



## Goods and Service Tax (Gst) In India: A Beacon Of Hope For Indian Economy

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### ABSTRACT

*The introduction of GST would be a very noteworthy step in the field of indirect tax reforms in India. By amalgamating a large number of central and state taxes into a single tax it would alleviate cascading or double taxation in a major way and pave the way for a common national market. The biggest benefit is that it will disincentivise tax evasion. A lot of currently underground transactions will come overground with the introduction of GST. Once GST comes into effect, all central and state level taxes and levies on goods and services will be subsumed within an integrated tax having 2 components- a Central GST and a State GST. France was the 1<sup>st</sup> country in the world to introduce GST system in 1954 and almost 160 countries across the world have already implemented the GST. This paper presents an overview of GST concept, features and impact on various industries and on Indian economy.*

*Key words: GST, indirect tax, tax evasion, Indian economy*

### INTRODUCTION

Goods and Services Tax (GST) is a proposed system of indirect taxation in India merging most of the existing taxes into single system of taxation. The GST is administered & governed by GST Council and its Chairman is Union Finance Minister of India Arun Jaitley. GST would be a comprehensive indirect tax on manufacture, sale and consumption of goods and services throughout India, to replace taxes levied by the central and state governments.

This method allows GST-registered businesses to claim tax credit to the value of GST they paid on purchase of goods or services as part of their normal commercial activity. Taxable goods and services are not distinguished from one another and are taxed at a single rate in a supply chain till the goods or services reach the consumer. Administrative responsibility would generally rest with a single authority to levy tax on goods and services. Exports would be considered as zero-rated supply and imports would be levied the same taxes as domestic goods and services adhering to the destination principle in addition to the Customs Duty which will not be subsumed in the GST.

Introduction of Goods and Services Tax (GST) would be a significant step in the reform of indirect taxation in India. Amalgamating several Central and State taxes into a single tax would mitigate cascading or double taxation, facilitating a common national market. The simplicity of the tax should lead to easier administration and enforcement. From the consumer point of view, the biggest advantage would be in terms of a reduction in the overall tax burden on goods, which is currently estimated at 25%-30%, free movement of goods from one state to another without stopping at state borders for hours for payment of state tax or entry tax and reduction in paperwork to a large extent.

As India is a federal republic, GST would be implemented concurrently by the central government and by state governments. A 21-member select committee was formed to look into the proposed GST law. GST is expected to be applicable from 1 July 2017.

### OBJECTIVES

- To provide a conceptual clarity on GST



- To study the impact of GST on various industries and on Indian economy

Goods and Services tax (GST) has been identified as one of most important tax reforms post-independence. It is a tax trigger, which will lead to business transformation for all major industries.

The GST Council consisting of representatives from the Centre as well as the states, after being constituted, met on twelve occasions to discuss various issues including dual control, GST laws, exemptions, thresholds, rate structure, compensation cess etc. and reached consensus on the same. Council has also recommended four-tier GST rate structure and the thresholds. Union territories with legislature, i.e., Delhi & Puducherry, will adopt SGST Act and the balance 5 Union territories without legislatures will adopt UTGST Act. Meanwhile, Centre and States have already begun the enrolment process for migrating existing taxpayers to the proposed tax regime through GST common portal. The reform process in indirect tax regime of India was started in 1986 by Vishwanath Pratap Singh by introduction of Modified Value Added Tax (MODVAT).

Goods and services tax (GST) will subsume various indirect taxes including central excise duty, services tax, additional customs duty, surcharges and state-level value added tax. Other levies which are currently applicable on inter-state transportation of goods are also likely to be done away with in GST regime.

The tax rate under GST may be nominal or zero rated for the time being. It has been proposed to insulate the revenues of the States from the impact of GST, with the expectation that in due course, GST will be levied on petroleum and petroleum products. The central government has assured states of compensation for any revenue losses incurred by them from the

date of introduction of GST for a period of five years.

The Government of India introduced four bills for GST in the Lok Sabha in March 2017 and Rajya Sabha in April 2017 viz. the Central Goods and Services Tax (CGST) bill, the Integrated Goods and Services Tax (IGST) bill, the Goods and Services Tax (Compensation to States) bill, and the Union Territory Goods and Services Tax (UTGST) bill. The four GST bills have been passed by both the houses of Parliament of India. There will be no GST on the sale and purchase of securities. That will continue to be governed by Securities Transaction Tax (STT).

GST threshold was set at ₹ 5 lakh (US\$7,400) for the north-east and hill states and ₹ 10 lakh (US\$15,000) for other states in the first GST council meet. Centre and states agreed that assessee up to ₹ 1.5 crore (US\$220,000) will be assessed by states and above that will be assessed by centre and states.

As per the decisions made by all will of GST Council on 3 November 2016, tax rates would be at 4 slabs of 5%, 12%, 18% and 28%. Luxury and demerit goods will be taxed at 28% plus cess and daily needs will be taxed at 5%.

In March 2017, the GST council approved two crucial legislations - the state GST and the union territory GST bills. As the next step, the bill will be sent to Cabinet and Parliament for approval. Given the recent progress, the implementation should be complete by 1 July 2017.

## GSTN

Goods and Services Tax Network (GSTN) is a non profit organisation formed to create a platform for all the concerned parties i.e. stakeholders, government, taxpayers to collaborate on a single portal. The portal will be accessible to the central government which will track down every



transaction on its end while the taxpayers will be having a vast service to return file their taxes and maintain the details. The IT network will be developed by private firms which are being in tie up with the central government and will be having stakes accordingly. The known authorised capital of GSTN is ₹ 10 crore (US\$1.5million) in which Central government holds 24.5 percent of shares while the state government holds 24.5 percent and rest with private banking firms.

All the existing taxpayers registered under VAT, Service Tax, and Excise are required to furnish the details at GST Common portal for the purpose of migrating themselves into GST regime. To begin with, the taxpayers registered under the State Vat Department needs to provide their details and period for furnishing these details are specified for every state. Once the taxpayers provide their details there will be no need for them to register again with the State or Center once the GST Act is implemented. Enrollment process for other existing taxpayers not registered with VAT will be started at a later date.

As the migration process has peaked up in various states, the first step is to enroll within the structure on a specified date assigned to each and every state. The business units must enroll themselves within the time period in order to get listed in the GST framework. The IT platform created by the Goods and Service Tax Network will be securing all the details filled up and will create unique IDs in the name of every dealer enrolled. This will help the tax department to figure out every business unit and can create a different login mark along with calculations of annual tax return accumulated on the particular business unit. The government announced specified dates for each state to enroll all its designated dealers within it and wanted them to furnish the details within a required specific time period. The dealers will be getting provisional IDs

after the enrollment and by the help of which one can login into the GST portal.

The enrollment dates are specified by the government for each state separately and the administration demands every state must enroll themselves within the given specified time. The enrollment process was started from 8 November 2016 and end date as per the schedule is fixed 31 March 2017. States commencing for the enrollment process were Sikkim Puducherry on 8 November 2016 while the last state to enroll was Delhi which was enrolled from 16 December 2016.

### Salient features of GST

- GST is a dual indirect tax structure wherein both centre and states have the power to levy tax.
- GST does not distinguish between goods and services.
- GST is applicable on Supply of Goods and Services. In GST regime, all supply such as sale, transfer, barter, lease, import of services etc of goods and/ or services made for a consideration and in some cases without consideration (like permanent transfer of business asset) will attract both Central GST (to be levied by Centre) and State GST (to be levied by State).
- Since the CGST and SGST are to be treated separately, they are to be paid to the accounts of the Centre and the states separately
- GST is payable at the time of supply and hence the determination of time and place of supply is crucial as far as levy of GST is concerned.
- GST would be payable on the transaction value. Transaction value is the price actually paid or payable for the said supply of goods and/or services between unrelated parties.

- GST will allow 'Input Tax Credit' to the business houses without any denial or restrictions
- Inter-state supply of goods and services for consideration are to attract additional tax.
- The tax payer would need to submit periodical return in common format to both the central and state GST authority. Each taxpayer would be allotted a PAN-Linked Taxpayer Identification Number with a total of 13/15 digits which would bring the GST- PAN-Linked System in line with the prevailing PAN-Linked-Income Tax facility.
- There would be 33 GST Laws (31 for states and 2 for Union Territories)
- There would be time limit for Show Cause Notice (SCN) ranging from 3 to 5 years. GST rate is determined keeping in view that it would yield at least the same revenue to the centre and states as collected through the various indirect taxes that would be

subsumed under GST. Such rate is known as Revenue Neutral Rate (RNR).

**At the Central level, the following taxes are being subsumed:**

- a. Central Excise Duty
- b. Additional Excise Duty,
- c. Service Tax
- d. Additional Customs Duty commonly known as Countervailing Duty
- e. Special Additional Duty of Customs

**At the State level, the following taxes are being subsumed:**

- a. Subsuming of State Value Added Tax/Sales Tax
- b. Entertainment Tax (other than the tax levied by the local bodies) and Central Sales Tax (levied by the Centre and collected by the States)
- c. Octroi and Entry tax
- d. Purchase Tax
- e. Luxury tax
- f. Taxes on lottery, betting and gambling.

### Industry specific impact areas

#### GST IMPACT ON MANUFACTURING SECTOR

Positive impact	Negative impact
Effective rate of tax on goods may reduce	Working capital pressure may build up initially
Disputes relating to classification/MRP based valuation/Demand manufacture to get resolved	Unavailability of credit to distributors on stock lying with them during transaction
Better availability of credits on goods and services	Administrative difficulties during transaction
Reduced compliances for inter-state movement for goods	No clarity on migration of incentives and specialised schemes like SEZ, EOU, etc.

#### GST IMPACT ON IT SECTOR

Positive impact	Negative impact
Clarification of taxation of electronic download of software as services	Confusion regarding supply of software on a tangible media to be taxed as goods or services
Service include auctionable claims – GST liability at the time of issue/redemption of vouchers	Working capital pressure may build up initially
	Possible credit blockage in case of location of invoicing and location of server vary
	Upfront exemption for STP/SEZ/EOU likely to cease

#### GST IMPACT ON AUTOMOBILE SECTOR

Positive impact	Negative impact
Increase credit base for manufacturing entity, marketing entity as well as for dealers	40% tax rate on luxury cars
Clarification of taxation of maintenance/warranty contracts as service	Continuation of NCCD, Infrastructure cess and automobile cess
Dual levy on joint advertisement may cease	Valuation issue on account of comparison to 'similar' to 'identical goods'
	No clarity regarding applicability of Fiat judgment, resolution of related party transaction valuation

### IMPACT ON SERVICE SECTOR

Positive impact	Negative impact
Increase availability of credit on goods	Working capital pressure may build up initially
Better clarity on certain transactions such as works contract, software, lease etc	Decentralisation of service tax levy at state level to increase compliance
	Potential issues around valuation, classification, place and supply etc
	Contracting structure and billing to be influenced by customer preferences

### IMPACT OF GST ON INDIAN ECONOMY

- Reduce tax burden on producers and foster growth through more production. This double taxation prevents manufacturers from producing to their optimum capacity and retards growth. GST would take care of this problem by providing tax credit to the manufacturers
- Various tax barriers such as check posts and toll plazas lead to a lot of wastage for perishable items being transported, a loss that translated into major costs through higher need of buffer stocks and warehousing costs as well. A single taxation system could eliminate this roadblock for them.
- A single taxation on producers would also translate into a lower final selling price for customers.
- There will be more transparency in the system as the customers would know exactly how much taxes they are being charged and on what base.

- It would add to Government revenues by widening the tax base.
- It provides credit for the taxes paid by producers earlier in the goods or service chain. This would encourage these producers to buy raw materials from different registered dealers and would bring in more and more vendors and suppliers under the purview of taxation.
- It also removes the custom duties applicable on exports. Our competitiveness in foreign markets would increase on account of lower cost of transaction.
- The proposed GST regime, which will subsume most central and state level taxes is expected to have a single unified list of concessions exemptions as against the current mammoth exemptions and concessions available across goods and services

Under GST structure, the tax would be levied on value addition at each stage of production and distribution stage. There





would be continuous set off of benefits i.e., tax credit would be allowed from the manufacture/ service provider's point upto the retailer's level and net tax impact finally gets attached to consumption stage by eliminating intermediate cascading effect of taxes. Thus, GST, internationally known as general turnover tax on consumption is basically destination based consumption tax, which is levied on the value added at various stages of all taxable products that are consumed domestically. Under GST regime, Exports are zero rated but imports are taxed under the destination principle.

## CONCLUSION

Goods and Service Tax (GST) is considered as the major tax reform since independence. Most of the countries followed unified GST while some countries like Brazil and Canada follow a dual GST system where tax is imposed by Central and State both. In India also dual system of GST is proposed including CGST & SGST. It can be concluded that indirect tax regime in the country is set to undergo a paradigm change with the introduction of GST. GST will replace the multiplicity of indirect taxes prevailing in India and aims at bringing harmonized system of taxation in the country whereby uniformity in terms of procedure and rate of tax imposed both on goods and services sold within the country can be ensured. Till now, the varying taxation structure across the states within India created unhealthy competition among the states and hampered the overall growth with increase compliance of Government to the business environment. Presently we have various indirect taxes like central excise, customs, central sales service tax, entry tax, VAT laws for all states, Octroi, etc. It is expected that after the introduction of GST, some acts will repeal and some acts will be saving to some extent.

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