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Goods and Services Tax – A New Regime of Indirect Taxes

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Abstract: Taxation in India is an old subject and Indians are used to pay taxes. The tax system in India had undergone many changes in pre-independence and post-independence India. A lot of development activity was undertaken during the initial years of independence and this required a lot of funds which were raised through various taxes and kept increasing and changes over a period of time. The various taxes include Central Excise, Sales Tax, Customs Duty, Value Added Tax, MODVAT, CENVAT and finally to the GST. There was a burden of TAX ON TAX in the existing tax structure, even after implementation of VAT this effect was not set off. The idea of GST is to replace existing taxes like VAT, Excise Duty and other taxes and subsume all taxes into one i.e., One Nation One tax. The paper brings out the difference between existing tax structure and the GST. The paper also explores the benefits and opportunities of GST. Finally the paper examines and draws out a conclusion.

Key words : GST, Central GST, Sate GST, Integrated GST

Introduction

GST stands for Goods and Service tax is an indirect tax levy on goods and services with comprehensive and continuous chain of set-off benefits from the producer's point and service provider's point up to the retailer's level. It is essentially a tax only on value addition at each stage, and a supplier at each stage is permitted to set-off, through a tax credit mechanism, the GST paid on the purchase of goods and services as available for set-off on the GST to be paid on the supply of goods and services. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages.

In 2000, the Vajpayee Government started the discussion on GST by setting up an empowered committee. The committee was headed by Asim Dasgupta. The Kelkar Task Force on implementation of the FRBM Act, 2003 had pointed out that although the indirect tax policy in India has been steadily progressing in the direction of VAT , but the existing system of taxation still suffers from problems and had suggested GST based on VAT principle which is a destination oriented tax. This tax structure is proposed by the GST Bill or The Constitution (One Hundred and Twenty Second Amendment) Bill, 2014. GST system was first implemented in France in 1954 and now it has been adopted by over 160 countries around the world because of its transparent and efficient system of indirect taxation.

Table No. 1 : GST Rates in different countries

S.No	Region	No. of Countries	Tax Rate
1	ASEAN (Thailand and Phillipines)	7	7-12%
2	Asia (Iran and Tajikstan)	19	5-20%
3	Europe (Jersey and Hungary)	53	5-27%
4	Oceania – (Niue & New Zealand)	7	5-15%
5	Africa-(Nigeria & Gambia)	44	5-40%
6	South America-(Brazil & Uruguay)	11	10-22%
7	Caribbean , Central and North America (Canada & Barbados)	19	5-17.5%
8	Malaysia (w.e.f 1/4/2015)		6%

In Most of the countries GST/ VAT will be same. But, in our country VAT will be levied only on the goods. Under the GST scheme, no distinction is made between goods and services for levying of tax. This means that goods and services attract the same rate of tax. GST is a multi-tier tax where ultimate burden of tax fall on the consumer of goods/services. It is called as value added tax because at every stage, tax is being paid on the value addition. Under the GST scheme, a person who was liable to pay tax on output, whether for provision of service or sale of goods, is entitled to get input tax credit (ITC) on the tax paid on its inputs.

Since VAT was beneficial for the taxation system but with certain shortcomings which are expected to be overcome by the Goods and Service Tax. Thus, it would definitely a positive reform for the Indirect tax system in India.

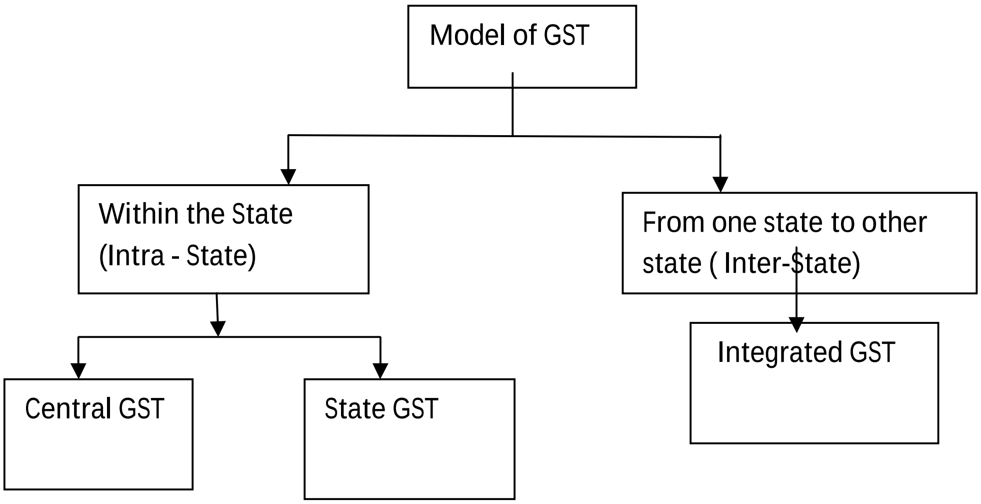
Objectives of the Study:

1. To study the difference between the present indirect tax structure and GST.
2. To examine the benefits and opportunities of GST over the present indirect tax structure.

Overview of Present Indirect Tax Structure:

The present indirect tax structure in India is very complex. It has the cascading effect of taxes. The Central Sales tax will be levied on the sale of goods between two states which is currently 4-15%. Customs duty on the import of goods tax rate is 29.44%. The Value Added Tax which is a destination based tax introduced in order to reduce cascading effect, which is levied on the goods throughout the value chain from getting of raw material from supplier till it reaches to customer and it varies 4-15%.

Goods and Services Tax structure



Central GST: Central GST is the tax levied upon the supply of goods and services by the central government within the state.

State GST : State GST is the tax levied upon the supply of goods and services by the state government within the state.

Integrated GST : Integrated GST is the tax levied upon the supply of goods and services the by the central government between the state. Imports at par with Inter-state supply. Revenue distribution is done to the state and the place of supply become relevant.

In GST the input tax credit should be match with the output tax credit as given below.

Input Tax Credit: Input tax credit is the credit

Manufacturer received for paying input taxes towards inputs used in the manufacture of products.

Output Tax Credit: Output tax credit is the VAT calculate and charge on your own sales of goods and services if you are registered in the VAT register

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Table No.2 **GST Framework and Credit mechanism**

Activity	Current tax structure	Proposed GST Framework
Import of goods	Customs duty (BCD, CVD and SAD) + Entry Tax	BCD + IGST
Manufacture	Excise Duty	No duty
Inter-state sale / purchase (supply) of goods	Excise Duty + CST + Entry Tax (in some States)	IGST
Intra-state sale / purchase (supply) of goods	Excise Duty + VAT	CGST + SGST
Import of Service	Service Tax	IGST
Inter-state sale / purchase (supply) of service	Service Tax	IGST
Intra-state sale / purchase (supply) of service	Service Tax	CGST + SGST
Inter-state stock transfer of goods	NIL	IGST
Exports	Zero rated	Zero rated

S.No.	INPUT TAX CREDIT	Credit against OUTPUT TAX		
		CGST	SGST	IGST
1	CGST	✓	X	✓
2	SGST	X	✓	✓
3	IGST	✓	✓	✓

Benefits and Opportunities of GST over the present Tax Structure :

- **Reduction in Cascading of taxes**: In the current tax system consists of multiplicity of taxes and it consists of cascading effect of taxes. GST will over the cascading effect of taxes by which it subsumes the taxes. GST would replace the following taxes currently levied and collected by the State and the Central Government

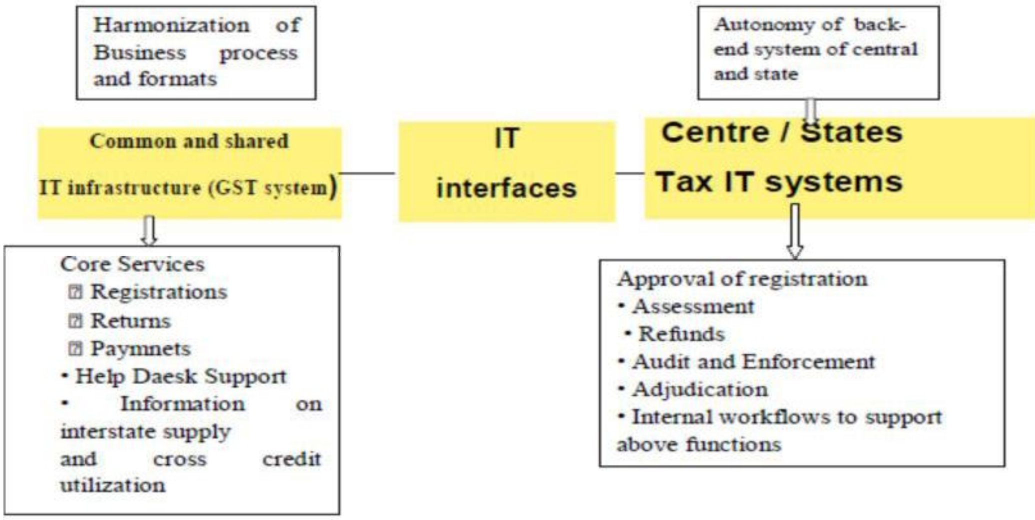
Central Government	State Government
Central Excise Duty	State VAT
Duties of Excise	State Sales Tax
Special Additional Duty of Customs (SAD)	Purchase Tax
Additional Duties of Customs (CVD)	Luxury Tax
Cesses and Surcharges (related to supply of goods or services)	Entry Tax (All forms)

- **Destination based Tax** :The present tax system is a origin based tax (Excise duty, Central Sales Tax), where GST is a destination based tax system. The tax would accrue to the taxing authority which has jurisdiction over the place of consumption which is also termed as place of supply.
- **Tax on Tax**: CENVAT load on the goods remains included in the value of goods to be taxed under STATE VAT. CGST and SGST will be charged on same price applicable to all transaction of goods and services with some exceptions.
- Cross utilization of input tax ie. CENVAT (Excise& Service TAX) and VAT etc set-off out of reach where as it is set- off relief fully captured refund or unutilized Input tax credit will be discouraged threshold limits will be on higher side.
- **Reduction in Documentation**: In the existing systems too much documentation is required in the form of Sales Tax forms, N forms, C forms, Permits, Waybills, E-Waybills etc. But in GST there is a free movement of goods and services throughout the country with minimum documentations (C-forms and R- forms which have to be updated regularly after the transactions through centralized GSTN).
- **Reduction in cost** :High cost of compliance and difficult to administer in the present system of taxes where this is going to overcome by compliance friendly environment through GSTN which is having common returns formats for CGST and SGST – GSP's (GST Suvidha Providers) for easy return filings.
- **IT Infrastructure**: There is lack of proper IT infrastructure in the present system of indirect taxation. Where as in GST, a Special Purpose Vehicle called the GSTN (developed by Infosys) have been setup which is a shared IT infrastructure and services to Central and State Government, tax payers and also for the other stakeholders for implementation of GST. It will enable the services such as registration facility, forwarding the returns to Central and State authorities, computation and settlement of IGST, matching of tax payment details with banking authorities,

computation and settlement of MIS reports to the Central and State governments based on the tax payer return information which increases the transparency in the tax payments.

➢ **Harmonized system of Nomenclature (HSN)**: HSN code shall be used for classifying the goods under the GST regime. Taxpayers whose turnover is above Rs.1.5 crores but below Rs. 5 crores shall use 2 digit code and the taxpayers whose turnover is Rs. 5 crores and above shall use 4 digit codes. Taxpayers whose turnover is below Rs.1.5 crores are not required to mention their HSN codes in their invoice. Services will be classified as per Services Accounting Code.

➢ **IT implementation Strategy for GST**:



Conclusion: Introduction of GST would be a very significant step in the field of indirect tax reforms in India. By amalgamating a large number of Central and State taxes into a single tax and allowing set-off of prior-stage taxes, it would mitigate the ill effects of cascading and pave the way for a common national market. For the consumers, the biggest gain would be in terms of a reduction in the overall tax burden on goods, which is currently estimated at 25%-30%. Introduction of GST would also make our products competitive in the domestic and international markets. The countries which had already implemented the GST show that it would instantly spur economic growth. There may also be revenue gain for the Centre and the States due to widening of the tax base, increase in trade volumes and improved tax compliance. Last but not the least, this tax, because of its transparent character, would be easier to administer.

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