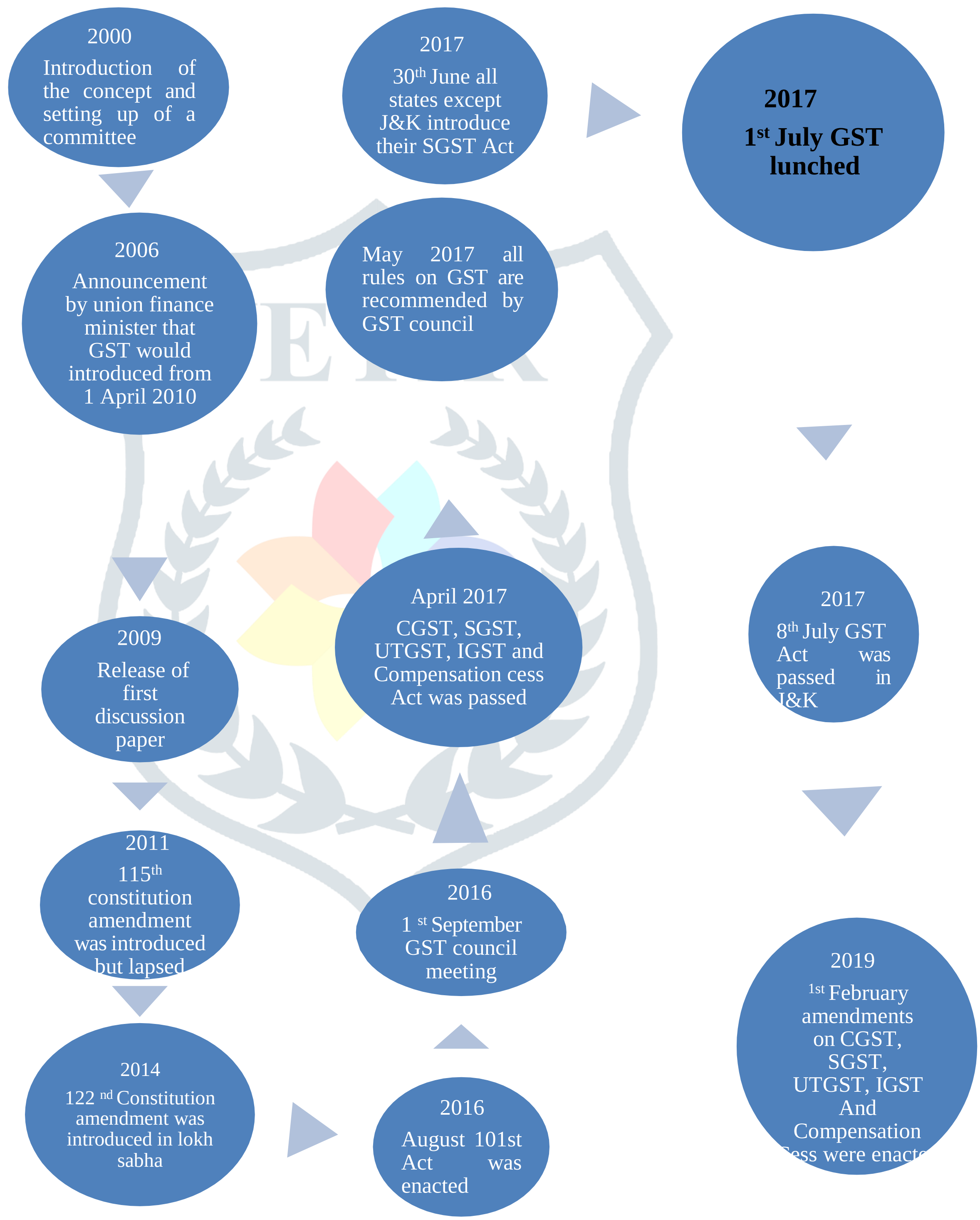
## 2. CONTENT

**"GST is a comprehensive, multi- stage, destination based tax that will be levied on every value addition".**

"Goods and services tax" means any tax on supply of goods, or services or both except taxes on the supply of the alcoholic liquor for human consumption.

GST is an indirect tax that has replaced all indirect taxes prevailed in the country. In simple words, Goods and Service Tax (GST) is an indirect tax levied on the supply of goods and services.

## 2.1 THE JOURNEY OF GST



## 2.2 IMPORTANT TERMS IN GST

### 2.2.1 GSTN

The goods and service tax network (GSTN) is a non profit, non government organization which managers the entire IT system of the GST portal, which is the mother database for everything in GST. The key objective of GSTN are to provide a standard and uniform interface to the tax payers, central and state government, accounting authorities and RBI and other banks. Goods and service tax identification number (GSTIN) is the unique number each tax payer will receive once they have registered on the common portal. The main functions of GST network are providing a platform for registration and making payments and filing returns through GST common portal.

### 2.2.2 GST COUNCIL

GST council is a quasi- legislative-cum- administrative body because it functions both legislative as well as administrative duties. It is a new setup by government of India, was constituted on 12.09.2016, formed by 101st constitution amendment. The composition of GST council consists of:-

- Union finance minister - as the chairperson of the council.
- Union minister of state, in charge of revenue or finance- as the member of the council.
- Minister in charge of finance and taxation or any other minister nominated by each state government – as the member of the council.

Every decision of GST council was taken by a majority of not less than 3/4th of the weighted votes of the members present and voting.( 1/3rd – Central government + 2/3rd – State government.)

### 2.2.3 INPUT TAX CREDIT (ITC)

Goods and Service Tax is an integrated tax system where every purchase by a business should be matched with a sale by another business. Input tax credit means allowing set off the amount of tax paid on inward supplies against the amount collected on outward supplies. Therefore, a dealer or supplier has remit, only the balance of output tax collected during the relevant period after claiming input tax credit for the period.

### 2.2.4 REVENUE NEUTRAL RATE

The government fixes the GST rate in such a way that the gross revenue of the government, even after it levies the GST, remains the same. The GST rate fixed by the government with an aim of keeping the gross revenue of the government same is called the revenue neutral rate (RNR). It allows the revenue to remain unchanged (neutral).

### 2.2.5 COMPENSATION CESS

GST is a consumption based tax. So the revenue of manufacturing state is usually lower during the initial stage of GST introduction. In order to compensate such losses, the GST compensation Act was passed along with GST Act. The compensation act empowers the government of India to levy and collect compensation cess on supply of luxury articles and demerit goods (Sin goods).The compensation cess is applicable on inter-state and intra- state supply of specified goods.

### 2.2.6 HSN CODE

The harmonized commodity description and coding system generally refers to “harmonized system of nomenclature” or simply HSN. The purpose of HSN code is to make GST systematic and globally accepted. It is mainly used to determine the quantity of goods exported and imported in and out of the country. It is a multipurpose international product code and it has about 5000 commodity groups, each identified by a six digit code, arranged in a legal and logical structure. Similar to HSN code India has adopted a service accounting code ( SAC) for all services.

### 2.2.7 VALUE ADDITION

Value addition means expense plus profit of the seller. In other words value addition is the difference between purchase price and selling price. GST is a system of value added tax. So the tax payer are only labile to pay the tax on value added that means on the part profit he earn from the supply of goods and services.

GST payable = Output tax (O) – Input tax (I)

## 2.3 COMPONENTS OF GST

GST is a consumption based tax. The GST levied and collected at the time of supply of goods or services is equally shared by central and concerned state government or union territory to which the goods or services move. Mainly GST has three components namely; CGST (Central Goods and Service Tax), SGST (State Goods and Service Tax) or UTGST (Union Territory Goods and Service Tax) and IGST (Integrated Goods and Service Tax).

### 2.3.1CENTRAL GOODS AND SERVICE TAX (CGST)

The central GST is expected to replace the existing central excise duty, sales tax, service tax etc. GST levied by the centre on **intra – state supply** of goods or services or both would be called as CGST.

### 2.3.2 STATE GOODS AND SERVICE TAX (SGST)

The state GST would replace state VAT, entry tax, octroi , luxury tax etc. GST levied by the state on **intra- state supply** of goods or services or both would be called as SGST.

### 2.3.3 UNION TERRITORY GOODS AND SERVICE TAX (UTGST)

GST levied by the Union territories on supply of goods or services or both within the union territories would be called as UTGST.

### 2.3.4 INTEGRATED GOODS AND SERVICE TAX (IGST)

Integrated Goods and Service Tax (IGST) is charged on the supply of goods and services in the course of **inter- state** (one state to another state) trade or commerce. It is collected by central government and is apportioned between centre and state in the way as may be provided by the GST council.

## 2.4 FEATURES OR CHARACTERISTICS OF GOODS AND SERVICE TAX

- Consumption based tax.
- GSTN.
- Concurrent jurisdiction by the centre and states.
- Integrated GST on inter – state trade and imports.
- Compensation for five years.
- Electronic filing of return and tax payment.
- System of self assessment.
- GST council.
- Composition scheme.
- Value added tax.
- Input tax credit ( ITC).
- Higher threshold for registration.

## 2.5 OBJECTIVES OF GST

- To create a common market with uniform tax rate.(One nation, one tax, one market).
- To increase the tax base by bringing more number of tax payers and increase tax revenue.
- To eliminate the cascading effect of indirect taxes on single transaction.
- To reduce tax evasion and corruption.

## 2.6 ADVANTAGES OF GST

- Elimination of multiple taxes, tax cascading and tax pyramiding.
- Input tax credit is allowed to every intermediary.
- Export from India is made zero rated.
- Single national market.
- Elimination of check post.
- Composition scheme for small business.
- Tax exemption for essential basic items.
- Elimination of black money.
- Lower transaction cost for final consumers.
- Uniformity in tax regime.

- Easy compliance.
- Efficiency in tax administration.
- Create employment due to its rationalization and simplification of taxes.

## 2.7 LIMITATIONS OF GST

- GST system limited the role of government.
- Difficult for unregistered dealers and those who opt for composition scheme.
- Increased cost due to software purchase.
- Frequent changes in law, rates and forms.
- Delay in getting input tax credit and refund.

## 3. CONCLUSION

Introduction of GST should be viewed as a great attempt of the government to move towards a formal economy in place of an absolutely informal, outdated and un scientific business practices and taxation system. The new taxation system itself will become the cornerstone of the financial strength of the central and state governments and will ultimately turn beneficial to the consumers and genuine business community in the coming years. Once the system starts functioning in full wing, after initial glitches, it will lead to economic wonders in the country and all the criticisms will vanish away. It is to be remembered that no plant gives fruits immediately on planting.

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