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Goods and Services Tax in India: A Single Taxation System

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GST stands for Goods and Services Tax. It is a kind of tax imposed on sale, manufacturing and usage of goods and services. Goods and Service Tax is applied on services and goods at a national level with a purpose of achieving overall economic growth. GST is particularly designed to replace the indirect taxes imposed on goods and services by the Centre and States.It is defined as the giant indirect tax structure designed to support and enhance the economic growth of a country.

Key words: GST stands for Goods and Services Tax, Value Added Tax,CGST- Central Goods and Services Tax, SGST- State Goods and Services Tax

Introduction

Goods and Services Tax can be defined as a kind of Value Added Tax imposed by on various goods and services by different countries. The tax charged on goods and services may differ from country to country. Goods and service tax is imposed to collect revenues for the government. This tax is paid by the consumers of goods and services and collected and forwarded to the government by the business entities.The GST shall have two components: one levied by the Centre (hereinafter referred to as Central GST), and the other levied by the States (hereinafter referred to as State GST). Rates for Central GST and State GST would be prescribed appropriately, reflecting revenue considerations and acceptability. This dual GST model would be implemented through multiple statutes (one for CGST and SGST statute for every State). Introduction of Goods and Services Tax (GST) is a significant step in the reform of indirect taxation in India. Amalgamating several Central and State taxes into a single tax would mitigate cascading or double taxation, facilitating a common national market. The simplicity of the tax should lead to easier administration and enforcement. From the consumer point of view, the biggest advantage would be in terms of a reduction in the overall tax burden on goods, which is currently estimated at 25%-30%, free movement of goods from one state to another without stopping at state borders for hours for payment of state tax or entry tax and reduction in paperwork to a large extent.GST is expected to be applicable from 1 July 2017.

Features of Goods and Services Tax

The main features of the Goods and Service tax in India:

1. GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer.

2. Credits of input taxes paid at each stage will be available in thesubsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage.

3. The final consumer will thus bear only the GST charged by the last dealer in the Supply chain with setoff benefits at all the previous stages.

4. 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, and
- Special Additional Duty of Customs.

5.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), CST
- Octroi and Entry tax,
- Purchase Tax,
- Luxury tax, and
- Taxes on lottery, betting and gambling.

6.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.

7.Cross utilization of credit of CGST between goods and services would be allowed. Similarly, the facility of cross utilization of credit will be available in case of SGST. However, the cross utilization of CGST and SGST would not be allowed except in the case of interstate supply of goods and services under the IGST model

8.In case of interstate transactions, the Centre would levy and collect the Integrated Goods and Services Tax (IGST) on all interstate 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 interstate seller would pay IGST on the sale of his goods to the Central Government after adjusting credit of IGST, CGST and SGST on his purchases (in that order). The exporting State will transfer to the Centre the credit of SGST used in payment of IGST. The importing dealer will claim credit of IGST 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.

9.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
- Common Accounting Codes

10. 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. In particular, there would be a compounding cut-off at Rs. 50 lakhs of gross annual turnover and a floor rate of 0.5% across the States. The scheme would also allow option for GST registration for dealers with turnover below the compounding cut-off.

11. Each taxpayer would be allotted a PAN-linked taxpayer identification number with a total of 13/15 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.

Impact of Goods and Services Tax

1. Reduces tax burden on producers and fosters growth through more production. The current taxation structure, pumped with myriad tax clauses, prevents manufacturers from producing to their optimum capacity and retards growth. GST will take care of this problem by providing tax credit to the manufacturers.

2. Different tax barriers, such as check posts and toll plazas, lead to wastage of unpreserved items being transported. This penalty transforms into major costs due to higher needs of buffer stock and warehousing costs. A single taxation system will eliminate this roadblock.

3. There will be more transparency in the system as the customers will know exactly how much taxes they are being charged and on what base.

4. GST will add to the government revenues by extending the tax base.

5. GST will provide credit for the taxes paid by producers in the goods or services chain. This is expected to encourage producers to buy raw material from different registered dealers and is hoped to bring in more vendors and suppliers under the purview of taxation.

6. GST will remove the custom duties applicable on exports. The nation's competitiveness in foreign markets will increase on account of lower costs of transaction.

Advantages of Goods and Services Tax

1. This is a federal law, which means that the states will no longer have the right to make new laws on taxation towards goods and services.

2. It simplifies the tax system and makes it easier to understand as well as cheaper to implement at various levels.

3. Tax evasion at various stages will be eliminated as tax offsets can be collected only if taxes have been paid originally. You will also be able to buy raw materials or constituent materials for production only from those who have paid taxes, in order to claim benefits.

4. It will be cheaper to buy input goods and services for production from other states.

5. The current supply and distribution chain may undergo a change with a change in taxation system that does away with excise and customs duties.

6. The consumer will get the end-product at cheaper rates because of elimination of multiple taxes and the tax cascade.

7. As of now, petroleum and petroleum products have been kept out of the GST regime until further notice.

8. Sale of newspapers and advertisements are also likely to fall under the GST regime, allowing the government to increase its revenue considerably.

9. While there will be central GST and state GST, the tax applicable on goods and services being exported and imported between states in India would fall under an Integrated GST (IGST) system in order to avoid conflict of dominion.

Disadvantages of Goods and Services Tax

1. GST is not good news for all sectors, though. In the current system, many products are exempted from taxation. The GST proposes to have minimal exemption list. Currently, higher taxes are levied on fewer items, but with GST, lower taxes will be levied on almost all items.

2. GST is not applicable on liquor for human consumption. So alcohol rates will not get any advantage of GST.

3. Stamp duty will not fall under the GST regime and will continue to be imposed by states.

Conclusion

The introduction of the Goods and Services Tax will be a very noteworthy step in the field of indirect tax reforms in India. By merging a large number of Central and State taxes into a single tax, GST is expected to significantly ease double taxation and make taxation overall easy for the industries. For the end customer, the most beneficial will be in terms of reduction in the overall tax burden on goods and services. Introduction of GST will also make Indian products competitive in the domestic and international markets. Last but not least, the GST, because of its transparent character, will be easier to administer. Once implemented, the proposed taxation system holds great promise in terms of sustaining growth for the Indian economy. Furthermore, the revolutionary tax regime will have acceptance that will vary from state to state. Overall, the new tax proposals under GST will have a mixed verdict. In essence, the GST's effect on the entire Indian economy will have to be scrutinized in totality to reach a widely accepted conclusion.

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