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RESEARCH METHODOLOGY
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GOODS AND SERVICE TAX (GST): A BRIEF INTRODUCTION

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ABSTRACT

In recent times, India has been abuzz with criticism on its archaic taxation structure and there is push for a simpler, flat tax structure that will potentially do away with the complicated policy. As the next level policy reform in indirect taxation, Goods and services tax (GST) has taken a centre stage in this respect and is hoped to iron out the wrinkles in the existing tax system. Tax policies play an important role on the economy through their impact on both efficiency & equity and its high time India braced itself for a relook at the current status. Historically, India has relied too much on indirect taxation because of political compulsions, an agrarian economy, low income levels and lack of infrastructure to track personal income. In order to simplify and rationalize indirect tax structures, government of India attempted various tax policy reforms at different points of time. While VAT was a welcome change during 2005, over the years, people have identified shortcomings in the structure while levying VAT both at Central level and State level. Also, CENVAT has the limitation of non-inclusion of several taxes such as VAT, ACD, surcharge etc. In the present state-level VAT scheme, there is a cascading effect on account of CENVAT element. Lastly, there is lack of integration of VAT on goods with tax on services at the state level and hence the cascading effect of service tax. To address such issues cited above, a comprehensive tax reform like GST, having an extensive base to kick-start the applicability of an efficient and harmonized consumption tax system has been introduced in the Indian tax system. The present research paper is an attempt to study concept of goods and service tax and its impact on Indian economy.

KEYWORDS

Indian taxation, goods and service tax, economy.

INTRODUCTION

GST is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level. GST is a part of proposed tax reforms in India having an extensive base that instigate the applicability of an efficient and harmonized consumption tax system**.** GST has been commonly accepted by world and more than 140 countries have acknowledged the same. Generally, the GST ranges between 15%- 20% in most of the countries. Goods and Services tax (GST) has been identified as one of most important tax reforms post-independence. It is a tax trigger, which will lead to business transformation for all major industries. Given the passage of the Constitution (101st) Amendment Bill, 2016 for GST in the Parliament on 8 August 2016, ratification of the said Bill by more than 15 states by early September followed by its enactment, and passage of four GST Bills in the Lok Sabha on 29 March 2017 and Rajya Sabha on 6 April 2017, with the clear road map being laid down by the Finance Ministry, the Government of India seems to be on course to implementing GST with effect from 1 July 2017. The GST Council consisting of representatives from the Centre as well as the states, after being constituted, met on twelve occasions to discuss various issues including dual control, GST laws, exemptions, thresholds, rate structure, compensation cess etc. and reached consensus on the same. Council has also recommended four-tier GST rate structure and the thresholds. The Bills introduced in the Lok Sabha, during the ongoing Budget session of the Parliament, include Central GST (CGST), Integrated GST (IGST), Union Territory GST (UTGST) and the Bill for Compensation to States. Discussion on the Bills commenced on 29 March 2017 and was passed on the same day after a long debate. According to media reports, the GST Bills, although introduced as Money Bills, shall be taken up for discussion in both houses of the Parliament before their passage in the current session. The Bills were earlier cleared by the GST Council, followed by a Union Cabinet approval. The revised draft of the Model GST law, which was released in the public domain in November 2016, has been split into CGST, SGST and UTGST Bills apart from IGST Bill. The draft of the Model GST Law underwent further changes before being introduced in the Parliament.

OBJECTIVES OF THE STUDY

1. To understand the concept of goods and service tax.
2. To learn about shortcomings of current taxation system in India.
3. To understand how GST will work in India.
4. To understand the benefits of GST over the current taxation system in India.

RESEARCH METHODOLOGY

The study focuses on extensive study of Secondary data collected from various books, National & international Journals, government reports, publications from various websites which focused on various aspects of Goods and Service tax.

WHAT IS GST?

GST is a comprehensive indirect tax on manufacture, sale and consumption of goods and services at national level. The GST is expected to replace all the indirect taxes in India. At the centre's level, GST will replace central excise duty, service duty and customs duties. At the state level GST will replace State VAT.

WHAT GST BRINGS WITH IT?

GST is a destination-based tax that will replace the current Central taxes and duties such as Excise Duty, Service Tax, Counter Vailing Duty (CVD), Special Additional Duty of Customs (SAD), central charges and cesses and local state taxes, i.e., Value Added Tax (VAT), Central Sales Tax (CST), Octroi, Entry Tax, Purchase Tax, Luxury Tax, Taxes on lottery, betting and gambling, state cesses and surcharges and Entertainment tax (other than the tax levied by the local bodies). It will be a dual levy with State/Union territory GST and Central GST. Moreover, inter–state supplies would attract an Integrated GST, which would be the sum total of CGST and SGST/UTGST. Petroleum products, i.e., petroleum crude, high speed diesel, motor spirit, aviation turbine fuel, natural gas will be brought under the ambit of GST from such date as may be notified by the Government on recommendation of the Council. Alcohol for human consumption has been kept outside the purview of GST.

RUN – UP TO GST

- The GST Bills have been passed by the Parliament.
- Subsequent to the passage of GST Bills in the Parliament, states will take up State GST Bills for clearance in the respective state legislative assemblies.
- The list of exemption, classification of goods and service, and machinery provisions including valuation and other rules are yet to be notified.
- As per the office order issued by the Central Board of Excise and Customs, the Government has set up ten working groups to iron out sectoral issues faced by trade and industry to ensure smooth transition to GST. Sectors include banking, telecom, IT and ITES, financial, textile, oil and gas, gems and jewellery, transport and logistics, and MSMEs.

Consensus between Central and state governments has been reached on four-tier rate structure as follows: A well-designed GST in India is expected to simplify and rationalize the current indirect tax regime, eliminate tax cascading and put the Indian economy on high-growth trajectory. The proposed GST levy may potentially impact both manufacturing and services sector for the entire value chain of operations, namely procurement, manufacturing, distribution, warehousing, sales, and pricing. It will also stimulate the need to relook at internal organization and IT systems. With its proposed implementation from 1 July 2017 gaining intensity, it is critical for companies, which have business operations in India to understand the broad contours and framework of the proposed GST law, likely impact of the new levy on their business and start taking appropriate steps to meet its requirement and be GST ready.

FIG. 1

JUSTIFICATION IN IMPLEMENTATION OF GST

Despite the success with VAT, there are still certain shortcoming in structure in the levy of VAT both at Central level and State level. The shortcoming in CENVAT of the Government of India lies in non-inclusion of several taxes in the overall framework of CENVAT such as VAT, ACD, Surcharge etc. Moreover, in the present State-level VAT scheme, CENVAT load on the goods remains included in the value of goods to be taxed under State VAT, and contributing to that extent a cascading effect on account of CENVAT element. Furthermore, any commodity, in general, is produced on the basis of physical inputs as well as services, and there should be integration of VAT on goods with tax on services at the State level as well, and at the same time there should also be removal of cascading effect of service tax. Further, by removing cascading effect, layers of taxes and simplifying structures, the GST would encourage compliance, which is also expected to widen the tax base. But virtually every media report that mentions the GST says that the tax reform has the potential to add up to 2 percent to India's GDP. If VAT is considered to be a major improvement over the pre-existing Central excise duty at the national level and the sales tax system at the State level, then GST will be a further significant breakthrough – the next logical step – towards a comprehensive indirect tax reform in the country.

TAXES TO BE SUBSUMED

GST would replace most indirect taxes currently in place such as:

TABLE 1

Central Taxes	State Taxes
• Central Excise Duty [including additional excise duties, excise duty under the Medicinal and Toilet Preparations (Excise Duties) Act, 1955] • Service tax • Additional Customs Duty (CVD) • Special Additional Duty of Customs (SAD) • Central Sales Tax (levied by the Centre and collected by the States) • Central surcharges and cesses (relating to supply of goods and services)	• Value Added Tax • Octroi and Entry Tax • Purchase Tax • Luxury Tax • Taxes on lottery, betting & gambling • State cesses and surcharges • Entertainment tax (other than the tax levied by the local bodies) • Central Sales Tax (levied by the Centre and collected by the States)

SALIENT FEATURES OF GST

The GST Framework could easily be one of the most important tax reforms to be tabled for discussion in the Parliament. It does bring with it some problems, like division of taxation power between Centre and State. So the GST has two components: - One levied by Centre (hereinafter referred to as **Central GST)** and the other levied by the States (hereinafter referred as **State GST)**. However, the basic features of law such as chargeability, definition of taxable event and taxable person, measure of levy including valuation provisions, basis of classification etc. will be uniform across these statutes as far as practicable. The GST would be levied in 3 different forms.

TABLE 2

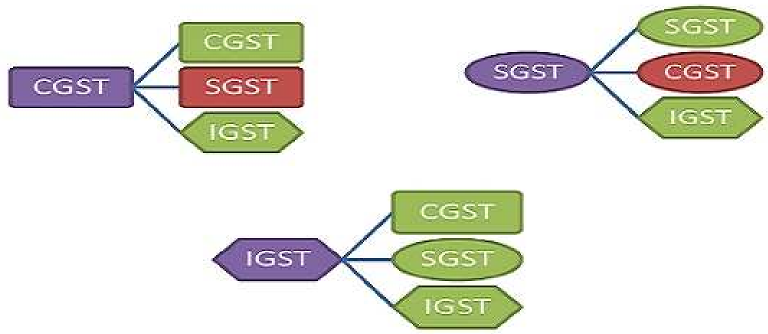
CGST	SGST
This is applicable in the case of **Inter-State** sale of goods and provision of service	In case of sale of goods **Intra-state** then tax will be charged as per this form.
Taxes/Duties Covered under CGST	**Taxes/Duties Covered under SGST**
Central Excise Duty	Entry tax (not Octroi)
Service Tax	Entertainment tax
CVD, SAD	VAT/Sales Tax
Excise duty on M&TP etc.	Luxury tax etc.

INTEGRATED GST (IGST)

- The scope of IGST Model is that centre would levy IGST which would be CGST plus SGST on all inter-state transactions of taxable goods and services with appropriate provision for consignment or stock transfer of goods and services.
- IGST will be combination of CGST and SGST and the same will be collected by the Centre in the Origin State.

TAX CREDIT MECHANISM

FIG. 2



Time bound refund of credit will be allowed in cases such as exports and inverted duty structure.

It is clear that **cross utilisation** of CGST and SGST is not allowed generally but the IGST mechanism will make this credit fungible.

Following example will give clear idea above utilisation of credit and costing under present system & GST.

Example

Assumption: - (1) Rate of Excise Duty – 8%; (2) VAT Rate – 12.5%; (3) Central GST Rate – 12%; (4) State GST Rate – 8%; (5) Profit Margin – Rs. 5,000/- fixed (6) All parties are located in one state.

TABLE 3

Particulars	**Under Present Scenario**		**Under GST**
(I) Manufacturer (D1) to Wholesaler (D2)			
Cost of Production	45000		45000
Input Tax Credit (Assuming nil)	–		–
Add : Profit Margin	5000		5000
Producers Basic Price	50000		50000
Add: Central Excise Duty @ 12%	6000		–
Add : Value Added Tax @ 12.5% on Rs. 56,000/-	7000		–
Add : Central GST @ 12%	–		6000
Add : State GST @ 8%	–		4000
Sale Price	63000		60000
(II) Wholesaler (D2) to Retailer (D3)			
Cost of Goods to D2	56000		50000
Available Input Tax Credit for set off	7000		10000
Add : Profit Margin	5000		5000
Total	61000		55000
Add : Value Added Tax @ 12.5%	7625		–
Add : Central GST @ 12%	–		6600
Add : State GST @ 8%	–		4400
Total Price to the Retailer	68625		66000
(III) Retailer (D3) to Final Consumer (C)			
Cost of Goods to D3	61000		55000
Input Tax Credit	7625		11000
Add : Profit Margin	5000		5000
Total 1,32,000 1,20,000	66000		60000
Add : Value Added Tax @ 12.5%	8250		–
Add : Central GST @ 12%	–		7200
Add : State GST @ 8%	–		4800
Total Price to the Consumer	74250		72000
Total Tax Payable in All Transactions	**14250**		**12000**
Verification:- VAT @12.5% [74,250 * 12.5 / 112.5] = 8250 + 6000 (CENVAT) = 14250 – D1 (6000 +7000) – D2 (7625 – 7000) – D3 (8250 – 7625)		 13,000 625 625	
Verification:- GST @20% [72000 *20 / 120] =12000 – D1 (6,000 + 4,000) – D2 (11,000 – 10,000) – D3 (12,000 – 11,000)		 10,000 1,000 1,000	

Cost Benefit - In the current Tax scenario credit of surcharge, VAT, ACD is not available which increases cost. With the introduction of GST credit of these taxes is available with cascading effect which will help in reduction in cost. From the above example is will clear that Tax Payable in GST is less than Current Situation.

Stock Transfer - Another important aspect is stock transfer. Because in GST, tax will be levied on the dispatch. Every dispatch will be taxable under GST, so at every stage i.e. factory, warehouse etc. registration is necessary.

Place of Supply - The main challenge in introducing GST is defining the place of supply in respect of certain services. In existing tax regime it is not a problem as Service Tax is chargeable by Centre only. But in GST place of supply has to be defined clearly to avoid dispute among states and in case of inter-state transaction.

Place of Taxation – Inter-State Transactions - An important question in the context of the Dual GST is whether these rules for international cross-border supplies can be adopted for domestic inter-state supplies also. It is recognized that the place where the supplier or the recipient is established cannot be defined uniquely at the sub-national level within a common market.

POSITIVE IMPACT ON INDIAN ECONOMY

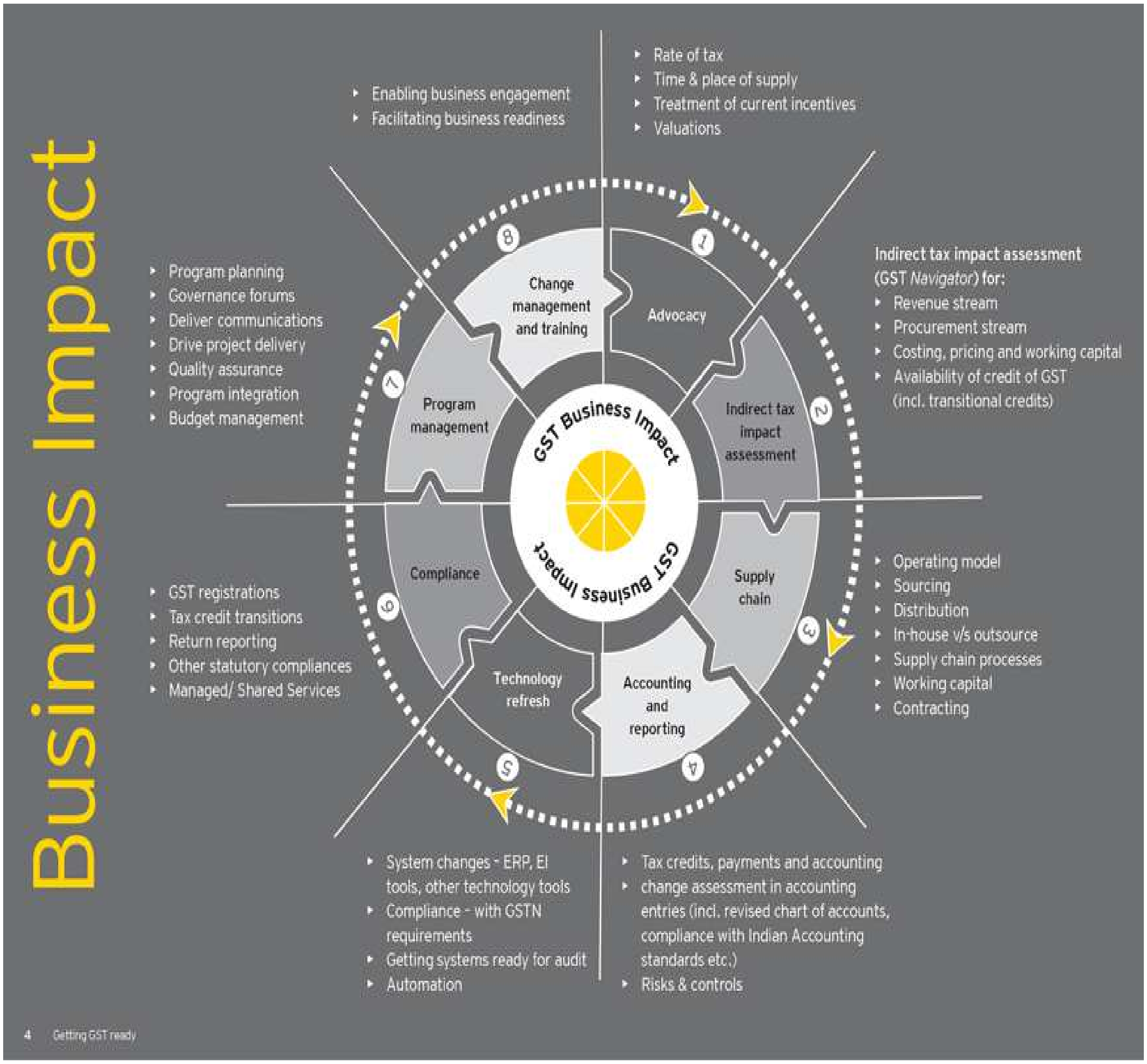
- Speeds up economic union of India
- Better compliance and revenue buoyancy. Replacing the cascading effect [tax on tax] created by existing indirect taxes. Tax incidence for consumers may fall. Lower transaction cost for final consumers
- Uniformity in tax regime with only one or two tax rates across the supply chain as against multiple tax structure as of present
- Increased tax collections due to wide coverage of goods and services
- Improvement in cost competitiveness of goods and services in the international market

DESTINATION PRINCIPLE

The GST structure would follow the destination principle. Accordingly, imports would be subject to GST, while exports would be zero-rated. In the case of inter-State transactions within India, the State tax would apply in the State of destination as opposed to that of origin.

BUSINESS IMPACT

FIG. 3



BENEFITS OF GST

GST has been envisaged as a more efficient tax system, neutral in its application and attractive in distribution. The advantages of GST are:

- Wider tax base, necessary for lowering the tax rates and eliminating classification disputes.
- Elimination of multiplicity of taxes and their cascading effects.
- Rationalization of tax structure and simplification of compliance procedures.
- Harmonization of centre and State tax administrations, which would reduce duplication and compliance costs.
- Automation of compliance procedures to reduce errors and increase efficiency.

CONCLUSION

In the light of the empirical conclusions developed in this paper, it seems appropriate to conclude by briefly noting the policy implications of the results. In the first place, the macroeconomic impact of a change to the introduction of the GST is significant in terms of growth effects, price effects, current account effects and the effect on the budget balance. Secondly, in a highly developed open economy with a high and growing service sector, a change in the tax mix from income to consumption-based taxes is likely to provide a fruitful source of revenue. Thirdly, the aggregate consumer price impact of the introduction of the GST in India on the macro-economy was both limited and temporary. The task of fiscal consolidation for this government will not be easy. There will be little scope to cut overall expenditure, as it has already been trimmed sharply in the last 2 years. The government must instead focus on switching expenditure from unproductive subsidies towards spending on sector such as health, education and infrastructure. The only way to reduce fiscal deficit, therefore, is to raise revenues as a share of GDP. To do so, the government must implement structural tax reforms such as GST, improve tax compliance and widen tax coverage.

In terms of growth, price, current account and budget balance, the macroeconomic impact of a change to the introduction of the GST will be significant. With a burgeoning services sector and a high economic growth trajectory that India is in today, a shift in income based tax to consumption based tax is going to provide substantial fillip to source of revenue. Of course, there will be a short lived limited price impact on the larger economy with introduction of GST. However, a larger impact is expected on the administrative compliance cost of GST which is likely to increase tax revenue from the “parallel” or “black” economy.

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Looking forward to an appropriate consideration.

With sincere regards

Thanking you profoundly

Academically yours

Sd/-
Co-ordinator

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