

## Goods and Services Tax (GST) in India

\* Dr. Omprakash Sharma

Dean, Department of Management, Matoshri Pratishthan, School of management, Nanded-431602, Maharashtra-India.

### Abstract:

Goods and Service Tax or GST as it is known is all set to be a game changer for the Indian economy. The Finance Minister in his budget speech of Budget 2015 has announced time and again that the tax will be introduced on 1 April, 2016. The research paper starts with the existing issues faced by the industry under service tax laws and based on the available information in the public domain and the issues faced captures the issues which need to be addressed from a financial industry perspective for GST. Further the paper has analysed data collected from research articles and information for global practices for similar issues and data collected through interview and questionnaire from people in the field. Based on this analysis, the paper goes on to suggest changes or requirements that GST should address from a financial service industry perspective.

Keywords: GST, Global practices, financial services, Service tax etc.

### Introduction

#### What is GST?

'G' – Goods

'S' – Services

'T' – Tax

"Goods and Service Tax (GST) 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 set-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."

#### Need for GST

Introduction of a GST to replace the existing multiple tax structures of Centre and State taxes is not only desirable but imperative 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, administration and compliances costs. Integration 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 distortions and will help in development of a common national market.

#### Justification of GST

Despite the success of VAT, there are still certain shortcomings in the structure of VAT, both at the Centre and at the State level.

##### A. Justification at the Central Level

- i. At present excise duty paid on the raw material consumed is being allowed as input credit only. For other taxes and duties paid for post-manufacturing expenses, there is no mechanism for input credit under the Central Excise Duty Act.
- ii. Credit for service tax paid is being allowed manufacturer/ service provider to a limited extent. In order to give the credit of service tax paid in respect of services consumed, it is necessary that there should be a comprehensive system under which both the goods and services are covered.
- iii. At present, the service tax is levied on restricted items only. Many other large number of services could not be taxed. It is to reduce the effect of cascading of

taxes, which means levying tax on taxes.

#### **B. Justification at the State Level**

- i. A major defect under the State VAT is that the State is charging VAT on the excise duty paid to the Central Government, which goes against the principle of not levying tax on taxes.
- ii. In the present State level VAT scheme, Cenvat allowed on the goods remains included in the value of goods to be taxed which is a cascading effect on account of Cenvat element.
- iii. Many of the States are still continuing with various types of indirect taxes, such as luxury tax, entertainment tax, etc.
- iv. As tax is being levied on inter-state transfer of goods, there is no provision for taking input credit on CST leading to additional burden on the dealers.

#### **Model of GST**

- The dual GST model proposed by the Empowered Committee and accepted by the Centre will have dual system for imposing the tax. GST shall have two components i.e.
  - (i) Central GST
  - (ii) State GST
- 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 subsumed within GST.

#### **GST - Salient Features**

- It would be applicable to all transactions of goods and service.
- It 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.

#### **Taxable Event**

Following questions arises:

- At what point of time, the tax will be levied?
- Will TE covers both i.e. supply of goods and rendering of services?
- What will be the nature of TE?
- Will it not involve new language and terminology?
- What impact the change in TE can have?
- GST is proposed to be levied by both the CG and SGs. How will it be defined under CGST and SGST?

### **Taxable Person**

- 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.

### **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 will 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.

### **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.

#### **Advantages of IGST Mode**

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.
- d) Self monitoring mode
- e) 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.

#### **GST Invoice**

- In an invoice based VAT system, the issue of invoices in the proper form is an essential part of the procedure for imposing and enforcing the VAT.
- An invoice is also required by the tax authorities to audit the collection of

VAT.

- What is required is –
  - The law should require a supplier making a taxable supply to another taxable person to provide a VAT invoice with that supply or the payment for it.

The VAT invoice should be standardised across all states so as to contain a minimum of information about the supply being invoiced

#### **Latest updates on GST**

##### **Parliament panel might propose optional GST for states**

- The panel, to consider its draft report on the Constitution (115<sup>th</sup> Amendment) Bill on the GST, feel states should be given enough fiscal space if the success of Value Added Tax (VAT) is to be replicated.
- To address concerns of the states on revenue loss, the panel might recommend an automatic compensation mechanism, wherein a fund is created under the proposed GST Council. It also wants a study to evaluate the impact of GST on the revenue of states. It could suggest a floor rate with a narrow band, decision by voting and not consensus in the GST Council, omitting the provision on setting up a Dispute Settlement Authority, subsuming entry tax in GST and giving powers to states to levy tax in the event of a natural calamity, among other things.

##### **Latest updates on GST**

- The report of the standing committee could be adopted in its next meeting and the finance ministry, after incorporating the panel's views, would approach the cabinet to present the Bill in Parliament with the changes.

##### **Emerging Issues**

- What preparations are required at the level of CG and SG for implementing

GST?

- Whether the Government machinery is in place for such a mammoth change?
- Whether the tax-payers are ready for such a change?
- What impact it can have on the revenue of the government?
- How can the burden of tax, in general, fall under the GST?
- In what respect, it will affect the manufacturers, traders and ultimate consumers?
- How will GST benefit the small entrepreneurs and small traders?
- Which type of administrative work will be involved in complying with the GST requirements?

#### Conclusion

- The taxation of goods and services in India has, hitherto, been characterized as a cascading and distortionary tax on production resulting in mis-allocation of resources and lower productivity

and economic growth. It also inhibits voluntary compliance. 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 elegant method of eliminating distortions and taxing consumption. Under this structure, all different stages of production and distribution can be interpreted as a mere tax pass-through, and the tax essentially 'sticks' on final consumption within the taxing jurisdiction.

- A 'flawless' GST in the context of the federal structure which would optimize efficiency, equity and effectiveness. The 'flawless' GST is designed as a consumption type destination VAT based on invoice-credit method.

#### References

1. <http://www.idtc.icai.org/download/BGM-on-GST-march-15.pdf>
2. "Which of the existing taxes are proposed to be subsumed under GST? - GST India Forum". [gstindia.net](http://gstindia.net). Retrieved 2017-01-02.
3. "Power to levy GST - GST India Forum". [gstindia.net](http://gstindia.net). Retrieved 2017-01-02.
4. Nair, Remya (8 June 2015), Rajya Sabha panel to hear GST concerns on 16 June
5. "Finance minister Arun Jaitley may hike service tax to 16-18% in Budget", *The Times of India*, 30 January 2017
6. "GST may swallow all taxes but cess", *Business Standard*, 20 September 2016
7. "On Notes Ban, Firm Warning From West Bengal To Centre: GST Now At Risk", *NDTV*, 30 November 2016
8. "States on Board, GST Launch from April '16". [newindianexpress.com](http://newindianexpress.com).
9. "India inches closer to July rollout of tax reform as Lok Sabha passes four GST bills", *The Hindustan Times*, 29 November 2016
10. "GST draft makes it must for companies to pass tax benefit to consumers", *The Times of India*, 27 November 2016