

## GST: A giant leap

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### Abstract

The Goods and Services Tax (GST), the biggest reform in India's indirect tax structure since the Indian economy began to be opened up 25 years ago, at last becomes a reality when parliament passed the GST bill. Once GST comes into effect, all central- and state-level taxes and levies on all goods and services will be subsumed within an integrated tax having two components: a central GST and a state GST. This will ensure a complete, comprehensive and continuous mechanism of tax credits. Under it, there will be tax only on value addition at each stage, with the producer/seller at every stage able to set off his taxes against the central/state GST paid on his purchases. The end-consumer will bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages. Under GST regime lot of underground transactions will come over ground and unlike pre-GST regime, where there were more taxes on fewer items, now there will be less taxes on more items, promoting more compliance and consequently bolstering economic growth.

**Keywords:** goods and services tax (GST)

### Introduction

#### What is GST?

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.

#### Historical background of GST

GST is being introduced in the country after a 13 year long journey since it was first discussed in the report of the Kelkar Task Force on indirect taxes. A brief chronology outlining the major milestones on the proposal for introduction of GST in India is as follows:

- a) In 2003, the Kelkar Task Force on indirect tax had suggested a comprehensive Goods and Services Tax (GST) based on VAT principle.
- b) A proposal to introduce a National level Goods and Services Tax (GST) by April 1, 2010 was first mooted in the Budget Speech for the financial year 2006-07.
- c) Since the proposal involved reform/ restructuring of not only indirect taxes levied by the Centre but also the States, the responsibility of preparing a Design and Road Map for the implementation of GST was assigned to the Empowered Committee of State Finance Ministers (EC).
- d) Based on inputs from Govt of India and States, the EC released its First Discussion Paper on Goods and Services Tax in India in November, 2009.
- e) In order to take the GST related work further, a Joint Working Group consisting of officers from Central as well as State Government was constituted in September, 2009.
- f) In order to amend the Constitution to enable introduction of GST, the Constitution (115th Amendment) Bill was introduced in the Lok Sabha in March 2011. As per the

prescribed procedure, the Bill was referred to the Standing Committee on Finance of the Parliament for examination and report.

- g) Meanwhile, in pursuance of the decision taken in a meeting between the Union Finance Minister and the Empowered Committee of State Finance Ministers on 8th November, 2012, a 'Committee on GST Design', consisting of the officials of the Government of India, State Governments and the Empowered Committee was constituted.
- h) This Committee did a detailed discussion on GST design including the Constitution (115th) Amendment Bill and submitted its report in January, 2013. Based on this Report, the EC recommended certain changes in the Constitution Amendment Bill in their meeting at Bhubaneswar in January 2013.
- i) The Empowered Committee in the Bhubaneswar meeting also decided to constitute three committees of officers to discuss and report on various aspects of GST as follows:-
  - (a) Committee on Place of Supply Rules and Revenue Neutral Rates;
  - (b) Committee on dual control, threshold and exemptions;
  - (c) Committee on IGST and GST on imports.
- j) The Parliamentary Standing Committee submitted its Report in August, 2013 to the Lok Sabha. The recommendations of the Empowered Committee and the recommendations of the Parliamentary Standing Committee were examined in the Ministry in consultation with the Legislative Department. Most of the recommendations made by the Empowered Committee and the Parliamentary Standing Committee were accepted and the draft Amendment Bill was suitably revised.
- k) The final draft Constitutional Amendment Bill incorporating the above stated changes were sent to the Empowered Committee for consideration in September 2013.
- l) The EC once again made certain recommendations on the Bill after its meeting in Shillong in November 2013.

Certain recommendations of the Empowered Committee were incorporated in the draft Constitution (115th Amendment) Bill. The revised draft was sent for consideration of the Empowered Committee in March, 2014.

- m) The 115th Constitutional (Amendment) Bill, 2011, for the introduction of GST introduced in the Lok Sabha in March 2011 lapsed with the dissolution of the 15th Lok Sabha.
- n) In June 2014, the draft Constitution Amendment Bill was sent to the Empowered Committee after approval of the new Government.
- o) Based on a broad consensus reached with the Empowered Committee on the contours of the Bill, the Cabinet on 17.12.2014 approved the proposal for introduction of a Bill in the Parliament for amending the Constitution of India to facilitate the introduction of Goods and Services Tax (GST) in the country. The Bill was introduced in the Lok Sabha on 19.12.2014, and was passed by the Lok Sabha on 06.05.2015. It was then referred to the Select Committee of Rajya Sabha, which submitted its report on 22.07.2015.

### Introduction of GST

Introduction of the Value Added Tax (VAT) at the Central and the State level has been considered to be a major step – an important step forward – in the sphere of indirect tax reforms in India. If the VAT is a major improvement over the pre-existing Central excise duty at the national level and the sales tax system at the State level, then the Goods and Services Tax (GST) will indeed be an additional important perfection – the next logical step – towards a widespread indirect tax reforms in the country. Initially, it was conceptualized that there would be a national level goods and services tax, however, with the release of First Discussion Paper by the Empowered Committee of the State Finance Ministers on 10.11.2009, it has been made clear that there would be a “Dual GST” in India, taxation power – both by the Centre and the State to levy the taxes on the Goods and Services. Almost 150 countries have introduced GST in some or another form. While countries such as Singapore and New Zealand tax virtually everything at a single rate, Indonesia has five positive rates, a zero rate and over 30 categories of exemptions. In China, GST applies only to goods and the provision of repairs, replacement and processing services. GST rates of some countries are for instance Australia, France, Canada, Germany, Japan, Singapore, Sweden, New Zealand Rate of GST are 10%, 19.6%, 5%, 19%, 5%, 7%, 25% and 15% respectively. Under the GST scheme, no distinction is being made between goods and services for the purpose of levying tax. In other words, 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 additions at each stage. Under the GST scheme, a person who was liable to pay tax on his 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.

### Objectives of GST

One of the main objectives of GST would be to eliminate the cascading impact of taxes on production and distribution cost of goods and services. The exclusion of cascading effects i.e.

tax on tax will significantly improve the competitiveness of original goods and services which leads to beneficial impact to the GDP growth. It is felt that the GST would serve a superior reason to achieve the objective of streamlining indirect tax regime in India which can remove cascading effects in supply chain till the level of final consumers only when all such above mentioned indirect taxes are completely included in GST. It is understood that alcohol, tobacco and petroleum products will not be enclosed by GST as alcohol and tobacco are considered as Sin Goods, and governments do not like to allow free trade on these property.

### Challenges

#### i) With respect to Tax Threshold

The threshold limit for turnover above which GST would be levied will be one area which would have to be strictly looked at. First of all, the threshold limit should not be so low to bother small scale traders and service providers. It also increases the allocation of government resources for such a petty amount of revenue which may be much more costly than the amount of revenue collected. The first impact of setting higher tax threshold would naturally lead to less revenue to the government as the margin of tax base shrinks; second it may have on such small and not so developed states which might have to set low threshold limit under current VAT regime.

#### ii) With respect to nature of taxes

The taxes that are generally included in GST would be excise duty, countervailing duty, cess, service tax, and state level VATs among others. Interestingly, there are numerous other states and union taxes that would be still out of GST.

#### iii) With respect to number of enactments of statutes

There will two types of GST laws, one at a centre level called ‘Central GST (CGST)’ and the other one at the state level - ‘State GST (SGST)’. As there seems to have different tax rates for goods and services at the Central Level and at the State Level, and further division based on necessary and other property based on the need, location, geography and resources of each state.

#### iv) With respect to Rates of taxation

It is true that a tax rate should be devised in accordance with the state’s necessity of funds.

Whenever states feel that they need to raise greater revenues to fund the increased expenditure, then, ideally, they should have power to decide how to increase the revenue.

#### v) With respect to tax management and Infrastructure

It depends on the states and the union how they are going to make GST a simple one. Success of any tax reform policy or managerial measures depends on the inherent simplifications of the system, which leads to the high conformity with the administrative measures and policies.

### Opportunities

#### i) An end to cascading effects

This will be the major contribution of GST for the business and commerce. At present, there are different state level and centre level indirect tax levies that are compulsory one after another on the supply chain till the time of its final utilization.

**ii) Growth of Revenue for States and Union**

It is expected that the introduction of GST will increase the tax base but lowers down the tax rates and also removes the multiple point. This, will lead to higher amount of revenue to both the states and the union.

**iii) Reduces transaction costs and unnecessary wastages**

If government works in an efficient mode, it may be also possible that a single registration and single compliance will suffice for both SGST and CGST provided government produces effective IT infrastructure and integration of such infrastructure of states level with the union.

**iv) Eliminates the multiplicity of taxation**

One of the great advantages that a taxpayer can expect from GST is elimination of multiplicity of taxation. The reduction in the number of taxation applicable in a chain of transaction will help to clean up the current mess that is brought by existing indirect tax laws.

**v) One Point Single Tax**

Another feature that GST must hold is it should be ‘one point single taxation’. This also gives a lot of comforts and confidence to business community that they would focus on business rather than worrying about other taxation that may crop at later stage. This will help the business community to decide their supply chain, pricing modalities and in the long run helps the consumers being goods competitive as price will no longer be the function of tax components but function of sheer business intelligence and innovation.

**vi) Reduces average tax burdens**

Under GST mechanism, the cost of tax that consumers have to bear will be certain, and GST would reduce the average tax burdens on the consumers.

**vii) Reduces the corruption**

It is one of the major problems that India is overwhelmed with. We cannot expect anything substantial unless there exists a political will to root it out. This will be a step towards corruption free Indian Revenue Service.

**Justification of GST**

The introduction of GST at the Central level will not only include comprehensively more indirect Central taxes and integrate goods and service taxes for the purpose of set-off relief, but may also lead to revenue gain for the Centre through widening of the dealer base by capturing value addition in the distributive trade and increased compliance. In the GST, both the cascading effects of CENVAT and service tax are removed with set-off, and a constant chain of set-off from the original producer’s point and service provider’s point up to the retailer’s level is established which reduces the burden of all cascading effects. This is the real meaning of GST, and this is why GST is not simply VAT plus service tax but an improvement over the previous system of VAT and disjointed service tax. Moreover, with the introduction of GST, burden of Central Sales Tax (CST) will also be removed. The GST at the State-level is, therefore, justified for-

- a) Additional power of levy of taxation of services for the States

- b) System of comprehensive set-off relief,
- c) Subsuming of several taxes in the GST
- d) Removal of burden of CST.

**Dual GST**

Dual GST means, the proposed model will have two part called

1. CGST – Central goods and service tax for levied by central Govt.
  2. SGST – State goods and service tax levied by state Govt.
- There would have multiple statute one CGST statute and SGST statute for every state.

**Salient features of the GST model**

Salient features of the proposed model are as follows:

- i) The GST shall have two components: one levied by the Centre (referred to as Central GST), and the other levied by the States (referred to as State GST). Rates for Central GST and State GST would be approved appropriately, reflecting revenue considerations and acceptability.
- ii) To the extent feasible, uniform procedure for collection of both Central GST and State GST would be prescribed in the respective legislation for Central GST and State GST.
- iii) The States are also of the view that Composition/Compounding Scheme for the purpose of GST should have an upper ceiling on gross annual turnover and a floor tax rate with respect to gross annual turnover.
- iv) The taxpayer would need to submit periodical returns, in common format as far as possible, to both the Central GST authority and to the concerned State GST authorities.
- v) Each taxpayer would be allotted a PAN-linked taxpayer identification number with a total of 14/15 digits. This would bring the GST PAN-linked system in line with the prevailing PAN-based system for Income tax, facilitating data exchange and taxpayer compliance.
- vi) The Central GST and the State GST would be applicable to all transactions of goods and services made for a consideration except the exempted goods and services.
- vii) The Central GST and State GST are to be paid to the accounts of the Centre and the States individually.
- viii) Since the Central GST and State GST are to be treated individually, taxes paid against the Central GST shall be allowed to be taken as input tax credit (ITC) for the Central GST and could be utilized only against the payment of Central GST.
- ix) Cross utilization of ITC between the Central GST and the State GST would not be permitted except in the case of inter-State supply of goods and services.
- x) Ideally, the problem related to credit accumulation on account of refund of GST should be avoided by both the Centre and the States except in the cases such as exports, purchase of capital goods, input tax at higher rate than output tax etc.

**Benefits of GST**

The benefits of GST can be summarized as under:

**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.

#### **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 in-built 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.

#### **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.

#### **Indirect taxes included under GST**

The following indirect taxes from state and central level is going to be integrated with GST

##### **State taxes**

1. VAT/Sales tax

2. Entertainment Tax (unless it is levied by local bodies)
3. Luxury tax
4. Taxes on lottery, betting and gambling.
5. State cesses and surcharges in so far as they relate to supply of goods and services.
6. Entry tax not on in lieu of octroi.
7. Purchase tax (This is not sure still under discussion)

##### **Central Taxes**

1. Central Excise Duty.
2. Additional Excise Duty.
3. The Excise Duty levied under the medical and Toiletries Preparation Act
4. Service Tax.
5. Additional Customs Duty, commonly known as countervailing Duty (CVD)
6. Special Additional duty of customs- (SAD)
7. Surcharges
8. Cesses

The above taxes are subsumed under GST; instead only CGST & SGST exists.

##### **Applicability of CGST and SGST**

The applicability of taxes is as usual there would be a prescribed limit of annual turnover, also some goods and services are exempted under GST. Threshold for annual turnover for goods and services would be 10 lakh for SGST and threshold of CGST for goods may be 1.5 crore and service would have a separate threshold that too will be appropriately high. It is assumed that aggregate total of CGST & SGST would be 20%.

##### **Impact of Goods and Service Tax**

###### **i) Food Industry**

The application of GST to food items will have a significant impact on those who are living under subsistence level. But at the same time, a complete exemption for food items would drastically shrink the tax base. Food includes grains and cereals, meat, fish and poultry, milk and dairy products, fruits and vegetables, candy and confectionary, snacks, prepared meals for home consumption, restaurant meals and beverages. Even if the food is within the scope of GST, such sales would largely remain exempt due to small business registration threshold. Given the exemption of food from CENVAT and 4% VAT on food item, the GST under a single rate would lead to a doubling of tax burden on food.

###### **ii) Housing and Construction Industry**

In India, construction and Housing sector need to be included in the GST tax base because construction sector is a significant contributor to the national economy.

###### **iii) FMCG Sector**

Despite of the economic slowdown, India's Fast Moving Consumer Goods (FMCG) has grown consistently during the past three – four years reaching to \$25 billion at retail sales in 2008. Implementation of proposed GST and opening of Foreign Direct Investment (F.D.I.) are expected to fuel the growth and raise industry's size to \$95 Billion by 2018/19.

###### **iv) Rail Sector**

There have been suggestions for including the rail sector under the GST umbrella to bring about significant tax gains

and widen the tax net so as to keep overall GST rate low. This will have the added benefit of ensuring that all inter – state transportation of goods can be tracked through the proposed Information technology (IT) network.

#### **v) Financial Services**

In most of the countries GST is not charged on the financial services. Example, In New Zealand most of the services covered except financial services as GST. Under the service tax, India has followed the approach of bringing virtually all financial services within the ambit of tax where consideration for them is in the form of an explicit fee. GST also include financial services on the above grounds only.

#### **vi) Information Technology enabled services**

To be in sync with the best International practices, domestic supply of software should also attract G.S.T. on the basis of mode of transaction. Hence if the software is transferred through electronic form, it should be considered as Intellectual Property and regarded as a service. And if the software is transmitted on media or any other tangible property, then it should be treated as goods and subject to G.S.T. 35 According to a FICCI – Techno pack Report. Implementation of GST will also help in uniform, simplified and single point Taxation and thereby reduced prices.

#### **Conclusion**

GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. GST is leviable on all supply of goods and provision of services as well combination thereof. All sectors of economy whether the industry, business including Govt. departments and service sector shall have to bear impact of GST. All sections of economy viz., big, medium, small scale units, intermediaries, importers, exporters, traders, professionals and consumers shall be directly affected by GST. One of the biggest taxation reforms in India -- the Goods and Service Tax (GST) -- is all set to integrate State economies and boost overall growth. GST will create a single, unified Indian market to make the economy stronger. Experts say that GST is likely to improve tax collections and Boost India's economic development by breaking tax barriers between States and integrating India through a uniform tax rate. Under GST, the taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions.

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