

Transformation of Indirect Tax into Goods and Services Tax (Gst) – An Overview

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ABSTRACT

GOODS AND SERVICES TAX (GST) is one of the most important reforms brought about in India. Due to various political issues its implementation got postponed. This GST is a comprehensive tax system which will take into account all the indirect taxes and bring about a uniform system of taxation for the country. This GST will eliminate all hurdles and inconveniences which were present in the old indirect taxing system and will bring about a vital role in the development and growth of the Indian economy. GST in India is more of an advantage than disadvantage to the country, but people fail to understand the intention and criticize its features. Furthermore this paper will present about an overview of GST concept, its history in India and the most difficult challenges faced by the economy and people after GST came into implementation.

Keywords: Indirect tax, Goods and Service Tax (GST), Tax.

INTRODUCTION

Taxation is one of the vital components of development of any country. The revenue from taxation is used to finance public goods and services such as infrastructure, sanitation, transportation and all other amenities which are provided by the government. From the point of view of economists, a tax is considered to be a non-penal, yet compulsory transfer of resources from a private to the public sector levied on a basis of predetermined criteria and without any reference to any specific benefit received. Each rupee of tax which is contributed helps our Government to provide better infrastructure, rural revival and social well-being in the society. Taxation is considered as a major tool available to our Government for removing poverty and inequality from the society and to bring a better economy. Tax reform is considered to be an essential component of comprehensive strategy for structural adjustment & the resumption of growth of Indian Economy.

There are two types of taxes levied in India namely the Direct Tax (which is levied directly on the income of the tax payer) and Indirect tax (which is levied on the manufacture and sale of goods and services). In Indirect taxing system, the immediate liability to pay these taxes will fall on the person such as manufacturer, service providers and finally the ultimate consumers. The Constitution of India is the supreme foundation and source of power to legislate all laws in India. The authority to levy taxes is given by the Constitution of India, as it has all the source of powers to legislate laws in India. This gets distributed within the Centre and the State Government.

In the Indian Constitution, Article 246 distributes legislative powers between the State legislature and the Parliament. In Indirect taxing system, the Centre had the powers to levy tax on manufacture of goods except certain products, while Centre and State had powers to levy tax on sale of goods.

With respect to inter-state sales, the centre has the power to impose tax (i.e, the Central sales tax), but it was collected and retained entirely by the States. As for services rendered, it was the duty of the Centre which is empowered to

levy service tax. The previous indirect tax structure from the point of view of State and Central laws can be looked into. For the Central Government Central Excise and Service taxes were the main components concerning Indirect taxes. With respect to the State government, Value Added Tax (VAT) and Central Sales Tax were considered to be the major taxes. Introduction of VAT was an important and a major step or reform in India. There were certain drawbacks in the structure in VAT. The main reason is that, mosaic of taxes was levied on goods and services, which included luxury tax, entertainment tax, etc. which were not subsumed in the VAT. Set-off was not available in the form of input tax credit for certain production and manufacture. These taxes were being added to the cost of goods and services.

REVIEW OF LITERATURE:-

Nor Hafizah Abdul Mansor and Azleen Ilias (2013)¹ studied, Goods and Services Tax (GST): A New Tax Reform in Malaysia and found that, the announcement which was made by the Malaysian Ministry of Finance (MOF) in the Budget 2010 has implemented GST, which created various reactions from practitioners,

¹ Mansor, Nor Hafizah Abdul and Ilias, Azleen, Goods and Services Tax (GST): A New Tax Reform in Malaysia (2013). International Journal of Economics Business and Management Studies, 2(1), 12-19, January 2013.

businessmen and general public. The budget stated that, GST is one of the tools which were proposed by the government to reduce continuous deficit budget in Malaysia.

1. Ehtisham Ahmed and Satya Poddar (2009)² studied, “Goods and Service Tax Reforms and Intergovernmental Consideration in India” and found that, with increase in output and productivity of economy in India, the GST introduction will provide simple and transparent tax system.

2. Aurobinda Panda and Atul Patel (July 10, 2010)³ studied, “The Impact of GST (Goods and Services Tax) on the Indian Tax Scene” and have stated with a brief description of scenario of Indian taxation and its tax structure and the need arose for the change in tax structure from traditional taxing system to GST model of taxation.

² Ehtisham Ahmed and Satya Poddar (2009), Goods and Service Tax Reforms and Intergovernmental Consideration in India – (November 15, 2017)

³ Panda, Aurobinda and Patel, Atul, The Impact of GST (Goods and Services Tax) on the Indian Tax Scene (July 10, 2010).

3. Rajib Dahal (April 27, 2010)⁴ Studied, “Constitutional Framework for Goods and Service Tax (GST) in India” the constitutional roadblocks that are on the way as we move closer to deadline of implementation of GST in India and it also summarizes the present constitutional set up for fiscal legislation and it also reviews the suggestions made on GST.

CHALLENGES OF PREVIOUS INDIRECT TAX STRUCTURE

1. In respect of taxation of goods, CENVAT was confined to the — manufacturing stage and did not extend to the distribution chain beyond the factory gate. As such, CENVAT paid on goods could not be adjusted against State VAT payable on subsequent sale of goods.

2. CENVAT was made up of several components in the nature of cesses and surcharges such as the National Calamity Contingency Duty (NCCD), education and secondary and higher education cess, additional duty of excise on tobacco and tobacco products etc. This multiplicity of duties complicated the tax structure and often use to obstruct the smooth flow of tax credit.

⁴ Dahal, Rajib, Constitutional Framework for Goods and Service Tax (GST) in India (April 27, 2010).

3. While input tax credit of CENVAT or additional duty of customs paid on goods was available to service providers paying Service Tax, they were unable to neutralize the State VAT or other State taxes paid on their purchase of goods.

4. On the value of goods only state VAT was payable inclusive of CENVAT paid at the manufacturing stage and VAT liability of a dealer gets inflated without compensatory set-off.

5. Inter-State sale of goods was liable to the Central Sales Tax (CST) levied by the Centre and collected by the States. This was an origin-based tax and could not be set-off against VAT in many situations.

7. Vat dealers were not able to set-off any service related taxes that they might have paid on their procurement of input services which are taxable. The state governments also levy and collect various indirect taxes such as luxury tax, entertainment tax, entry tax etc. for which no set-off was available.

In order to remove the said draw backs and to create a unified taxation system on goods as well as services and to consolidate and join various indirect taxes ad levies into a single tax overcoming all the limitations of existing indirect tax structure GST was formulated.

OBJECTIVE OF STUDY:

The main objective of the study is

- 1) To understand the concept of GST
- 2) To study the implementation of GST
- 3) To determine the advantages and various challenges faced after implementation of GST

RESEARCH METHODOLOGY

This research is based on secondary data of journals, articles, newspapers and magazines. The objectives of study deals with descriptive type research which has more accuracy and analysis of research study. The accessible secondary data is intensively used for research study.

INTERNATIONAL SCENARIO OF GST

Countries are moving towards simplifying the taxing structure. The implementation of Goods and Services tax is an important development in several countries. GST is one of the most widely accepted taxing system followed by more than 140 countries. It is considered to be a destination based comprehensive taxing system which is levied at certain specified rate on sale

and consumption of goods and services inside the country.

In certain countries where GST has been adopted, manufacturers, wholesalers, retailers etc charge GST at a specified rate on various price of goods and services from consumers and they claim inputs credits for GST which is paid by them for procurement of various goods and services.

The broad principles of GST are as under:

- GST is a broad-based tax
- GST is a destination based tax
- GST is technically paid by suppliers but it is actually funded by consumers
- GST is collected through a staged process i.e. a tax on the value added to goods or services at every point in the supply chain.
- GST is a tax on the consumption of products from business sources, and not on personal or hobby activities.
- Under GST, input tax credit is provided throughout the value chain for creditable acquisition.

GST IN INDIA

GST is considered to be the biggest taxation reforms in India which has actually aimed to integrate state economies and boost an overall growth by creating a unified system and single Indian Market. It is a comprehensive destination indirect tax system which is levied specifically on goods as well as services at a national level. The main objective of GST is to consolidate and join various indirect tax which levies into a single tax overcoming all the limitations of existing indirect tax structure which creates various efficiencies in tax administration. This GST is a consumption or destination tax on the basis of “Destination Principle”. This is a comprehensive tax regime covering all the goods and services and to be collected on value added at each stage of supply chain. GST paid on the procurement of goods and services can be set off against things payable on supply of goods or services. The main objective is to consolidate multiple indirect tax levies into a single tax overcoming all the limitations of existing indirect tax structure by creating efficiencies in tax administration. This GST is a national level tax based on value added principle like State level VAT which was levied as tax on sale of Inter-state goods. The main objective of GST is to remove the cascading effects of both Central

and State taxes by allowing setting off of taxes from the original producer and service providers point up to the retailer level. GST is a major improvement over existing system of

VAT and a collective gain for industry, trade and common consumers as well for state and central government. This is a most elegant method to eliminate distortions.

Taxes which have been subsumed under GST are as follows:

CENTRAL TAXES	STATE TAXES
Central Excise Duty Duties of Excise (Medicinal and Toilet Preparations) Additional Duties of Excise (Goods of Special Importance) Additional Duties of Excise (Textiles and Textile Products) Additional Duties of Customs (commonly known as CVD) Special Additional Duty of Customs (SAD) Service Tax Cesses and surcharges insofar as they relate to supply of goods or services	State VAT Central Sales Tax Purchase Tax Luxury Tax Entry Tax (All forms Entertainment Tax (except those levied by the local bodies) Taxes on advertisements Taxes on lotteries, betting and gambling State cesses and surcharges insofar as they relate to supply of goods or services

IMPLEMENTATION OF GST IN INDIA

For introduction of GST, the Constitution of India was required to be amended.

In March, 2011 - The Constitution (One Hundred and Fifteenth Amendment) Bill, 2011 to give concurrent taxing powers to the Union

and States was introduced in Lok Sabha. The bill had suggested for the creation of GST council and Goods and Service Tax Dispute settlement Authority. This bill got lapsed in the year 2014 and was replaced with Constitution (122nd Amendment) Bill, 2014

In May, 2015: Constitution Amendment (122nd) Bill was passed by Lok Sabha on May 06, 2015.

In May, 2015: In Rajya Sabha, Bill was referred to a 21-member Select Committee of Rajya Sabha.

In July, 2015 the Select Committee submitted its report to Rajya Sabha on July 22, 2015.

The Constitution (122nd Amendment) Bill, On August 03, 2016, was passed by Rajya Sabha with certain amendments.

In August, 2016: The changes made by Rajya Sabha were unanimously passed by Lok Sabha, on August 08, 2016.

On 11 September, 2016: The Bill was adopted by majority of State Legislatures wherein approval of at least 50% of the State Assemblies was required

In September, 2016: Final assent of Hon'ble President of India was given on 8th September, 2016

In April, 2017: Parliament passed the following four bills:

- Central Goods and Services Tax (CGST) Bill
- Integrated Goods and Services Tax (IGST) Bill
- Union Territory Goods and Services Tax (UTGST) Bill
- Goods and Services Tax (Compensation to States) Bill

In April, 2017: President's assent was given to four key legislations on Goods and Services tax.

GST COUNCIL -

This council has been the main decision making body which has been formed to finalize the design of GST. This body comprises of

1. The chairman of Council – Union Finance
2. Minister of State and State Finance/Taxation Ministers

The main duty of the council is to make recommendations to the Union and the States. The decision will be taken by a majority of

three-fourth with the Centre having one-third vote and States with two-third.

Functions of the GST Council include making recommendations on:

1. Taxes, Cesses, and surcharges levied by the Centre, States and local bodies which may be subsumed in the GST;
2. goods and services which may be subjected to or exempted from GST;
3. Model GST laws, principles of levy, apportionment of IGST and principles that govern the place of supply;
4. goods and services may be exempted from GST below threshold limit of turnover;
5. rates including floor rates with bands of GST;
6. special rates to raise additional resources during any natural calamity;
7. special provision with respect to Arunachal Pradesh, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand; and
8. any other matters

LIABILITY UNDER GST

The liability to pay taxes will arise when a person crosses the turnover threshold of Rs.20 lakhs except in certain cases where the person is liable to pay GST even though he has not crossed the threshold limit. CGST / SGST is payable on all intra-state supply of goods and/or services and IGST is payable on all inter- State supply of goods and/or services.

CONCLUSION

There are various challenges faced before and after the implementation of GST. GST needs more research to sort out the problems faced by the economy. Furthermore, the provisions in the constitution should be flexible and not rigid so that if any emergency provision is to be made during emergency, it can be dealt. The constitution can provide procedures to be adopted to amend GST when grave situations arise. The GST Council considered various items and also has taken into consideration of the grievances of the stakeholders in facing the problems in filing returns, grievances in rate and recommended many changes. W.e.f 15/11/2017 the GST council has revised tax rates on various goods. Nearly on 178 items the GST rate has been brought down from 28% to 18% and accordingly, there was a

corresponding reduction in the price rate of these goods. The Council has pared a number of items in the highest tax slab of 28% to 50%. Tax rates on restaurants have been cut except for those in hotel rooms having a tariff of Rs.7,500 or more from 18% to 5% and has removed their eligibility to claim input tax credit. Filing of all periodical returns of GST have been made easy. There are still pending issues which needs to be addressed.

A transparent system and more simplified user friendly tax system was required which can be fulfilled by the implementation of GST. This can be used as an effective tool for fiscal policy measures and management. In this paper, it has been concluded that, implementation of GST is more of an advantage than disadvantage. If the poor people can afford for payment of taxes without any burden, this tax system will be most effective all over the country.

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