

GOOD AND SERVICE TAX (GST) IN INDIA

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ABSTRACT

The Goods and Services Tax (GST) Act was passed in the Lok Sabha on 29th March 2017 and came into effect from 1st July 2017. Goods and Services Tax (GST) in India has replaced all indirect taxes in one tax and a common market for the entire nation will bring positive energy for the Indian economy with the increased value of tax revenue. The present research paper is an attempt to study the concept of Goods and Service Tax (GST) over the current taxation system in India and the historical scenario of the Indian taxation structure. And Discuss Dual GST Framework, GST council, advantage, and disadvantage of Goods and Services Tax (GST). Data has been collected from several secondary sources like research papers, books, journals, and websites.

Keywords: Goods and Services Tax (GST), Tax and Services, Economic Growth, Value Added Tax, Central Value Added Tax.

JEL classification: E62, H2, H71, O11, O12, E42, K34, M48, O20, O23.

INTRODUCTION

The major source of revenue for any nation is the tax, so for economic development of the nation, it is compulsory to have good taxation system. India started its journey towards tax system in the year 1980.ⁱ The Goods and Services Tax Bill or GST Bill, also referred to as The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014, initiates a Value added Tax to be implemented on a national level in India. GST will be an indirect tax at all the stages of production to bring about uniformity in the system.ⁱⁱ The Goods and Service Tax Act was passed in the Parliament on 29th March 2017. The Act came into effect on 1st July 2017; Goods & Services Tax Law in India is a comprehensive, multi-stage, destination-based tax that is levied on every value addition. GST also known as the Goods and Services Tax is defined as the giant indirect tax structure designed to support and enhance the economic growth of a country.ⁱⁱⁱ

OBJECTIVES OF THE STUDY

- To learn about the shortcomings of the current taxation system in India.
- To understand how GST will work in India
- To know the advantages and disadvantages of GST in the Indian context.

LITERATURE REVIEW

Ehtisham Ahmed and SatyaPoddar (2009) in their study on “Goods and Service Tax Reforms and Intergovernmental Consideration in India” found that GST introduction will provide simpler and transparent tax system with increase in output and productivity of economy in India. however the benefits of GST are depend on the rationally designed GST.

Vasanthagopal (2011) in his research paper “ GST in India: A Big Leap in the Indirect Taxation System” concludes that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy.

Pinki, SupriyaKamma and RichaVerma (2014) in their paper titled “Goods and Service Tax- Panacea For Indirect Tax System in India” concluded that the new government in India is positive towards implementation of GST and it is beneficial for central government , state government and as well as for consumers in long run if its implementation is backed by strong IT infrastructure.

Mohammad Ali (2016) in his paper titled “Awareness and Perception of Taxpayers towards Goods and Services Tax (GST) Implementation” the study attempts to find out what level of awareness and perception to GST taxpayers in Malaysia. This study only consists of 256 civil servants of the secondary school teachers in the area Kuala Kangsar, Perak. Data collected using questionnaires. The results showed that the level of awareness was moderate and the majority of respondents give a high negative perception to the impact of GST. This eventually causes the majority of respondents did not accept the implementation of GST in Malaysia.

K. R. Sakthi Devi (2017) conducted a study on “Awareness of Taxpayers Towards GST Implementation”. This study attempts to find out what level of awareness and Satisfaction to GST taxpayers. The sample consists of 150 taxpayers in Coimbatore District. Data collected using questionnaires. The results showed that the level of awareness was moderate and the majority of respondents give a high negative impact towards GST. This eventually causes the majority of respondents did not accept the implementation of GST.

Definition of GST

Article 366(12A) “Goods and services tax” means any tax on supply of goods, or services or both except taxes on the supply of the alcoholic liquor for human consumption^{iv}

METHODOLOGY

Since we have conducted explanatory research, the paper is based on secondary data including journals, newspapers, magazines, articles. And various websites of Indian Government like Finance Ministry (finmin.gov.in), GST Council (gstcouncil.gov.in), GST Council Archives (gstindia.com) Descriptive type research design has been adopted to provide more accuracy and better analysis of research study. The secondary data has been utilized for the research study.

THE INDIAN TAXATION SYSTEM - SCENARIO BEFORE GST^v

Journey of Indian indirect taxation and turning points, which reformed the taxation system till date before the introduction of GST taxation system in India.

- 1974: Report of LK Jha Committee suggested introduction of VAT system.
- 1986: Introduction of restricted VAT called “MODVAT”.
- 1991: Chelliah Committee report recommended “VAT/GST” and recommendations accepted by the Government.
- 1994: Service Tax introduction.
- 1999: Empowered Committee formation on State VAT.
- 2000: Introduction of Uniform Floor State Tax Rates and abolition of tax-related incentives granted by State Governments.
- 2003: Implementation of VAT system in Haryana.
- 2004: Strong progress towards introduction of CENVAT.
- 2005-06: Implementation of VAT based taxation system in 26+ states in India.
- 2007: First GST Stuff released by Mr. P. Shome in January; Finance Minister speech carries the introduction of GST in Budget; CST phase out starts in April 2007; joint working group created and reports submitted.
- 2008: EC rolls out the GST Structure of Taxation System in April 2008.
- 2009: Date proposed for Implementation as April 1, 2010.
- 2010: Department of Revenue commented on GST discussion paper and finance minister suggested probable GST rate.
- 2011: Team was created to lay down the road map for GST and 115th Constitutional Amendment Bill for GST was laid down by the Parliament.
- 2012: Negative list regime for service tax was implemented.
- 2013: Parliamentary Standing committee submitted its report on the Bill.
- 2014: 115th Amendment Bill lapsed and was reintroduced in 122nd Constitutional Amendment Bill.

Accordingly, same set of goods have been charged for Central Excise, VAT, Central Sales Tax, Entry Tax and Octroi at different points. Thus, such a tax structure escalated the cost. Also, the credit of Central Excise paid on manufacture of goods could not be claimed either against VAT or Service Tax.^{vi}

THE FOLLOWING GRAPHIC SUMMARIZES THE PREVIOUS INDIRECT TAX
STRUCTURE IN INDIA

Tax	Tax Law	Taxable Event	Tax Collection Authority
<ul style="list-style-type: none"> Customs Duty Central Excise Duty Central Sales Tax Service Tax VAT 	<ul style="list-style-type: none"> Customs Act 1962 Central Excise Act 1944 Central Sales Tax Act 1956 Finance Act 1994 Sales VAT Act 	<ul style="list-style-type: none"> Import/Export Manufacture /Production Inter State Sale Taxable Service Sales Within The State 	<ul style="list-style-type: none"> Central Govt. Central Govt. State Govt. Central Govt. State Govt.

Source: <https://quickbooks.intuit.com/in/resources/gst-center/gst-in-india/>

DUAL GST FRAMEWORK

Accordingly, a Dual GST Model was implemented that distributed powers to both Centre and the States to levy the tax concurrently. And, depending upon the nature of supply, components of GST are as follows^{vii}:

- ❖ Central GST (CGST)
- ❖ State GST (SGST)
- ❖ Union Territory GST (UTGST) and
- ❖ Integrated GST (IGST)

Central Goods and Services Tax (CGST)

Central Goods and Services Tax (CGST) is an indirect tax levied and collected by the Central Government on the intra-state supplies. Such supplies do not include alcoholic liquor for human consumption. This tax levy is governed by the Central Goods and Services Act, 2017. And such a tax is levied on the transaction value of the goods or services supplied as per section 15 of the CGST Act. The transaction value is the price actually paid or payable for the said supply of goods or services.^{viii}

State Goods and Services Tax (SGST)

Under GST, SGST is a tax levied on Intra State supplies of both goods and services by the State Government and will be governed by the SGST Act. As explained above, CGST will also be levied on the same Intra State supply but will be governed by the Central Government.^{ix}

Integrated State Goods and Services Tax (CGST)

IGST is an indirect tax levied and collected by the Central Government on the inter-state supply of goods or services. Such supplies do not include alcoholic liquor for human consumption. This tax levy is governed by the Integrated Goods and Services Tax Act, 2017. And the same is apportioned between Centre and State governments.^x

Union Territory Goods and Services Tax (UTGST)

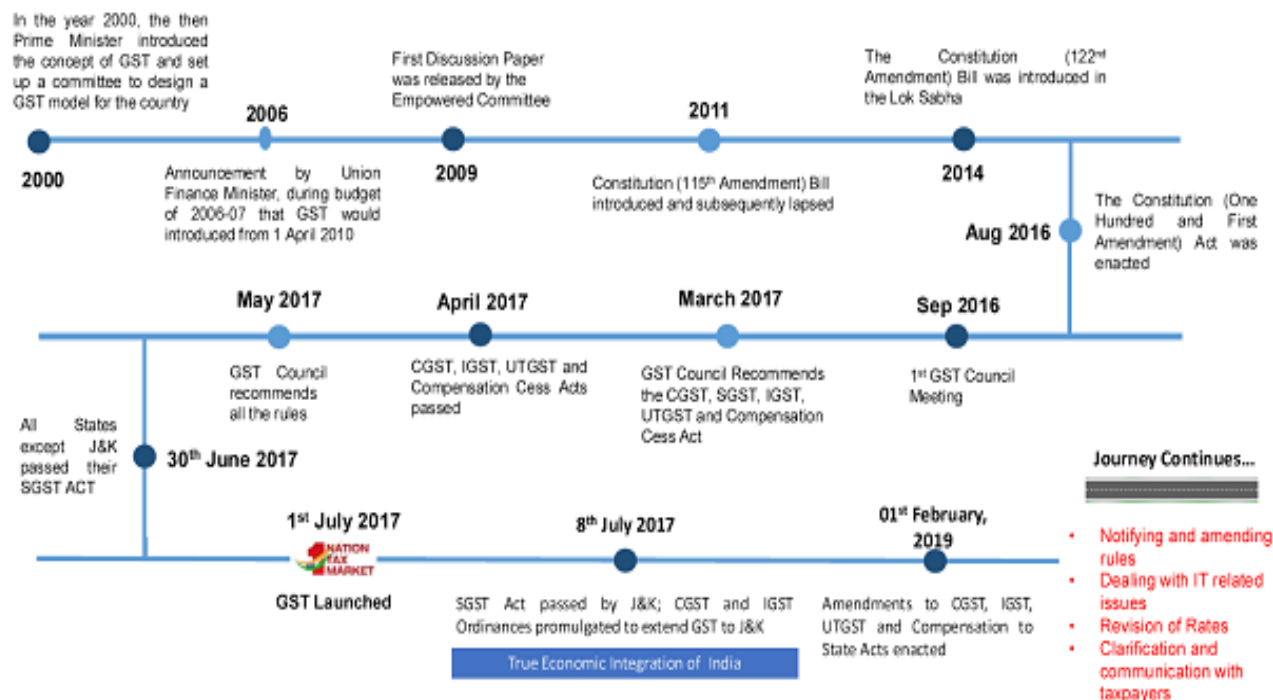
GST under supply of goods and services takes place in Union Territories like Andaman and Nicobar Islands, Chandigarh, Dadra and Nagar Haveli, Daman and Diu, Delhi (National Capital Territory of Delhi), Lakshadweep, Puducherry etc. is accounted under UTGST.^{xi}

GST COUNCIL

GST Council is the governing body of GST having 33 members, out of which 2 members are of centre and 31 members are from 29 state and 2 Union territories with legislation. The council contains the following members (a) Union Finance Minister (as chairperson) (b) Union Minister of States in charge of revenue or finance (as member) (c) the ministers of states in charge of finance or taxation or other ministers as nominated by each states government (as member). GST Council is an apex member committee to modify, reconcile or to procure any law or regulation based on the context of goods and services tax in India. The council is headed by the union finance minister Nirmala Sitharaman assisted with the finance minister of all the states of India. The GST council is responsible for any revision or enactment of rule or any rate changes of the goods and services in India.^{xii}

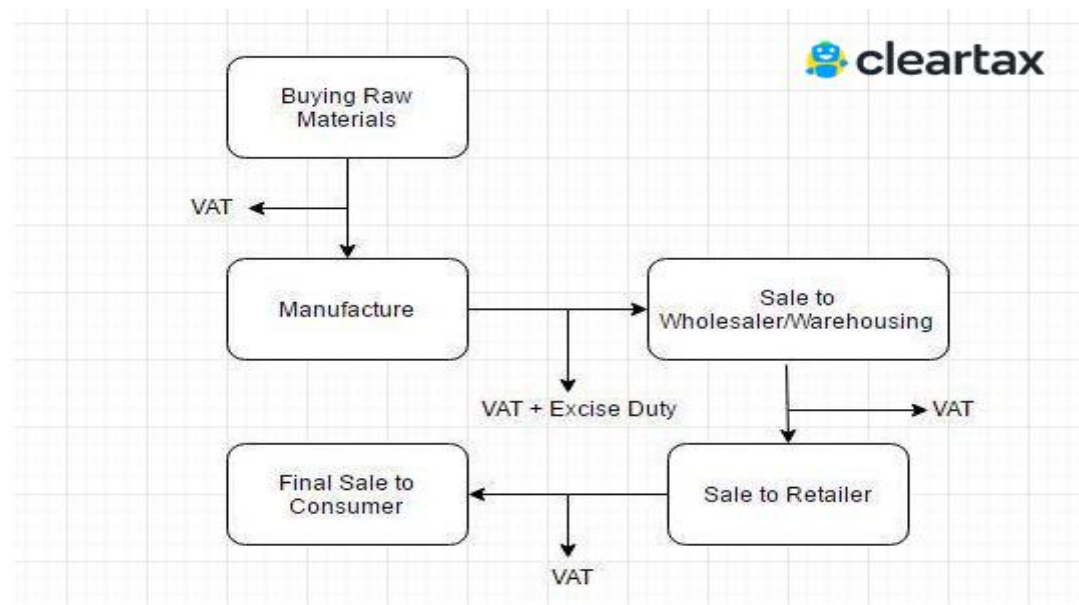
JOURNEY OF GST IN INDIA

The GST journey began in the year 2000 when a committee was set up to draft law. It took 17 years from then for the Law to evolve. In 2017 the GST Bill was passed in the Lok Sabha and Rajya Sabha. On 1st July 2017 the GST Law came into force.^{xiii}



Source: <https://taxguru.in/income-tax/gst-update.html>

GST IS ONE INDIRECT TAX FOR THE ENTIRE COUNTRY

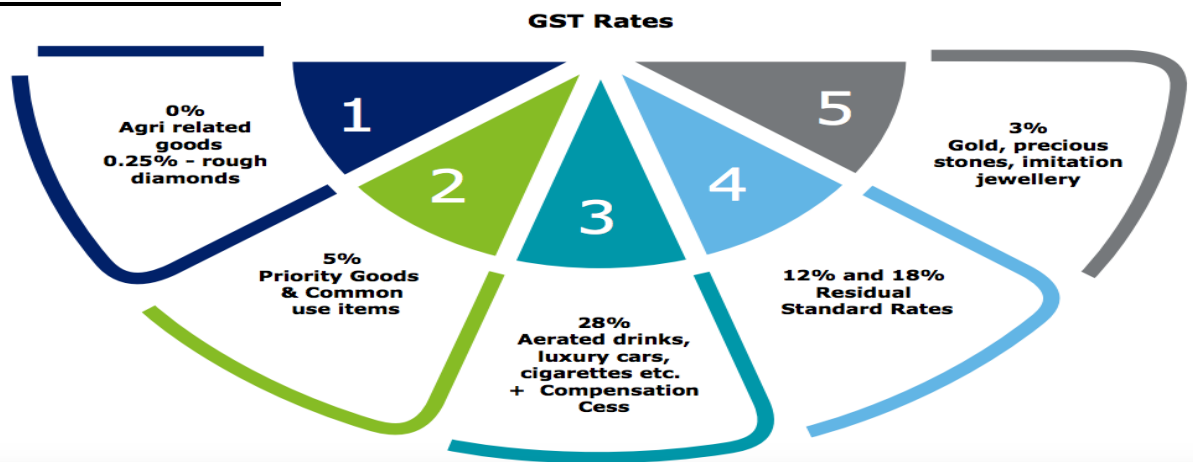


Source: <https://cleartax.in/s/gst-law-goods-and-services-tax>

Under the GST regime, the tax is levied at every point of sale. In the case of intra-state sales, Central GST and State GST are charged. Inter-state sales are chargeable to Integrated GST.

Now let us try to understand the definition of Goods and Service Tax – “GST is a comprehensive, multi-stage, destination-based tax that is levied on every value addition.”^{xiv}

GST RATES IN INDIA



Sources: <https://gst.caknowledge.com/gst-rate-india/>

GST Rates in India 2019, GST Rate Slabs 5%, 12%, 18% & 28%. The combined GST rate is being discussed by the Government.

Multi-Stage

A multi-stage tax is one that is charged at every stage of production. There are a number of stages raw materials go through to end up on supermarket shelves, let's have a look at each of these stages.

- Procurement/Purchase of Raw Materials
- Manufacture/Production
- Storage/Warehousing of the finished product
- Sale to a wholesaler/distributor
- Sale to a retailer
- Sale to that final consumer

At each of these stages, there is some value addition to the product; GST is levied at each instance of value addition. The below flow chart is designed to provide a clearer understanding of multi-stage taxation and value addition under the GST regime.^{xv}

Destination-based

A Destination-based tax implies that the tax will be charged to the recipient. Tax for goods manufactured in location A and sold in location B will be payable at location B as it is the destination.

Example: For goods manufactured in Uttar Pradesh and sold in Tamil Nadu the tax revenue will be collected by Tamil Nadu^{xvi}.

Value Addition

The manufacturer who makes biscuits buys flour, sugar and other material. The value of the inputs increases when the sugar and flour are mixed and baked into biscuits.

The manufacturer then sells the biscuits to the warehousing agent who packs large quantities of biscuits and labels it. That is another addition of value after which the warehouse sells it to the retailer.

The retailer packages the biscuits in smaller quantities and invests in the marketing of the biscuits thus increasing its value.

GST is levied on these value additions i.e. the monetary value added at each stage to achieve the final sale to the end customer.^{xvii}

WHO CAN COLLECT GST?

Person registered under the GST act can collect the GST and Registration under GST is compulsory except for few who are exempted from the GST.^{xviii}

WHO SHOULD REGISTER FOR GST?

- Individuals registered under the Pre-GST law (i.e., Excise, VAT, Service Tax etc.)
- Businesses with turnover above the threshold limit of Rs. 40 Lakhs* (Rs. 10 Lakhs for North-Eastern States, J&K, Himachal Pradesh and Uttarakhand)
- Casual taxable person / Non-Resident taxable person
- Agents of a supplier & Input service distributor
- Those paying tax under the reverse charge mechanism
- Person who supplies via e-commerce aggregator
- Every e-commerce aggregator
- Person supplying online information and database access or retrieval services from a place outside India to a person in India, other than a registered taxable person

*CBIC has notified the increase in threshold turnover from Rs 20 lakhs to Rs 40 lakhs. The notification will come into effect from 1st April 2019.^{xix}

ADVANTAGES OF GST

- ❖ GST is structured to simplify the current indirect system by removing multiple taxes. It creates India as a single market.
- ❖ It taxes goods and services at the same rates so many disputes are eliminated on a tax matter.
- ❖ GST will be levied only at the final destination of consumption based on VAT principle and not at various points (from manufacturing to retail outlets). This will help in removing economic distortions and bring about the development of a common national market.
- ❖ The procedural cost is reduced due to uniform accounting namely, CGST, SGST, IGST have to be maintained for all types of taxes.
- ❖ The reduced tax burden on companies will reduce production cost making exporters more competitive at the national and international levels.
- ❖ More business entities including unorganized will come under the tax system thus widening the tax base. This may lead to better and more tax revenue collections.
- ❖ Many businesses create depots and go downs in different states simply because there is a difference in tax rates. Now that GST will come, this difference between states will vanish. It would help to remove the tax difference as a bias, thereby helping businesses.

DISADVANTAGES OF GST^{xx}

- Compliance under GST is very high as there are three tax returns to be filed every month
- Challenging for smaller businesses to adapt to the online system under GST
- GST does not adhere to 'One Nation One Tax' paradigm. Currently, there are 31 legislations governing and regulating GST law
- Instead of single or dual rate GST system, there are 7 standard tax rates as well as multiple rates of CESS
- Hurried implementation of GST which has lead to confusion among professionals and businesses
- Increased cost for businesses as they either have to update current software or invest in new one.

GST IMPACT ON INDIA

- **(a) Increased FDI:** The flow of Foreign Direct Investments may increase once GST is implemented as the present complicated/ multiple tax laws are one of the reasons foreign Companies are wary of coming to India in addition to widespread corruption.
- **(b) Growth in overall revenue:** It is estimated that India could get revenue of \$15 billion per annum by implementing the Goods and Services Tax as it would promote exports, raise employment and boost growth. Over a period, the dilution of the principles may see that only part of this is accruing.
- **(c) Single point taxation:** Uniformity in tax laws will lead to single point taxation for supply of goods or services all over India. This increases the tax compliance and more assesses will come into tax net.
- **(d) Simplified tax laws:** This reduces litigation and waste of time of the judiciary and the assessee due to frivolous proceedings at various levels of adjudication and appellate authorities. Present law appears to be much worse and an amalgam of the bad parts of VAT/ ST/ CE. (**Raju Choudhary** 2019. <https://gst.caknowledge.com/impact-of-gst-in-indian-economy/>)

CONCLUSION

Though Change is often resisted and is not an easy transition it still is a necessary one. No doubt the new policy change of such a huge nature in the tax system will not be a piece of cake for many but the new unified and transparent system is expected to bring foreign investment and various other benefits in the future. It will make the Indian market more competitive than before and will increase the taxpayer base bringing the unorganized sector under its purview. Individually some industries/ or sectors will be benefitted while others can face losses, similar will be the case with individuals such as small traders who might.

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