

Goods & Service Tax in India: Creating Single Market by Single Indirect Tax

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Abstract

“The hardest thing in the world to understand is the income tax.”

– *Albert Einstein*

In India, this is very true for indirect taxes. But to simplify the difficult indirect taxation system and to create a common national market by decreasing the financial barriers between the states, the dual structure GST has been passed by parliament and has been approved by The President of India post its passage in the Parliament (Rajya Sabha on 3 August 2016 and Lok Sabha on 8 August 2016) and approval by more than 50 percent of state legislatures. The Government of India is committed to replace all the indirect taxes levied on goods and services by the Centre and States and implement GST by April 2017.

This article is trying to explore the facts related to GST in India so far and its impact on the business, state & central government and the consumers.

Key Words: GST, CGST, SGST, IGST, Goods, Services, Indirect Tax.

1. MEANING OF THE GST

According to Article 366 of the 122nd Constitutional Amendment Bill, 2014 [Constitution (101st Amendment) Act, 2016] “Goods and Services Tax means any tax on supply of goods, or services or both except taxes on the supply of the alcoholic liquor for human consumption”.

In GST there is a single tax and continuous chain of tax credits from the manufacturer to the consumer. The supplier at each stage can avail the credit of GST paid on the purchase of goods and/or services and can set off this credit against the GST payable on the supply of goods and/or services to be made by him. Thus, only the final consumers bear the GST charged by the last supplier in the supply chain, with setoff benefits at all the previous stages. Hence, only the value added at each stage is taxed under GST and there is no tax on tax under GST system. In GST the goods and services are not

differentiated and thus, the goods and services are taxed at a single rate.

2. HISTORY OF GST

Internationally Goods and Services Tax (GST) is popularly known as VAT. In 1954, France adopted GST as its indirect taxation structure and became the first country to adopt the GST. Within 62 years of its start, about 164 countries across the world have adopted GST because this taxation system has the capacity to raise revenue in the most transparent and unbiased manner. Most of the countries follow unified GST i.e., a single tax applicable throughout the country. However, in national polities like Brazil and Canada, a dual GST system is prevalent. Under dual system, GST is levied by both the national and the state governments. India, also intends to adopt a dual GST.

3. GST IN INDIA: JOURNEY SO FAR (2003-2016)

In 2003 the idea of Goods and Services Tax (GST) was introduced by Kelkar Task Force. The Task Force strongly recommended the implementation of ‘GST’ on national basis.

Afterward, the then Union Finance Minister, Shri P. Chidambaram, during Central Budget (2006-2007), announced that GST would be introduced from April 1, 2010.

In 2007, study paper on GST authored by Dr. Parthasarathy shome was released.

The 13th finance commission releases its report on GST in December, 2009.

In August, 2013 the standing committee on finance tabled its report on GST Bill.

On 19th December, 2014, 122nd Constitutional Amendment Bill, 2014 was introduced in the Lok Sabha by the Union Government. It was drafted keeping in mind the earlier developments and suggestions made by the Standing Committee on Finance and the pending demands of State Finance Ministers.

In March, 2016 the Finance Minister Minister Arun Jaitley says he agrees with the Congress's demand that the GST rate must not be above 18%.

Afterwards, the Bill was passed in Lok Sabha on 6th May, 2015 and was referred to the Select Committee of Rajya Sabha on 14th May, 2015.

Recently, on 3rd August, 2016 the much awaited Bill was passed in the Rajya Sabha as well.

With the passage of 122nd Constitutional Amendment Bill, 2014 for the introduction of GST in both the houses of the Parliament, and approval of The President of India now the Government is clear in its intention of implementing GST by April, 2017. Moreover, the Draft Model GST law was placed on public portal by Government of India on 14th June, 2016 inviting various comments and suggestions for the consideration.

4. OBJECTIVES OF THE STUDY

The study has been undertaken to achieve the following objectives:

1. To gain insight on the present status of GST Bill in India.
2. To understand the working and successful implementation of GST in India.
3. To highlight the benefits of GST to India.

5. RESEARCH METHODOLOGY

The present study is conceptual in nature. Hence, secondary source of data mostly comprising journals, research publications, and internet has been used to achieve the stated objectives.

6. MEANING OF GOODS, SERVICES & SUPPLY AS PER THE DRAFT MODEL OF GST

Goods - "Goods" means every kind of movable property other than actionable claim and money but includes securities, growing crops, grass and things attached to or forming part of the land which are agreed to be severed before supply or under the contract of supply.

Services - "Services" means anything other than goods. Services include intangible property and actionable claim but do not include money.

Further, Section 3 of Draft CGST/SGST Act, 2016 provides the meaning of the term "supply". As per the definition given, supply includes: - all forms of supply of goods and/or services such as sale, transfer, barter, exchange, license, rental, lease or disposal made or agreed to be made for a consideration by a person in the course or furtherance of business.

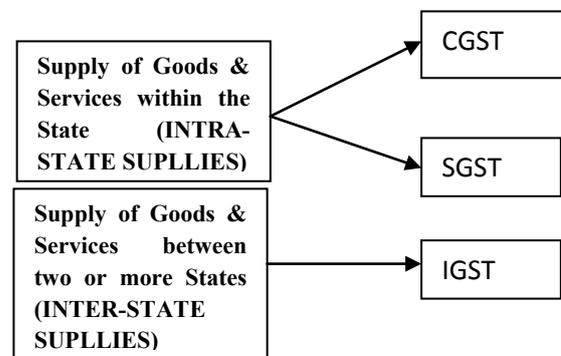
7. DUAL MODEL OF GST IN INDIA

India intends to adopt a dual model of GST which will be imposed concurrently by the Centre and the States. The dual model was propounded in the First Discussion Paper released by the Empowered Committee with an objective to go away with the problem of tax on tax and to move to a common tax base and also to subsume various Central and State levies on goods and services into Central Goods and Services Tax (CGST) and State Goods and Services Tax (SGST).

CGST – Central GST, collected by the Central Govt.

SGST – State GST, collected by the State Govt.

IGST – Integrated GST, collected by the Central Govt.



7.1 Central GST (CGST) and state GST (SGST) on intra-state supplies of goods/services in India:

GST will be a destination based tax applicable on all transactions involving supply of goods and services for a consideration. GST will have a dual rate structure comprising of CGST, which will be levied and collected by Central Government, and SGST, which will be levied and collected by State Governments. All local or intra-State supplies of taxable goods and services will be liable to both CGST and SGST except when the same get excluded on account of turnover thresholds or exemptions. Credit of CGST and SGST will be available throughout the supply chain but cross utilization of credit of CGST and SGST will not be possible. Since GST will be a destination based tax, revenue of SGST will ordinarily accrue to the consuming States.

For example, if 1 manufactured a good and sold to 2 which are then again sold to 3, 4 and 5 before they are finally consumed by 6 (assuming all supply has been made within the same State) – CGST and SGST will be levied simultaneously by Centre and State on all the transactions i.e., on supply of goods to 2, 3, 4, 5, and 6. CGST and SGST paid at an earlier stage will be available as credit to be set off against the CGST and SGST

payable at the next stage respectively throughout this supply chain. Thus, the tax will finally be borne by the consumer.

7.2 Integrated GST (IGST) on Inter-State Supplies of Goods & Services:

An Integrated Goods and Service Tax (IGST) model will be used for the taxation of inter-State supply of goods and services. IGST would be approximately a sum total of CGST and SGST.

Under this model, IGST will be levied by Centre on all inter-State supplies of taxable goods and services. The inter-State supplier in the exporting State will be allowed to set off the available credit of IGST, CGST and SGST (in that order) against the IGST payable on inter-State supply made by him. The buyer in the importing State will be allowed to avail the credit of IGST paid on inter-State purchase made by him.

Since GST will be a destination based tax, the revenue of inter-State sale will not accrue to the exporting State and the exporting State will be required to transfer to the Centre the credit of SGST used in payment of IGST. The Centre will transfer to the importing State the credit of IGST used in payment of SGST. There will be a Central Agency to act as a clearing house and verify the claims and inform the respective Governments to transfer the funds. Successful execution of IGST model would require robust and efficient IT infrastructure.

8. INDIRECT TAXATION STRUCTURE WHICH WILL GET SUBSUMED IN GST

8.1 Central Taxes which will get subsumed in GST:

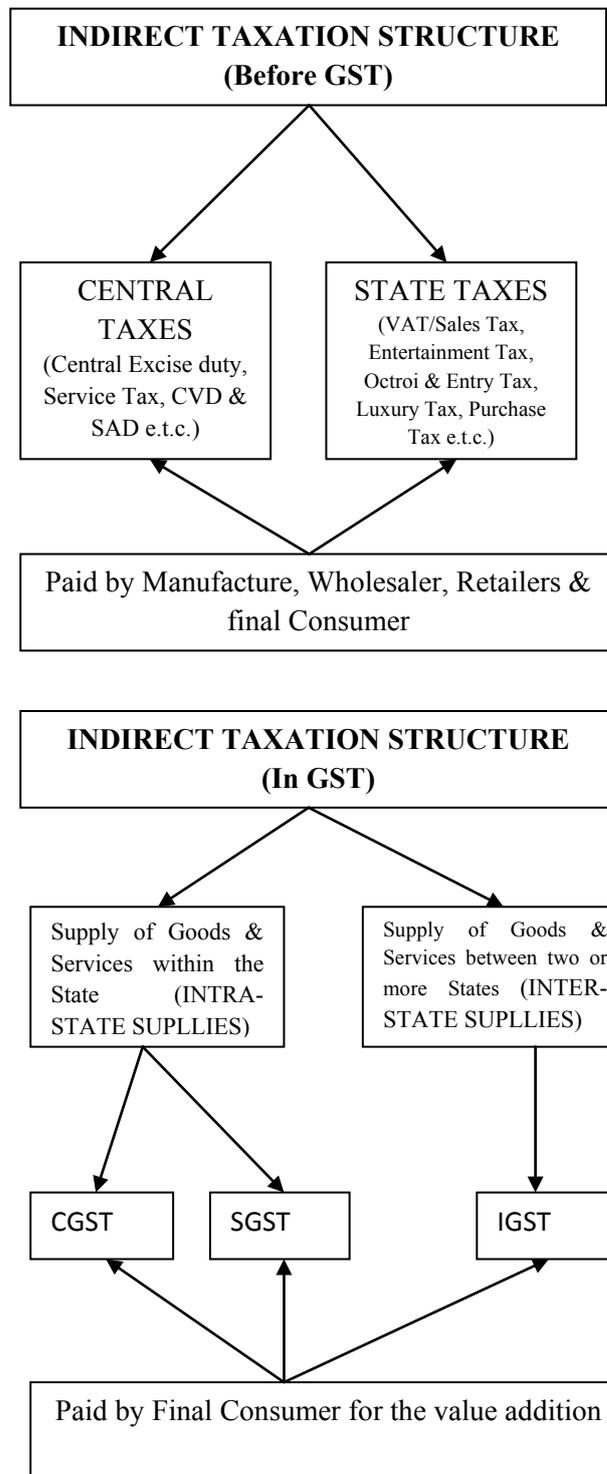
- i. Central Excise Duty
- ii. Additional duties of Excise
- iii. The Excise Duty levied under the Medicinal and Toiletries Preparation Act
- iv. Service Tax
- v. Additional Customs Duty, commonly known as Countervailing Duty (CVD)
- vi. Special Additional Duty of Customs (SAD)
- vii. Surcharges and Cesses.

8.2 State Taxes which will get subsumed under GST:

- i. State VAT/Sales Tax
- ii. Entertainment Tax (unless it is levied by the Local bodies)
- iii. (Luxury Tax
- iv. Taxes on lottery, betting and gambling
- v. State Cesses and Surcharges in so far as they relate to supply of goods and services
- vi. Entry Tax
- vii. Central state tax

viii. Purchase Tax

9. FLOW CHART SHOWING THE APPLICABILITY OF CGST, SGST & IGST



10. Applicability of the GST on the basis of turnover On the basis of agreement between Centre and states on September 23, 2016 the following traders will be under GST:

- The newly constituted Council decided to keep the revenue exemption limit at Rs. 20 lakh for all states with the exception of north eastern and the hill states where the limit will be Rs. 10 lakh (Uttarakhand, Himachal Pradesh, J&K, and all eastern states)
- States will have exclusive control over all dealers up to a revenue threshold of Rs. 1.5 crore in a year.
- **Central government & states government both will have control over all dealers having turnover more than 1.5 crore in a year.**

11. MAJOR FEATURES OF THE PROPOSED REGISTRATION PROCEDURES UNDER GST:

The major features of the proposed registration procedures under GST are as follows:

1. **Existing dealers:** Existing VAT/Central excise/Service Tax payers will not have to apply afresh for registration under GST.
2. **New dealers:** Single application to be filed online for registration under GST.
3. The registration number will be PAN based and will serve the purpose for both Centre and State.
4. There will be Unified application to both tax authorities.
5. Each dealer will be given a unique ID GSTIN.
6. Deemed approval within three days.
7. Post registration verification in risk based cases only.

12. MAJOR FEATURES OF THE PROPOSED RETURNS FILING PROCEDURES UNDER GST:

The major features of the proposed returns filing procedures under GST are as follows:

- a. **Common return** would serve the purpose of both Centre and State Government.
- b. There are eight forms provided for in the GST business processes for filing for returns. Most of the average tax payers would be using only four forms for filing their returns. These are return for supplies, return for purchases, monthly returns and annual return.
- c. **Small taxpayers:** Small taxpayers who have opted composition scheme shall have to file return on quarterly basis.
- d. Filing of returns shall be completely online. All taxes can also be paid online.

13. MAJOR FEATURES OF THE PROPOSED PAYMENT PROCEDURES UNDER GST:

The major features of the proposed payments procedures under GST are as follows:

- a. Electronic payment process-no generation of paper at any stage
- b. Single point interface for challan generation GSTN
- c. Ease of payment – payment can be made through online banking, Credit Card/Debit Card, NEFT/RTGS and through cheque/cash at the bank
- d. Common challan form with auto-population features
- e. Use of single challan and single payment instrument
- f. Common set of authorized banks
- g. Common Accounting Codes

14. BENEFITS OF GST

GST is expected to give a major relief to industry, trade, agriculture and consumers through a comprehensive and wider coverage of input tax set-off (both on goods and services), subsuming of multiple taxes and phasing out of CST. The significant benefits of GST are discussed hereunder:

14.1 For business and industry:

- **Easy compliance:** A robust and comprehensive IT system would be the foundation of the GST regime in India. Therefore, all tax payer services such as registrations, returns, payments, etc. would be available to the taxpayers online, which would make compliance easy and transparent.
- **Uniformity of tax rates and structures:** GST will ensure that indirect tax rates and structures are common across the country, thereby increasing certainty and ease of doing business. In other words, GST would make doing business in the country tax neutral, irrespective of the choice of place of doing business.
- **Removal of cascading:** A system of seamless tax credits throughout the value chain, and across boundaries of States, would ensure that there is minimal cascading of taxes. This would reduce hidden costs of doing business.
- **Improved competitiveness:** Reduction in transaction costs of doing business would eventually lead to an improved competitiveness for the trade and industry.
- **Gain to manufacturers and exporters:** The subsuming of major Central and State taxes in GST, complete and comprehensive setoff of input goods and services and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to

Indian exports. The uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cost.

14.2 For Central and State Governments:

- **Simple and easy to administer:** Multiple indirect taxes at the Central and State levels are being replaced by GST. Backed with a robust end to end IT system, GST would be simpler and easier to administer than all other indirect taxes of the Centre and State levied so far.
- **Better controls on leakage:** GST will result in better tax compliance due to a robust IT infrastructure. Due to the seamless transfer of input tax credit from one stage to another in the chain of value addition, there is an inbuilt mechanism in the design of GST that would incentivize tax compliance by traders.
- **Higher revenue efficiency:** GST is expected to decrease the cost of collection of tax revenues of the Government, and will therefore, lead to higher revenue efficiency.

14.3 For the consumer:

- **Single and transparent tax proportionate to the value of goods and services:** Due to multiple indirect taxes being levied by the Centre and State, with incomplete or no input tax credits available at progressive stages of value addition, the cost of most goods and services in the country today are laden with many hidden taxes. Under GST, there would be only one tax from the manufacturer to the consumer, leading to transparency of taxes paid to the final consumer.
- **Relief in overall tax burden:** Because of efficiency gains and prevention of leakages, the overall tax burden on most commodities will come down, which will benefit consumers.

15. CONCLUSION

The country is keenly looking for the roll-out of GST from April 2017, as the government focuses on creating one single tax & market for all in India. GST in India will make the country industry friendly by implementing one type of tax and that will attract more investments from foreign investors also.

Also, implementation of dual model of GST will result in generating more employment opportunities. Therefore, it is very important that the government makes efforts to make the GST applicable all over the country with clear law and industry friendly so that the industry, consumers and the economy benefits as a whole.

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