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Goods & Services Tax: A Way to Tax Reforms in India

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ABSTRACT: *The fact is that Goods and Services Tax (GST) is an important perfection and a logical step towards widespread indirect tax reforms in India. The GST rule was commenced in India on 1 July, 2017 and was applicable throughout India. The first mention of the bill was in 2009 when the previous UPA government opened a discussion on it. They were successful in introducing the bill but failed to get it passed. On 17th December 2014, the NDA government made slight changes to it and redefined it in the Lok Sabha. The bill got cleared on 6 May,2016 . However the current challenge was that it needed two-third majority of both houses and 50 percent of the state assemblies to ratify it. Further, Punjab and Haryana were reluctant to give up purchase tax, Maharashtra was unwilling to give up octroi, and all states wanted to keep petroleum and alcohol out of the ambit of GST. Gujarat and Maharashtra want the additional one per cent levy extended beyond the proposed two years, and rose to two per cent. Punjab wanted to purchase tax outside GST. The present research paper highlights some key aspects of GST in India in the current scenario.*

KEYWORDS: GST, Tax Reforms, Indian Economy, Purchase Tax, Uniform Market

INTRODUCTION: The GST is the biggest indirect tax reform since 1947. This is levied on manufacture sale and consumption of goods and services. In the words of the Finance Minister Arun Jaitley, the GST bill will lead to the economic integration of India. The main function of the GST is to transform India into a uniform market by breaking the current fiscal barrier between states. Thus, the GST facilitates a uniform tax levied on goods and services across the country. The indirect tax system in India was complicated with overlapping taxes levied by the Centre and the State separately. Taxes such as excise duty, service, central sales tax, VAT (value added tax), entry tax or octroi have been subsumed by the GST under a single umbrella. So, this lecture is to know about GST, why it is needed? What are the main highlights of this bill? How it will work and how it will be beneficial? What will be the impact of this bill on Indian economy and also about the challenges before GST? All this steps would be clear through this lecture.

GST is a tax on goods and services under which every person is liable to pay tax on his output and is entitled to get input tax credit (ITC) on the tax paid on its inputs(therefore **a tax on value addition only)** and ultimately the final consumer shall bear the tax".

Rates of GST:

GST rates of some countries are given below:-

Country	**Rate of GST**
Australia	10%
France	19.6%
Canada	5%
Germany	19%
Japan	5%
Singapore	7%
New Zealand	15%

In India there are 4 different slabs- 5%, 12%, 18% and 28% - most of the commodities fall in the 12% and 18% slabs. These are:

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Products on which tax burden comes down

(in %)

Product	Current effective tax rate*	GST rate
Mobile phone	20.02	12
Footwear (below Rs500)	14.41	5
Ready-made garments	18.16	12
Cars for the handicapped	20-22	18
Medicines	11	5
Renewable energy devices	17-18	5
Iron ore	17-18	5
Music instruments (handmade)	0-12.5	0
Contact lenses	18	12
Processed food	14	12

Products on which tax burden goes up

(in %)

Product	Current effective tax rate*	GST rate
Butter	5.66	12
Television	24.39	28
Footwear (above Rs500)	14.41	18
Biscuits (Above Rs100/kg)	16.09	18
Corn flakes	9.86	18
Wristwatch	20.64	28
Jam	5.66	18
Baby food (sold in unit containers)	7.06	18
Small cars (<4m <1200cc petrol)	25-27	28+1**
Small cars (<4m <1500cc diesel)	25-27	28+3**
Mid segment (<1500cc)	36-40	28+15**

GST IMPACTS ON SERVICES: Although the proposed GST rate on many services is higher than the current applicable service tax – 15% on specified fraction of the service value – GST eases the tax burden on them. That is because in addition to service tax, these services currently also bear VAT levied by states which make the combined tax burden higher than the GST rate proposed.

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Products at zero GST rate

- Meat other than frozen and in unit containers
- Fish, fresh or chilled
- Milk and dairy products
- Eggs and salt
- Human blood and components
- Contraceptives
- Fresh fruits and vegetables
- Non-branded cereals, flour, and jaggery
- Unbranded organic manure
- Judicial, non-judicial stamp papers; inland letters, post cards
- Non-precious metal bangles, agriculture implements and hand tools

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EXEMPTION/COMPOSITION SCHEME UNDER GST: GST Composition Scheme is an option available to a registered taxpayer who needs to inform the tax authorities of his intention to be registered under the scheme. In case the registered taxpayer fails to comply with the same he would be treated a normal tax payer and administered accordingly. Such option needs to be for all businesses of the tax payers i.e. both for goods as well as services.

A registered taxpayer, whose aggregate turnover does not exceed Rs seventy five lakh in the preceding financial year pay tax at a rate more than 1% for manufacturer, 2.5% for restaurant sector and 0.5% for other suppliers of turnover.

Serial No	Category of registered persons	Rate of Tax CGST	Rate of Tax SGST	Total Rate of Tax
1	Manufacturers (other than manufacturers of notified goods)	1%	1%	2%
2	Suppliers (food or any other article for human consumption or any drink (other than alcoholic liquor for human consumption)	2.5%	2.5%	5%
3	Other supplies	0.5%	0.5%	1%

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Following taxable persons are not granted permission to opt for the scheme who:

- Supplies goods not levied under the Act
- Supplies services
- Makes a supply of goods other than intra state i.e. interstate or import/ export
- Makes a supply of goods through Electronic Commerce Operator i.e. Ecommerce and liable to collect taxes
- Manufactures such goods as may be notified

Further, it is also if in case a taxable person has different business segments having same PAN as held by the taxable person, he must register all such businesses under the scheme.

If an individual has different business segments such as:

1. Textile
2. Electronics and accessories
3. Groceries

Then he must register all the above segments collectively under the composite scheme or simply opt not for the scheme.

Why GST?

- To remove cascading tax effect
- Higher entry for registration
- Composition scheme for small business
- Online simpler procedure under GST
- Lesser compliances
- Defined treatment for e-commerce
- Increased efficiency in logistics
- Regulating the unorganized sector

Motives behind the GST:

- Subsume all indirect taxes at the centre and the state level
- One-Country-One-Tax
- Reduce the cascading effect of taxes on taxes.
- Increase productivity and transparency; increase tax-GDP ratio.
- Reduce/Eliminate tax evasion and corruption

Why is it better?

It clubs almost all Indirect taxes levied by central as well as State like excise duty, service tax, countervailing duty, special additional duty on customs, all cesses and surcharges and state taxes including value added tax(VAT), sales tax, entertainment

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tax, luxury tax, tax on lottery, betting and gambling, entry tax and state cesses and surcharges. Hence Taxation simplified and compliance improved = better revenues.

How GST works?

GST Bill is an indirect tax that combines of several indirect taxes including vat tax, services tax, central Excise tax, customs tax etc. In other words, GST removed all extra taxes and government levied a single tax on all goods and services. It also reduces the extra burden of taxation by dividing the manufacturing and services tax.

Merits of the GST Regime:

- Reduce the cascading effect of taxes on the final price of the product. Eliminate tax-on-tax effect.
- Moderate prices and increase consumption.
- Uniform and Stable Tax Regime. One-Country-One-Tax.
- Simplify Tax Structure. Reduce the hassles of filing tax forms by merchants.
- Increase GDP, tax-GDP ratio and revenue surplus.
- It removes multiple taxation.
- It creates India as a single market.
- It taxes goods and services at the same rates so many disputes are eliminated on tax matter.
- It reduces taxes on manufactures. Hence it increases their business and makes them more competitive at national and international level.
- A seamless flow of Credit is available throughout the country. Hence evasion is minimized.

Demerits of the GST: Some of the demerits of GST are:

- Doesn't include petroleum and alcohol products. Heavy loss to the exchequer.
- Instead of blurring out the difference between goods and services tax, it highlights them. An *aam aadmi* (common man) filing the tax-returns will have to suffer.
- It requires strong IT (Information Technology) infrastructure at grass-root levels. India essentially lacks this. This factor is going to be the bottleneck, if not addressed well in advance.
- Very high rates 16% compared to current 12.5 % VAT.

- Tax-sharing between states and the Centre was another bottleneck. Nice to see that there is a consensus now.
- The Tax on services would go up substantially from 14% to 20%.
- Tax on retails would be almost double.
- Imported goods would be taxed at higher rate by around 6%.
- There will be dual control on every business by Central and State Government. So compliance cost will go up.
- All credit will be available on from online connectivity with GST Network. Hence, small businesses may find it difficult to use the system

IMPACT OF THE GST BILL: It is thought that GST is a landmark in the history of tax reforms in India and it will pave a better way to Economic reforms. Most of the scholars argue that its impacts may be as under:

- It will widen the tax base and lower the tax burden.
- It will help ensure the same price for a single good or service across the country.
- Creation of a 'harmonized system of taxation' in the country by subsuming all the indirect taxes into one GST.
- It will eliminate cascading taxes (tax on tax) hence reduce the cost of goods.
- It will ensure higher compliance on account of input tax rebate system.
- Single tax for Goods and Services hence no need for differentiation between the two which is not only difficult in the age of IT but also results in double taxation.
- By extension, it will help increase the saving rate and thus help the economy grow. The government feels it can help enhance the growth by upto 2 %. Even the Task Force under leading economist Kelkar had pointed out that it will increase growth.
- It will increase the export competitiveness of the economy.
- It will enhance the 'Ease of Doing Business' in India and help attract investment (Make in India).
- The ease of a single indirect tax will increase the compliance levels thus increasing the tax buoyancy.
- The states will be compensated for first five years for losses incurred on account of GST implementation for upto 5 years in staggered manner.

Challenges Ahead:

- A functionally robust GSTN to facilitate the implementation.

- Formulating the Revenue Neutral rate for GST.
- Drafting a model legislation to be adopted by the states.
- Deciding the minimum threshold value beyond which the GST will be applicable.
- Compiling the 'place of supply' rules to determine where the goods and services will be taxed. India favors the "destination based consumption" principle.
- Service sector may oppose because they have to register in every state with central and state government. So every business at all India level will have around 60 registrations while they are having just one today. Moreover their rates will also go up.
- Retail business may oppose because their taxes will go up and they will also have to deal with Central Government now in addition to States.
- GSTN may not work optimally for quite some time.
- Dual control can increase harassment to businesses.

CONCLUSION: To conclude we can point out that GST has been designed to replace number of Indirect taxes in India. It will reduce black marketing of goods like petrol as people use to take advantage of tax difference within states, along with this it will boost transparency and ultimate consumer will be benefited. State government will lose their revenue as tax is a great source of income. Therefore, government is making policies to compensate the states losses. In my opinion, there are more positives to the GST Bill than negatives. The negatives are mostly minor, arising out of the structural problem in the country. This should have been done long back, which otherwise created more confusion, helped merchants evade taxes and accumulate black money.

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