Goods and Service Tax: An Overview

Sandhya Rajeshirke
Teaching Assistant, Dept. of Accounting and Financial Management, Faculty of Commerce
The Maharaja Sayajirao University of Baroda
Email - drabraje@gmail.com

Abstract: *Goods and Service Tax has simplified complexities of indirect tax regime, affecting directly all sectors and sections of our economy and creating common single, unified market which will benefit both corporate and economy. This article highlights silent features of GST with reference to wider tax regime in India.*

Key Words: *CBEC, CENVAT, CGST, CVD, GST, SGST, VAT,*

1. INTRODUCTION:

GST was first time introduced by France in the year 1954, and subsequently it has been nearly adopted by hundred and fifty countries across the world. There are two forms of collecting GST. One, it is unified GST which is single tax application throughout the country (like Singapore and New Zealand are two outstanding examples of application of single tax across the country), while another is levied by center and state governments separately, i.e. dual tax.

In India an idea of GST was mooted by Kelkar Task Force in 2004, which has been recommended strongly, an integration of GST as alternative for simplification of tax structure, and to promote growth of tax to GDP. In the year 2006-07, Shri P. Chidambaram, then Finance Minister, proposed on 1st April 2010 as the date for introducing GST in India. Since then GST has missed several deadlines continues to be shrouded by clouds of uncertainty. However, again in 2014, the government has declared its commitment towards implication of GST by tabling the 122nd Constitutional Amendment Bill, and several other amendments concerning smooth applicability of GST. The government may be keen to roll out the GST from April 1st, 2017, but passage of Constitutional Amendment Bill in the Rajyasabha is just one significant small step in the actual introduction of this indirect tax reform.

April 2017's deadline could, therefore be challenging-realistically, the date may be closer to July or October 2017 as IT infrastructure and accounting changes by the tax department as well as companies will have to be undertaken.

2. CONCEPT OF GST:

It means a tax on goods and services. It is a Value Added tax levied on manufacture, sale and consumption of goods and services. It offers comprehensive and continuous chain of tax credits from the producers point or service providers point, up to retailers level or consumers levels there by taxing only Value Added at each stage of supply chain. Under GST only the value added at each stage is taxed, there is no tax on tax or cascading of tax under GST system. Further it does not differentiate between goods and services for levying of tax. In other words, goods and services attract the same rate of tax.

3. NEED OF GST:

India has a Federal Political structure, comprising the Union Government and the State Governments. The power to levy tax is enshrined under the Constitution of India, enabling both the Central and State governments to levy taxes within the jurisdiction of their respective lists.

1. Central government levies and collects taxes on the manufacture of goods and services by following indirect taxes:

- Central Excise Duties (CENVAT)
- Additional excise duties including those levied under Additional Duties of Excise (Goods of Special Importance) Act, 1957.
- Additional customs duties in the nature of countervailing duties, i.e. CVD, SAD and other domestic taxes imposed on imports.
- Cess levied by the Union eg., cess on rubber, tea, coffee etc.
- Service Tax

- Central Sales Tax – To be completely phased out.
- Surcharges levied by the Union like National Calamity Contingent Duty,

Education Cess,

2. The State governments are empowered to levy and collect taxes on intra- state sales or purchase of goods by following indirect taxes.

- Value Added Tax
- Purchase Tax
- State Excise Duty (except on liquor)
- Entertainment Tax (unless it is levied by the local bodies)
- Luxury Tax;
- Octroi
- Entry Tax in lieu of Octroi
- Taxes on Lottery, Betting and Gambling

Need for Change: The existing regime of Indirect tax has many deficiencies:

(a) Tax Cascading

Tax cascading occurs under both Centre and State taxes. The most significant contributing factor to tax cascading is the partial coverage by Central and State taxes. Some product and services remain outside the jurisdiction of the CENVAT and the Service Tax levied by the Centre. The exempt sectors are not allowed to claim any credit for the CENVAT or the Service Tax paid on their inputs.

Another major contributing factor to tax cascading is the Central Sales Tax (CST) on inter-State sales, collected by the Origin State for which no credit is allowed by any State Government.

(b) Levy of Excise Duty on manufacturing point

The CENVAT is levied on goods manufactured or produced in India. Limiting the tax to the point of manufacturing itself forms a narrow base. Further the manufacturing concepts and valuation on which tax is to be levied are not specified clearly.

(c) Complexity in determining the nature of transaction – Sale *vs*. Service

The distinctions between goods and services found in the Indian Constitution have become more complex. Today, goods, services, and other types of supplies are being packaged as composite bundles and offered for sale to consumers under a variety of supply-chain arrangements. Under the current division of taxation powers in the Constitution, neither the Centre nor the States can apply the tax to such bundles in a seamless manner.

(d) Inability of States to levy tax on services

State Government has no power of taxation on services. It has negative impact on buoyancy of State tax revenues. The States have to rely on compliance, improvements or rate increase for any buoyancy in their own-source revenue.

(e) Lack of Uniformity in Provisions and Rates

Present VAT structure across the States lacks uniformity to the rates of tax, procedures and the definitions, computation and exemptions.

(f) Interpretational Issues

Another problem arises in respect of interpretation of various provisions and determining the category of the commodities. We find a significant number of litigation surrounding this issue only. To decide whether an activity is sale or works contract; sale or service, is not free from doubt in many cases.

(g) Complexities in Administration

Taxpayer services, which are important for a successful self-assessment system, are virtually nonexistent or grossly inadequate under both Central and State administrations. Many of the administrative processes are still manual, not benefiting from the efficiencies of automation, no self assessment system in existent. All these not only increase the costs of compliance, but also undermine the revenue collection.

A comprehensive tax structure covering goods and services like Goods and Service Tax (GST) would address these problems. Simultaneous introduction of GST at both Centre and State Level would integrate taxes on goods and services for the purpose of set-off relief and will ensure that both the cascading effects of CENVAT and Service tax are removed and a continuous chain of set-off from original producer's or service provider's point up to the retailer's level or consumer's level is established.

5. SIGNIFICANT FEATURES OF "DUAL GST" MODEL RECOMMENDED IN INDIA:

India intends to adopt a dual GST which will be imposed concurrently by the Center and States. The dual model was propounded in the First Discussion Paper released by the "Empowered Committee" with objective to do away with the problem of tax cascading and move to a common tax base.

The significant features of Dual GST recommended in India, in conjunction with the recommendations by the JWG (Joint Working Group), are as under:

1. There will be Central GST to be administered by the Central Government and State GST to be administered by State Governments.

2. Central GST will replace existing CENVAT and Service tax while State GST will replace State VAT.

3. Central GST may subsume following indirect taxes on supplies of goods and services:

- Central Excise Duties (CENVAT)
- Additional excise duties including those levied under Additional Duties of Excise (Goods of Special Importance) Act, 1957.
- Additional customs duties in the nature of countervailing duties, i.e.,CVD, SAD and other domestic taxes imposed on imports .
- Cess levied by the Union eg., cess on rubber, tea, coffee etc.
- Service Tax
- Central Sales Tax – To be completely phased out
- Surcharges levied by the Union like National Calamity Contingent Duty, Education Cess.

4. State GST may subsume following State taxes:

- Value Added Tax
- Purchase Tax
- State Excise Duty (except on liquor)
- Entertainment Tax (unless it is levied by the local bodies)
- Luxury Tax;
- Octroi
- Entry Tax in lieu of Octroi
- Taxes on Lottery, Betting and Gambling

5. The proposed GST will have two components – Central GST and State GST –the rates of which will be prescribed separately keeping in view the revenue considerations, total tax burden and the acceptability of the tax.

6. Taxable event in case of goods would be 'sale' instead of 'manufacture'.

7. Exports will be zero rated and will be relieved of all embedded taxes and levies at both Central and State level.

8. The JWG has also proposed a list of exempted goods, which includes items such as, life saving drugs, fertilizers, agricultural implements, books and several food items.

9. Certain components of petroleum, liquor and tobacco are likely to be outside the GST structure. Further, State Excise on liquor may also be kept outside the GST.

10. Taxes collected by Local Bodies would not get subsumed in the proposed GST system.

6. BENEFITS OF GST:

All segments of economy like industry, trade, agriculture, consumers etc. shall be benefited with an introduction of GST.

1. **Broadening of tax base and creation of common market:**

The GST will create unified national market by removing inter-state trade barriers which would facilitate free movement of goods and services across the country. This will help in reducing economic distortions through more comprehensive input tax credit, enhance export competiveness by relieving domestic consumption on taxes of exports which would ensure greater regional equality by getting rid of inter-state sales and having destination based tax which help create seamless national market by removing inter-state trade barriers and give a boost to India's tax to GDP ratio.

According to a study conducted by National Council of Applied Economic Research in December 2009, the GST is expected to increase the GDP of India somewhere within a range of 0.9% to 1.7%.

2. **Eliminates multiplicity of taxation:**
GST will subsume majority of existing Indirect taxes both at Central and State levels into one GST which will be leviable uniformly on goods and services. This will make doing business easier and will also tackle highly disputed issues relating to double taxation of a transaction on both goods and services.

3. **An end to cascading effect:**
Since under GST regime, credit will be available across entire supply chain, there will be no cascading of taxes and issues under existing system will be dealt with. Thus, in due course of time, GST will lower the prices of goods and benefit the common men.
4. **Improved tax compliances and increase in tax revenue:**
GST will eliminate multiplicity of taxation and it will ensure simple tax regime with few taxes, rates and exemptions. A simple tax regime will lead to improved tax compliances with lesser scope for mistakes, increased tax compliances will lead to increase in tax revenue.
5. **One point single tax:**
Another feature that GST must hold is it should be one point taxation. This will give a lot of comforts and confidence to business community that they would focus on business rather than worrying about other taxation problem that may crop up later.

7. CHALLENGES IN IMPLEMENTATION OF GST:

Introduction of GST to integrate all taxes on goods and services require extensive amendments in the Constitution of India and consensus between Centre and State governments on variety of issues like rates, basic threshold, exemptions, administration etc.

1. **Amendment of Constitution:**
The NDA government presented Constitution Amendment Bill 122 for GST in Loksabha on 19th December 2014, and the bill was passed in May 2015. The Constitution will be amended when this bill gets passed by 2/3 rd majority in Rajyasabha too and thereafter gets ratified by at least 50% of the state legislators and finally gets the assent of the President of India. Once the Constitution is amended Central GST Law will be introduced and passed in the Parliament and it will be passed in respective states and then GST will be implemented in India.
2. **Tax Administration:**
The Central Board of Excise and Customs (CBEC) and State Tax administration will be responsible for implementing CGST and SGST respectively. For implementing dual GST, a robust and integrated tax administration will be required, the Joint Committee on business process of GST release four reports on GST Payment Process, GST Registration, GST Refund and GST Return for Public comment last year.

3. **Basic Design Issues:**
The threshold limit for turnover above which GST would be levied will be one area which would have to be strictly looked at. In addition to threshold limits for goods and services, exemptions definitions of supply and services, translations provisions for existing exemptions etc. need to be carefully identified, analyzed and appropriately addressed.
4. **IT infrastructure & management:**
Success of any tax reform policy or managerial measures depends on the inherent simplification of system, which leads to high conformity with administrative measures and policies. The processes of tracking inter- state transactions will be extremely complex and will require an infallible IT system for this purpose, a Special Purpose Vehicle (SPV) called the Goods and Service Tax Network (GSTN) to create enabling environment for smooth introduction of GST.

8. CONCLUSION:

GST is the most awaited reform to simplify the complexities of indirect tax regime in India and to create common national market by bringing down fiscal barriers within the country, under GST the tax burden will be divided equitably between manufacture and services, through a lower tax rates by increasing the tax based and minimizing exemption.

All sectors of economy like industry, business including government departments and service sectors shall have enduring impact of GST.

All section of economy like big, medium, small units' intermediaries, importers, exporters, traders, professionals, consumers shall be directly affected by the GST.

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