

Goods & Services Tax: An Overview

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Abstract

The Goods and Services Tax 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.

Keywords: GST, SGST, CGST, IGST, VAT,

Introduction: 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.

Objective of the study:

The main objective of this paper is to know about the GST Bill. What Amendments have been taken in this Bill so that it will work properly and how is it divided in categories. What are the merits and demerits of this GST regime? To know what will be the impact of passage of the GST bill and challenges ahead GST.

Method of the study:

This research paper is simply based on secondary data collected through a lot of newspapers and magazines. Internet is also made use of here to gather the information and to finding the various reports for the related information of the study.

What is GST?

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:

‘G’ – Goods

‘S’ – Services

‘T’ – Tax

Goods & Services Tax Law in India is a **comprehensive, multi-stage, destination-based tax** that will be levied on every **value addition**. In simple words, GST is an indirect tax levied on the supply of goods and services. GST Law has replaced many indirect tax laws that previously existed in India. It **substitutes all indirect taxes** levied on goods and services by the Central and State governments in India.

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”.

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.

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 taxpayer 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%

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 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:

- 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

Backdrops of GST

- The constitution provides for the separation of tax related powers in the constitution on the basis of the 7th schedule viz, Union, State and Concurrent list with residuary power of taxation being vested with the Centre. (Service tax imposed on the basis of residuary power)
- Broadly there are two types of taxes in India; Direct Tax and Indirect Tax. Direct Tax refers to that tax whose burden can't be passed on to someone else (Income Tax, Wealth Tax, Corporation Tax, MAT etc.). Whereas Indirect Tax's burden can be passed on to the next person in the chain of transaction (eg excise duty, sales tax, service tax, octroi, customs duty etc.) and ultimately on the final consumer.

- GST is concerned only with Indirect taxes. Some of these are levied by Centre and some by State. Those imposed by states are done at varying rates across the country. Further there are state specific variations in remissions also.
- The Excise duty was levied on both inputs used and outputs produced. Thus the amount paid on input was taxed at each stage. This resulted in cascading effect of taxes.
- Consequently the Indirect Tax structure in the country is extremely complex and difficult to comply with. To redress this the concept of VAT was introduced in mid 80s (MODVAT & later CENVAT) under which tax paid on the inputs is deducted from the tax payable on the output produced. Similarly, sales tax also had a cascading effect through the distribution chain. All states have now adopted the concept of VAT for state sales tax.
- The issue of cascading taxation was partly addressed through the VAT regime. However, certain problems remained. For example, several central and state taxes were excluded from VAT. Sectors such as real

estate, oil and gas production etc. were exempt from VAT. Further, goods and services were taxed differently, thereby making the taxation of products complex.

Impact of the GST bill

- 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.
- 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.
- 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 of GST

- 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:

In nutshell, GST has been designed to replace number of Indirect taxes in india i.e uniform taxation in all over 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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