Paradigm shift in taxation structure

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Abstract: *GST stands for "Goods and Service Tax" and it is proposed to be a comprehensive indirect tax levy on Manufacture, sale and consumption of goods as well as service at national level. It will replace all indirect tax levied on goods and service by the Indian Central and State governments.*

Key Words: *Goods and Service Tax (GST), Input Tax Credit (ITC), CGST, SGST, IGST, UTGST*

1. INTRODUCTION:

Meaning of GST
'G' – Goods
'S' – Services
'T' – Tax

"Goods and Service Tax (GST) is a comprehensive tax **levy on manufacture, sale and consumption of goods and service** at a national level under which no distinction is made between goods and services for levying of tax. The GST shall subsume all the taxes except Basic Customs Duty that will continue to be charge even after the introduction of GST. India shall adopt a Dual GST model, meaning the GST would be administered both by the central and the State Governments.
This will comprise of:

Central GST (CGST) which will be levied by Centre
State GST (SGST) which will be levied by state
Integrated GST (IGST) which will be levied by Central Government on interstate supply of goods and services
Union GST (UTGST) which will be levied by Union Territory by Centre

2. COMPENSATION CESS:

The draft GST (Goods and Services Tax) law has suggested the levy of a compensation cess, which will be credited to the GST Compensation Fund. After five years, the unutilised cess would be transferred to the Consolidated Fund of India and then devolve to States based on the formula of the Fourteenth Finance Commission. To ensure that the lower tax incidence under the GST is passed on to consumers, the draft model Central GST law has also called for anti-profiteering measures. The draft law has suggested setting up an authority to examine whether input tax credits availed of, or the reduction in the price due to lower rate, have actually resulted in a commensurate reduction in the price of the goods or services supplied. It has also called for the authority to penalise defaulters.

3. NEED OF GST:

Let's begin by elaborating on the important concept of – cascading effect of taxes. It is also, logically, referred to as "taxes on taxes". It is simple to illustrate – say A sells goods to B after charging sales tax, and then B re-sells those goods to C after charging sales tax. While B was computing his sales tax liability, he also included the sales tax paid on previous purchase, which is how it becomes a tax on tax.

This was the case with the sales tax few years ago. At that time, a VAT system was introduced whereby every next stage dealer used to get credit of the tax paid at earlier stage against his tax liability. This reduced an overall liability of many traders and also helped to reduce inflationary impact this had on the prices.

Similar concept came in the duty on manufacture – The Central Excise Duty – much before it came for sales tax. The CENVAT credit scheme (earlier known as MODVAT) was also a welcome move by trade and industry where credit of excise duty paid at the input stages was allowed to be set-off against the liability of excise on removal of goods. With effect from 2004, this system was extended to Service Tax also. Moreover, cross utilisation of credit between excise duty and service tax was also permitted. To a huge extent, the problem of cascading effect of taxes is resolved by these measures.

On the application of GST following Central Taxes should be subsumed under the Goods and Service tax:

- Central Excise Duty
- Additional Excise Duty
- The Excise Duty levied under the Medicine and Toiletries Preparation Act
- Service Tax
- Additional Customs Duty, commonly known as Countervailing Duty (CVD)
- Special Additional Duty of Customs (SAD)
- Surcharges
- Cesses

The following state taxes and levies would be subsumed GST:

- VAT / Sales Tax
- Entertainment Tax
- Luxury Tax
- Taxes on lottery, betting and Gambling
- State Cesses and Surcharges in so far as they relate to supply of goods and services.
- Entry tax not in lieu of Octroi

4. RATES OF GST:

The four rates of GST are determined on the basis of the use and type of the goods and services. But the Classification of such goods and services under these rates has not been determines yet. The four rates are as follows:

5% :- it will be levied on essential foods items and goods that are commonly used. This will include the goods are the most used by people.
12%:- it is a standard slab rate.
18%:- The goods that are not included in the above rates will be taxed at 18% slab rate.
28%:- this rate will be levied on luxurious goods. This will include car, washing machine, air conditioner, etc.
Zero Rate GST will be applicable for the 50% of goods falling under consumer price index. This will also include foods grains. Further, the central government has given power to state government to levy 2% extra or lower tax over and above the rate of SGST.

5. INPUT TAX CREDIT (ITC):

Credit of input taxes paid at each stage will be available in the subsequent stage of value addition. "Input tax" has been defined in section 2 (57) of the MGL (Model GST Law) and section 2 (1) (d) of the IGST Act. Input tax in relation to a taxable person, means the (IGST and CGST) in respect of CGST Act and (IGST and SGST) in respect of SGST Act, charged on any supply of goods and/or services to him which are used, or are intended to be used, in the course or furtherance of his business and includes the tax payable under sub-section (3) of section 7. Under the IGST Act, input tax is defined as IGST, CGST or SGST/UTGST charged on any supply of goods and/or services.

ITC is available in respect of taxes paid on any supply of goods and service used or intended to be used in the course of furtherance of business. Goods and service listed in negative list then ITC is not allowed. ITC of tax paid on goods and service is allowed subject to following four conditions:

- Possession of invoice ;
- Receipt of goods or services;
- Tax actually paid by supplier to government;
- Furnishing of return.

Full ITC is allowed on capital goods in one go except in respect of pipe line and telecommunication tower where ITC would be allowed in three equal instalments. A proportionate credit is allowed in case of inputs, inputs services and capital goods which are partly used for business and partly for non business purpose. proportionate credits is allowed in case of inputs , inputs services and capital goods which are used for taxable including zero rated and exempt (including non taxable) supplies.

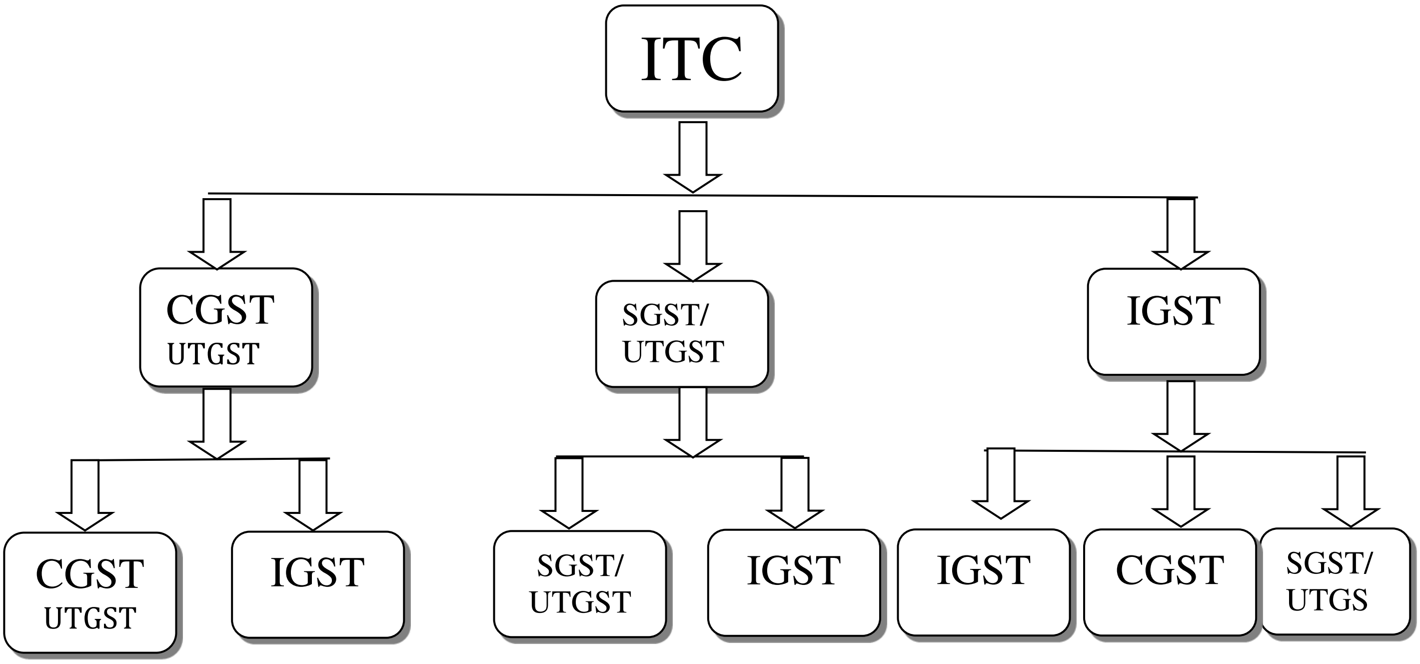
ITC cannot be availed after filing of return for the month of September of next financial year or filing of annual return. ITC is available only on provisional basis for a period of two months until payment of tax and filing of valid return by the supplier.

Matching of supplier's and recipient's invoice details:

- ITC to be confirmed only after matching of such information.
- ITC to be reversed in case of mis-match.

Input service details are required distributor mechanism for distributor of ITC of input services.

6. UTILIZATION OF INPUT TAX CREDIT ITC:



Source: Adapted from taxheal.com

7. POSITIVE ASPECTS OF GST:

- The main reason to implement GST is to abolish the cascading effect on tax. A product on which excise duty is paid can also be liable for VAT. Suppose a product A is manufactured in a factory as soon as it release from factory, excise duty has to be paid to central government. When that a product is sold in same state then VAT has to be paid to state government. Also no credit on excise duty paid can be taken against output VAT. This is termed as cascading effect since double tax is levied on same product.
- Lower burden on tax will ensure lower rates for manufactured goods. Common people pay less for the same goods. This will lower the burden on the common man.
- Lower rates will increase demand and which in turn increases employment opportunities.
- This will also help in curbing circulation of black money.
- The GST is being introduced to create a common market across states, not only to avoid enfeebled effect of indirect tax but also to improve tax compliance.
- GST will lead a more transparent and neutral manner to raise revenue.
- Price reduction as credit of input tax is available against output tax.
- Simplified and cost saving system as procedural cost reduces due to uniform accounting for all types of taxes. Only three accounts CGST, SGST/UTGST, IGST have to be maintained.
- GST is structured to simplify the current indirect system. It is a long term strategy leading to a higher output, more employment opportunity and economic boom.

8. NEGATIVE ASPECTS OF GST:

- GST is being referred as a single taxation system but in reality it is a dual tax in which state and centre both collects separate tax on a single transaction of sale and service.
- Effective Service tax at present is 15%. After GST implementation it will be 18% to 20%. Thereby the service sectors are affected. They have to bear higher taxes.
- At present the main indirect tax system of central Government is central excise. All the goods and commodities are not covered by the central excise and further there is an exemption limit of Rs.1.50 crores in the central excise and further traders are not liable to pay central excise. The central excise is payable up to the stage of manufacturing but now GST is payable up to the stage of sale.
- Majority of dealers are not covered with the central excise but are not only paying VAT in the state. Now all the Vat dealers will be required to pay "Central Goods and Service Tax".
- The calculation of RNR (Revenue Neutral Rate) is very difficult and further Government. Wants to enhance its revenue hence rate of tax will be a problem. As per the news reports the proposed rate for state GST is 12% and central GST is 14% Plus Govt. wants to impose 1% CST at the initial stage of GST on the interstate sale of goods and services. So the normal rate of overall tax will be 26%. This rate is very high comparing to the fact that small and medium industries are at present not covered by the central excise and most of the goods such as agriculture product are out of the preview of the central excise.
- Improvement in the manufacturing and distribution of goods and services, increases in exports, various reforms, check on corruption, less government control are some of the factors which are responsible for the economic growth of the country. A tax system can make a revolution in the economy of the country is "rarest of the rare" thing.

10. CONCLUSION:

GST will be game changing reform for indian economy by developing a common Indian market and reducing the cascading effect of tax on the cost of goods and services. It will impact the tax structure, tax incidence, tax copmputation,tax payment, compliance, credit utilisation and reporting leading to complete overhaul of the current indirect tax system.

GST will simplify and harmonised the inderect tax regime in the country. It is expected to reduce cost of production and inflation in the economy, there by making the Indian trade and industry more competetive, domestically as well as internationally. It is also expected that introduction of GST will foster a coomon or seamless Indian market and contribute significantly to the growth of the Indian economy.

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