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Goods and Services Tax (GST)In India - A step towards simplifying Indirect Tax procedure

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Abstract: *India is a largest democratic country in the world. The federal structure of the country provides a relatively powerful government at the centre accompanied by 28 state governments. All of them require financial assistance to govern the country and the states. Indirect tax is one of the major sources of revenue. India has been experimenting with the tax structure since independence. After introduction of Value Added Tax (VAT) from 2005, the country is going to experiment with Goods and Services Tax (GST) from April 1, 2013. This paper puts an attempt to explore the pros and cons related to the issue of introduction of GST in India.*
Keywords*: Goods & Services, Tax.)*

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I. INTRODUCTION

Meaning "Goods and Service Tax is a comprehensive tax levy on manufacture, sale and consumption of goods and service at a national level.GST is a tax on goods and services with value addition at each stage having comprehensive and continuous chain of benefits from the producer's, service provider's point up to the retailer's level where only the final consumer should bear the tax."

The GST is basically an indirect tax that brings most of the taxes imposed on most goods and services, on manufacture, sale and consumption of goods and services, under a single domain at the national level. In the present system, taxes are levied separately on goods and services. The GST is a consolidated tax based on a uniform rate of tax fixed for both goods and services and it is payable at the final point of consumption. At each stage of sale or purchase in the supply chain, this tax is collected on value-added goods and services, through a tax credit mechanism.

HISTORY OF GST:

In the year 2000, Vajpayee Government started discussion on GST by setting up an empowered committee. The committee was headed by Asim Dasgupta, (Finance Minister, Government of West Bengal). It was given the task of designing the GST model and overseeing the IT back-end preparedness for its rollout. It 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, the new tax will be a further significant breakthrough and the next logical step towards a comprehensive indirect tax reform in the country keeping this overall objective in view, an announcement was made by Palaniappan Chidambaram, the Union Finance Minister, during the central budget of 2007–2008 that it would be introduced from April 1, 2010 and that the Empowered Committee of State Finance Ministers, on his request, would work with the Central Government to prepare a road map for introduction of GST in India.

After this announcement, the Empowered Committee of State Finance Ministers decided to set up a Joint Working Group on May 10, 2007, with the Adviser to the Union Finance Minister and the Member-Secretary of Empowered Committee as co-conveners and the concerned Joint Secretaries of the Department of Revenue of Union Finance Ministry and all Finance Secretaries of the states as its members. The Joint Working Group, after intensive internal discussions as well as interaction with experts and representatives of Chambers of Commerce and Industry, submitted its report to the Empowered Committee on November 19, 2007.

This report was then discussed in detail in the meeting of Empowered Committee on November 28, 2007. On the basis of this discussion and the written observations of the states, certain modifications were made, and a final version of the views of Empowered Committee at that stage was prepared and was sent to the Government of India (April 30, 2008). The comments of the Government of India were received on December 12, 2008 and were duly considered by the Empowered Committee (December 16, 2008).

Necessity and importance of GST

Introduction of a GST and replacement of existing multiple tax structures of Centre and State taxes is must and important in the emerging economic environment. Increasingly, services are used or consumed in production and distribution of goods and vice versa. Separate taxation of goods and services often requires splitting of transaction values into value of goods and services for taxation, which leads to greater complexities and compliances costs. Molding of various taxes into a GST system would make it possible to give full credit for inputs taxes collected. GST, being a destination-based consumption tax based on VAT principle, would also greatly help in removing economic constraints and will help in development of a common national market.

Tax-Rate under the proposed GST

" GST rates are typically between 16 per cent and 20 per cent over the world. In India, it is likely to be the same," CBEC Chairman Sumit D Majumdar said. The tax-rate under the proposed GST would come down, but the number of assesses would increase by 4-5 times. Although rates would come down, tax collection would go up due to increased number of assesses. The government is working on a special IT platform for smooth implementation of the proposed Goods and Services Tax (GST). The IT special purpose vehicle (SPV) christened as GST N (Network) will be owned by three stakeholders—the centre, the states and the technology partner NSDL, Central Board of Excise and Customs (CBEC) Chairman S. Dutt Majumder said while addressing a "National Conference on GST". On the possibility of rolling out GST, he said, "There was no need for alarm if GST was not rolled out in April 1, 2012

Forms or Types of GST
There are two forms of GST.
(i) Central Goods and Service Tax (CGST)
(ii) State Goods and Service Tax (SGST)

- The indirect taxes like Central Excise duty, Additional Excise duty, services tax and additional duty of customs (equivalent to excise), state VAT entertainment tax, taxes on lotteries, betting and gambling and entry tax (not levied by local bodies) would be considered within GST

Characteristics of GST
- It will be applicable to all transactions of goods and service.
- It is to be paid to the accounts of the Centre and the States separately.
- The rules for taking and utilization of credit for the Central GST and the State GST would be aligned.
- Cross utilization of ITC between the Central GST and the State GST would not be allowed except in the case of inter-State supply of goods.
- The Centre and the States would have concurrent jurisdiction for the entire value chain and for all taxpayers on the basis of thresholds for goods and services prescribed for the States and the Centre.
- The taxpayer would need to submit common format for periodical returns, to both the Central and to the concerned State GST authorities.
- Each taxpayer would be allotted a PAN-linked taxpayer identification number with a total of 13/15 digits.

Chargeability of Tax under GST
- It will be replacement of ED and other taxes.
- There will be two parallel Statutes – one at the Centre and other under the respective State GST Act – governing the tax liability of the same transaction.
- All the items of goods and services are proposed to be covered and exemptions will be granted to few selected items.
- After introduction of GST, all the traders will be paying both the types of taxes i.e. CGST and SGST.

ASSESSEE UNDER GST:
- It will cover all types of person carrying on business activities, i.e. manufacturer, job-worker, trader, importer, exporter, all types of service providers, etc.
- If a company is having four branches in four different states, all the four branches will be considered as TP under each jurisdiction of SGs.
- All the dealers/ business entities will have to pay both the types of taxes on all the transactions.
- A dealer must get registered under CGST as it will make him entitle to claim ITC of CGST thereby attracting buyers under B2B transactions.

Importers have to register under both CGST and SGST as well

Sub-summing of Existing Taxes

The sub-summation should result in free flow of tax credit in intra and inter-State levels so that unrelated taxes, levies and fees are not be subsumed under GST.

Sl.No	Sub summed under CGST	Subsumed under SGST
1	Central Excise Duty	VAT/Sales Tax
2	Additional Excise Duties	Entertainment tax (unless it is levied by the local bodies).
3	Excise Duty-Medicinal and Toiletries Preparation Act	Luxury Tax
4	Service Tax	Taxes on lottery, betting and gambling
5	Additional CVD	State Cesses and Surcharges (supply of goods and services)
6	Special Additional Duty of Customs - 4% (SAD)	Entry Tax not in lieu of Octroi
7	Surcharges	
8	Cesses	

Taxes that may or may not be subsumed

There are few other indirect taxes that may or may not be subsumed under the GST regime as there is no consensus among States and Centre & States –

- **Purchase tax**
- **Stamp Duty**
- **Vehicle Tax**
- **Electricity Duty**
- **Other Entry taxes and Octroi**

Rate of Tax

- There with be a two-rate structure –a lower rate for necessary items and items of basic importance and a standard rate for goods in general. There will also be a special rate for precious metals and a list of exempted items.
- For CGST relating to goods, the States considered that the Government of India might also have a two-rate structure, with conformity in the levels of rate with the SGST. For taxation of services, there may be a single rate for both CGST and SGST.
- It will be total of the rate as applicable under CGST & SGST.
- It is understood that the Government is considering pegging the revenue neutral rate of GST at a rate between 18% to 22%. This represents the aggregate of CGST and SGST payable on the transaction. However, it may be noted that at this stage, the Government is yet to indicate whether the revenue neutral rate of tax on goods and services would be the same.

What will be out of GST?

- Levies on petroleum products
- Levies on alcoholic products
- Taxes on lottery and betting
- Basic customs duty and safeguard duties on import of goods into India
- Entry taxes levied by municipalities or panchayats
- Entertainment and Luxury taxes
- Electricity duties/ taxes
- Stamp duties on immovable properties
- Taxes on vehicles

Exemption of Goods and Services

- Concept of providing threshold exemption of GST
- Scope of composition and compounding scheme under GST
- Items of GS to be exempt
- Treatment for goods exempt under one state and taxable under the other

GST on Export & Import

- GST on export would be zero rated
- Both CGST and SGST will be levied on import of goods and services into the country. The incidence of tax will follow the destination principle and the tax revenue in case of SGST will accrue to the State where the imported goods and services are consumed. Full and complete set-off will be available on the GST paid on import on goods and services.

Inter-State Transactions of Goods & Services

- The existing CST will be discontinued. Instead, a new statute known as IGST will come into place. It will empower the GC to levy and collect the tax on the inter-state transfer of the GS.
  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 The inter-State seller will pay IGST on value addition after adjusting available credit of IGST, 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 dealer will claim credit of IGST while discharging his output tax liability in his own State. The Centre will transfer to the importing State the credit of IGST used in payment of SGST. The relevant information will also be submitted to the Central Agency which will act as a clearing house mechanism, verify the claims and inform the respective governments to transfer the funds

Benefits of IGST Mode

a) Maintenance of uninterrupted ITC chain on inter-State transactions.
b) No upfront payment of tax or substantial blockage of funds for the inter-State seller or buyer.
c) No refund claim in exporting State, as ITC is used up while paying the tax.
- Self monitoring mode
- Level of computerization is limited to inter-State dealers and Central and State Governments should be able to computerize their processes expeditiously.

f) As all inter-State dealers will be e-registered and correspondence with them will be by e-mail, the compliance level will improve substantially.
g) Model can take 'Business to Business' as well as 'Business to Consumer' transactions into account.

Registration under GST

- Under GST registration, it is likely to be linked with the existing PAN.
- The new business identification number was likely to be the 10-digit alphanumeric PAN, in addition to two digits for state code and one or two check numbers for disallowing fake numbers. The total number of digits in the new number was likely to be 13-14.

Issues in the implementation of GST

Though the Government wants the GST Bill to be implemented by April 2016, there are certain bottlenecks which need to be taken care of before that:

- What kinds of preparations are needed at the level of Central and State Governments for implementing the GST?
- Whether the Government machinery is efficient enough for such mammoth change?
- Whether the tax-payers are ready for such a change?
- What will be the impact on the Government's revenue?
- How will the manufacturers, traders and ultimate consumers be affected?
- Will GST help the small entrepreneurs and small traders?
- Which type of administrative work will be involved in complying with the GST requirements?

II. CONCLUSION

- The taxation of goods and services in India has been characterized as a cascading and distortionary tax on production resulting in mis-allocation of resources and lower productivity and economic growth.
- It is well recognized that this problem can be effectively addressed by shifting the tax burden from production and trade to final consumption.
- A well designed destination-based value added tax on all goods and services is the most useful method of eliminating distortions and taxing consumption.
- Under this structure, all different stages of production and distribution can be interpreted as a tax pass-through, and the tax essentially 'sticks' on final consumption within the taxing jurisdiction.

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