Goods and Service Tax (GST): An Overview

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Abstract: Value Added Tax (VAT) was implemented very successfully after its initiation. But there were certain shortcomings in it. Goods and Service Tax (GST) is a move towards removing such shortcomings of VAT at State as well as Central level. With implementation of GST in India, we will have ‘One Nation One Tax’. GST will turn India into one common market, leading to greater ease of doing business and big savings in logistics costs from companies across all sectors. Some companies will gain more as the GST rate will be lower than the current tax rates they pay, others will lose as the rate will be higher than the present effective rate.

Introduction

GST it stands for ‘Goods and Service Tax’. It is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. Its main objective is to consolidate all indirect tax levies into a single tax except customs (excluding SAD) replacing multiple tax levies, overcoming the limitations of existing indirect tax structure and creating efficiency in tax administration.

Goods and Service tax is a tax levied on goods and services, imposed at each point of sale or rendering service. Such GST could be on entire goods and services or there could be some exempted class of goods or services or negative list of goods and services on which GST is not levied. It is indirect tax in lieu of tax on goods (excise) and tax on service (service tax). It is like state level VAT which is levied as tax on sale of goods. GST will be national level value added tax applicable on goods and services.

GST is one indirect tax for the whole nation, which will make India one unified common market. GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. 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.

II: Objectives of the Study

The main object of the study is to understand various aspects of GST, its benefits, levy of GST on various types of goods and services.

1. Research Methodology

Secondary data are collected from various sources like articles, books and internet.

2. Observations

Benefits of GST
a. 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 set-off 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.

b. 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.

c. 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.

### Types of taxes at the Centre and State level are being subsumed into GST

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

- Central Excise Duty
- Additional Excise Duty
- Service Tax
- Additional Customs Duty commonly known as Countervailing Duty
- Special Additional Duty of Customs.

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

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

### Administration of GST

Keeping in mind the federal structure of India, there will be two components of GST – Central GST (CGST) and State GST (SGST). Both Centre and States will simultaneously levy GST across the value chain. Tax will be levied on every supply of goods and services. Centre would levy and collect Central Goods and Services Tax (CGST), and States would levy and collect the State Goods and Services Tax (SGST) on all transactions within a State. The input tax credit of CGST would be available for discharging the CGST liability on the output at each stage. Similarly, the credit of SGST paid on inputs would be allowed for paying the SGST on output. No cross utilization of credit would be permitted.

### Procedure of taxing under GST

The Central GST and the State GST would be levied simultaneously on every transaction of supply of goods and services except

- On exempted goods and services
- Goods which are outside the purview of GST and
- The transactions which are below the prescribed threshold limits.

Further, both would be levied on the same price or value unlike State VAT which is levied on the value of the goods inclusive of Central Excise.

### Procedure for Inter-State Transactions of Goods and Services be taxed under GST in terms of IGST method

In case of inter-State transactions, the Centre would levy and collect the Integrated Goods and Services Tax (IGST) on all inter-State supplies of goods and services under Article 269A (1) of the Constitution. The IGST would roughly be equal to CGST plus SGST. The IGST mechanism has been designed to ensure seamless flow of input tax credit from one state to another. The inter-state seller would pay
IGST on the sales of goods to the Central Government after adjusting credit of CGST and SGST on his purchases. The exporting state will transfer to the Centre, the credit of SGST used in payment of IGST. The importing state will claim credit of SGST while discharging his output tax liability (both CGST and SGST) in his own state. The centre will transfer to the importing state the credit of IGST used in payment of SGST. Since GST is a destination-based tax, all SGST on the final product will ordinarily accrue to the consuming state.

Usage of IT be for the implementation of GST

For the implementation of GST in the country, the Central and State Governments have jointly registered Goods and Services Tax Network (GSTN) as a not-for-profit, non-Government Company to provide shared IT infrastructure and services to Central and State Governments, tax payers and other stakeholders. The key objectives of GSTN are to provide a standard and uniform interface to the taxpayers, and shared infrastructure and services to Central and State/UT governments. GSTN is working on developing a state-of-the-art comprehensive IT infrastructure including the common GST portal providing frontend services of registration, returns and payments to all taxpayers, as well as the backend IT modules for certain States that include processing of returns, registrations, audits, assessments, appeals, etc. All States, accounting authorities, RBI and banks, are also preparing their IT infrastructure for the administration of GST. There would no manual filing of returns. All taxes can also be paid online. All mismatched returns would be auto-generated, and there would be no need for manual interventions. Most returns would be self-assessed.

The major features of the Constitution (122nd Amendment) Bill, 2014

The salient features of the Bill are as follows:

- Conferring simultaneous power upon Parliament and the State Legislatures to make laws governing goods and services tax
- Subsumming of various Central indirect taxes and levies such as Central Excise Duty, Additional Excise Duties, Service Tax, Additional Customs Duty commonly known as Countervailing Duty, and Special Additional Duty of Customs
- Subsumming of State Value Added Tax/Sales Tax, Entertainment Tax (other than the tax levied by the local bodies), Central Sales Tax (levied by the Centre and collected by the States), Octroi and Entry tax, Purchase Tax, Luxury tax, and Taxes on lottery, betting and gambling
- Dispensing with the concept of ‘declared goods of special importance’ under the Constitution
- Levy of Integrated Goods and Services Tax on inter-State transactions of goods and services
- GST to be levied on all goods and services, except alcoholic liquor for human consumption. Petroleum and petroleum products shall be subject to the levy of GST on a later date notified on the recommendation of the Goods and Services Tax Council
- Compensation to the States for loss of revenue arising on account of implementation of the Goods and Services Tax for a period of five years
- Creation of Goods and Services Tax Council to examine issues relating to goods and services tax and make recommendations to the Union and the States on parameters like rates, taxes, cesses and surcharges to be subsumed, exemption list and threshold limits, Model GST laws, etc.

The Council shall function under the Chairmanship of the Union Finance Minister and will have all the State Governments as Members.

The major features of the proposed registration procedures under GST

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

- Existing dealers: Existing VAT/Central excise/Service Tax payers will not have to apply afresh for registration under GST.
- New dealers: Single application to be filed online for registration under GST.
- The registration number will be PAN based and will serve the purpose for Centre and State.
- Unified application to both tax authorities.
- Each dealer to be given unique ID GSTIN.
- Deemed approval within three days.
- Post registration verification in risk based cases only.
The major features of the proposed returns filing procedures under GST

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

- Common return would serve the purpose of both Centre and State Government.
- 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.
- Small taxpayers: Small taxpayers who have opted composition scheme shall have to file return on quarterly basis.
- Filing of returns shall be completely online. All taxes can also be paid online.

The major features of the proposed payment procedures under GST

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

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

3. Conclusion

GST will eliminate multiple levies. It will also allow deeper penetration of digital services. Further companies could generate substantial savings in logistics and distribution costs as the need for multiple sales depots will be eliminated. GST will help create a single unified market across India and allow free movement and supply of goods in every part of the country. It will also eliminate the cascading effect of taxes on customers which will bring efficiency in product costs. DTH, film producers and multiplex players are levied service tax as well as entertainment tax. Due to all this and more, GST will bring major change and uniformity in businesses.

Reference

1. The Institute of Cost Accountant of India (2016), ‘An Insight of GST in India’.
5. www.finmin.nic.in/reports/modelgstlaw_draft.pdf