GOODS AND SERVICE TAX: BIGGEST ECONOMIC REFORM IN INDIA

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Abstract: *GST is a multi stage, comprehensive, destination based tax that has been recently levied in our country replacing all the other existing indirect taxes. Under the GST regime, tax is levied at every point of sales. These are levied at both centre and state level. GST came into force in India on 1st July 2017. It is mainly technology driven as all the registration and other technical formalities need to be done online to speed up the process. It is expected to bring about a reform in the taxation environment of the country as it boasts of removing the flaws of the multi taxation system previously existing. It ensures transparency, efficiency in logistics, regulation of the unorganized sector, lesser compliances and simple procedures.*

Key Words: *GST, Indirect tax, taxation system, duty.*

1. INTRODUCTION TO GST:

Since Independence in 1947, India is developing at a faster rate as compared to other developing nations. There are different types of background that have contributed to this development. These backgrounds consist of cultural, social, political, legal, demographic, economic backgrounds. One of the best way to come in the list of highly dependent nations is to become economically strong. Right from the independence, India has come up with many economic reforms which have moulded the economic growth to a very high extent. These economic reforms include Industrial Policy, 1951, New Industrial Policy,1991, MRTP Act, EXIM Act, etc.

The recent, biggest and heavy economic reform in taxation system has been implemented on the midnight of 1st July 2017 under the name of Goods and Service Tax (GST). It signifies the fact of “One Nation, One Tax”. Though it’s a little complicated but is very simple in implementation. It is a little complicated, for the fact of its newest form of taxation which has abolished all the previous taxes, be it of any kind. So, to cover understanding of over more than 65 years, a person needs at least requires 65 days to be crystal clear with its conceptual framework. It is simple to implement, for the fact that in the whole nation, there is only one tax, which will be imposed on all kinds of stuffs, right from household items to luxurious items. All these stuffs have been classified into four slabs of a single tax. So, is it easy to remember about 500 taxes or only one tax. Obviously, only one tax.

2. BRIEF OVERVIEW OF GST

Goods and Service Tax (GST) is not a one-day change, but influence of a 13-year long planning. The proposal was first presented in report of Kelkar Tax Force on indirect taxes. It was in 2003 that Kelkar Tax Force on indirect tax suggested GST on VAT (Value Addition Tax). In Budget speech for financial year 2006-07, the proposal to introduce National GST by April 1, 2010, was first discussed. The Empowered Committee of State Finance Ministers was assigned the responsibility for preparing design and road map for implementation of GST.

Based on inputs from Government of India and States, Empowered Committee released its First Discussion Paper on GST in November 2007. The 115th Bill introduced in Lok Sabha in March 2011, referred to Standing Committee on Finance of Parliament for examination and report. It performed detailed discussion and submitted its report on January 2013. The Empowered Committee in Bhubaneshwar meeting decided to constitute 3 committees of officers to discuss and report on various aspects of GST:

- Committee on place of supply rules and revenue neutral rates
- Committee on dual control, threshold and exemptions
- Committee on IGST and GST on imports

Parliamentary Standing Committee submitted its report on August 2013 to Lok Sabha. The final draft of Constitutional Amendment Bill incorporating the changes were sent to the Empowered Committee for consideration

in September 2013. Empowered Committee again made recommendations after its meeting in Shillong in November 2013. A revised draft was sent for consideration of Empowered Committee in March 2014. The 115th Constitutional (Amendment) Bill, 2011 for introduction of GST lapsed after dissolution of 15th Lok Sabha.
Based on broad consensus reached with Empowered Committee on contours of Bill. The Cabinet on 17th December 2014 approved proposal for introduction of Bill in Parliament for amending Constitution of India to facilitate introduction of GST in country. The Bill was introduced in Lok Sabha on 19 December 2014, passed on 6 May 2015 referred to select committee of Rajya Sabha which submitted its report on 22 July 2015.
After a lot of revisions, the GST was introduced on the midnight of 1st July 2017.

3. HOW IS GST DIFFERENT FROM OLD TAXATION SYSTEM?

From independence, many economic reforms introduced much complicated taxation system. Initially, the taxation system had direct taxes and indirect taxes. Both these were further classified into n number of taxes levied both by Central and Sales Government.

Direct taxes refer to taxes imposed upon a person or property. It may be used in economic and political analysis, but in individuality, it doesn't have any legal implications. It is directly paid to the government. Examples of direct taxes include income tax, gift tax, wealth tax, property tax, etc. Indirect taxes refer to taxes imposed on goods and services resulting in their higher prices. Examples of indirect taxes include service tax, central excise and customs duty and value-added tax.

Some of the taxes imposed by Government of India are:

- **Income Tax**
  Every person whose total income exceeds taxable limit has to pay income tax based on prevailing rates applicable from time to time.

- **Capital Gain Tax**
  Capital gain is the difference between the money received from selling the asset and price paid for it. The tax imposed on this profit is called capital gain tax. Here, asset includes property, shares, bonds and precious materials, etc. Rate at which this tax is applied, varies based on investment class.

- **Securities Transaction Tax**
  Some people avoid paying capital gain tax. To fight with this situation, Government has introduced Securities Transaction Tax which is imposed on every transaction done at stock exchange. This tax is added to the price of security during the transaction itself, hence it is impossible to avoid it.

- **Perquisite Tax**
  Perquisite tax is the tax imposed on benefit given by employer to employee. These include the fringe benefits provided by the company to its employee.

- **Corporate Tax**
  Corporate tax is the annual tax payable on the income of a corporate operating in India.

- **Sales Tax**
  Sales tax charged on the sales of movable goods. Inter-state sales tax is charged by Union Government, while Intra-states tax, often referred as VAT, is charged by State Government. Sales tax payable on inter-state sales is fixed at 2%, while intra-states tax is different in different states.

- **Service Tax**
  When a person is enjoying paid services, he/she has to pay an additional service tax on those services. These paid services include telephone, tour operator, architect, interior decorator, advertising, beauty parlour, health centre, banking and financial services, event management, maintenance service, consultancy service. Service tax before GST was fixed at 14.5%.

- **Value added Tax**
  Value added tax is a form of sales tax imposed by State Government. It is additional to the price of goods and passed on to customers. More than 200 items are covered with VAT. It is usually different in different States.

- **Customs duty and Octroi**
  Customs duty is tax imposed on goods imported to India. It is payable at the port of entry (like airport). It varies based on nature of items. Octroi is tax imposed on goods entering into municipality for use, consumption or sale.

- **Excise Duty**
  Excise duty, often referred to as CENVAT (Central Value Added Tax), is tax imposed on goods produced within the country.

- **Anti-dumping Duty**
  Dumping occurs when the goods are exported by a country to another country at a price lower than its normal value. Being an illegal practice, Government impose an anti-dumping duty not exceeding the margin of dumping in relation to such goods.

- **Professional Tax**
  Professional tax is, like income tax, imposed by the respective Municipal Corporations on every employee working in private organizations. This tax is deducted every month.

- **Dividend Distribution Tax**
  Dividend distribution tax is imposed by Government o companies according to the dividend paid to company's investors. The tax rate before GST was 15%.

- **Municipal Tax**
  Municipal corporation in every city imposed tax in terms of property tax. This tax rate varies in every city.

- **Entertainment Tax**
  Entertainment tax is imposed by the State Government on every financial transaction related to entertainment sector such as movie tickets, major commercial shows exhibition, broadcasting services, DTH service and cable service.

- **Stamp duty, Registration fees, Transfer Tax**
  The taxes imposed on the handing over of the title of property ownership by one person to another are stamp duty, registration fees and transfer tax. Its amount varies from property to property based on cost.

- **Education cess, surcharge**
  Education cess is a tax deducted for use on Education of poor people in India. It is mainly applicable on income tax, excise duty and service tax. Its rate before GST was fixed at 3% of the total tax payable. On the other hand, surcharge is an extra tax or fees added to the existing tax calculation.

- **Gift Tax**
  If a person receives gift from another person and if its value is more than Rs. 50,000 in a year then it is clubbed with income of the receiver and he/she needs to pay tax on it. This tax is called gift tax.

- **Toll Tax**
  At some places, one need to pay tax in order to use infrastructure build from the money given to the Government as tax. This tax is very small in amount and is referred to toll tax.

- **Entry Tax**
  The entry tax is imposed by Gujarat, Madhya Pradesh, Assam, Delhi and Uttarakhand state government. It is imposed on all items entering in state boundaries ordered via E-commerce. Its rate before GST varied from 5.5-10%

Goods and Services Tax, introduced on midnight of 1st July 2017, is a great reform in taxation system. It is one of the most comprehensive tax in which there is multi-stage taxation, being a destination-based tax. It is levied on every value addition, thus a multi-stage tax.

GST, being an indirect tax, has subsumed many indirect taxes prevailing previously. These taxes include central excise duty, service tax, countervailing duty, value added tax, central sales tax, octroi, entertainment tax, entry tax, purchase tax, luxury tax, advertisement tax, lotteries tax, State surcharges and cess.

Earlier, taxation system was much complicated and included system of cascading taxes. Let's understand the earlier form of taxation system with the following example.

Suppose a manufacturer of shirts pays Rs. 100 to buy raw materials. If the rate of taxes is fixed at 10%, and there is no profit or loss involved, then he has to pay Rs. 10 as tax. Now, the final cost of the shirt is increased as Rs (100+10=) 110. At the next stage, the wholesaler buys the shirt from the manufacturer at Rs. 110, and further, adds labels to it. He is adding value by adding labels. Therefore, he increases cost by say Rs. 40. Now, he has to pay a 10% tax, and the final cost therefore becomes Rs. (110+40=) 150 + 10% tax = Rs. 165. Next stage of the retailer, he pays Rs. 165 to buy the shirt from the wholesaler because the tax liability had passed on to him. He, also, adds value by packaging the shirt. Let's say he adds value of Rs. 30. Now while selling the shirt, he adds this value (plus the VAT which has to be paid to the government) to the final cost. So, the cost of the shirt becomes Rs. 214.5 Let us see a breakup for this:

Cost = Rs. 165 + Value add = Rs. 30 + 10% tax = Rs. 195 + Rs. 19.5 = Rs. 214.5

So, the customer pays Rs. 214.5 for a shirt whose basic price was only Rs. 170 (Rs 110 + Rs. 40 + Rs. 30). Along the way the tax liability was passed on at every stage of transaction and the final liability comes to rest with the customer. This is called the Cascading Effect of Taxes where a tax is paid on tax and the value of the item keeps increasing every time this happens.

After implementation of GST, this example would convert to following:

When the wholesaler buys the shirt from the manufacturer, he needs to pay a 10% tax on his cost price because of the liability passed on to him. Then he adds value of Rs. 40 on his cost price of Rs. 100 and now the cost becomes Rs. 140. Now he has to pay 10% of this price to the government as tax. But he has already paid one tax to the manufacturer. So, this time what he does is, instead of paying Rs (10% of 140= 14) to the government as tax, he subtracts the amount he has paid already. So, he deducts the Rs. 10 he paid on his purchase from his new liability of Rs. 14, and pays only Rs. 4 to the government. So, the Rs. 10 becomes his input credit. When he pays Rs. 4 to the government, he passes on its liability to the retailer. So, the retailer pays Rs. (140+14= 154) to him to buy the shirt. At the next stage, the retailer adds value of Rs. 30 to his cost price and has to pay a 10% tax on it to the government. When he adds value, his price becomes Rs. 170. Now, if he had to pay 10% tax on it, he would pass on the liability to the customer. But he already has input credit because he has paid Rs.14 to the wholesaler as the latter's tax. So, now he reduces Rs. 14 from his tax liability of Rs. (10% of 170=) 17 and has to pay only Rs. 3 to the government. And therefore, he can now sell the shirt for Rs. (140+30+17) 187 to the customer.

Thus, GST is having a two-pronged benefit. One, it is going to reduce the cascading effect of taxes, and second, by allowing input tax credit, it will be able to reduce the burden of taxes and, hopefully, prices.

4. IMPLEMENTATION OF GST

GST is only one indirect tax that will be imposed in the whole nation, making India a common unified market. It is levied on the supply of goods and services, right from manufacturer to consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages.

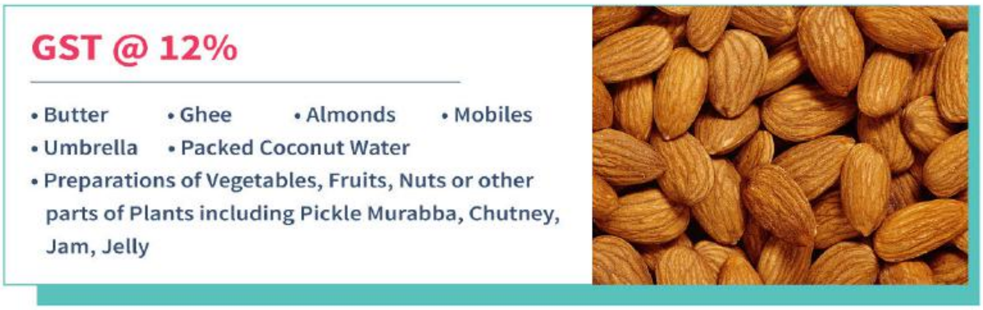
There are three prime models of GST:

- GST at Central (Union) Government level only (CGST)
- GST at State Government level only (SGST)
- GST at both Central and State Governments (IGST)

Keeping these models in mind, India has opted for "dual-GST" that is same tax levied at both Central and State Government level. As per the proposed GST regime, the input of Central GST can be utilized only for payment of CGST and the input of State GST can be utilized only for the payment of SGST and vice-a-versa, will not be allowed.

There are basically 5 slabs: 0%, 5%, 12%, 18%, 28%.

Under 0% GST, products and services that fall include milk, eggs, curd, lassi, unpacked foodgrains, unpacked paneer, gur, unbranded natural honey, fresh vegetables, salt, kajal, education services, health services, children's drawing and colouring books, unbranded atta, unbranded maida, besan, prasad, Palmyra jaggery, phool bhari jhaado.



Ref: https://cleartax.in/s/gst-rates/

Under 5% GST, products and services that fall include sugar, tea, packed paneer, edible oils, domestic LPG, PDS kerosene, cashewnuts, milk food for babies, fabric, spices, coal, life-saving drugs, raisin, roasted coffee beans, skimmed milk powder, footwear (<Rs.500), apparels(<Rs.1000), coir mats, matting, floor covering, agarbatti, Indian sweets, coffee (except instant).

Under 12% GST, products and services that are included are butter, ghee, almonds, computer, fruit juice, packed coconut water, processed food, mobiles, umbrella, preparations of vegetables, fruits, nuts or other parts of plants including pickle, murabba, chutney, jam, jelly.

Under 18% GST, products and services include hair oil, toothpaste, soap, pasta, cornflakes, soups, printers, capital goods, industry intermediaries, ice cream, toiletries, computers.

Under 28% GST, products and services include small cars (+1% or 3% cess), consumer durables such as AC and fridges, high-end motorcycles (+15% cess), luxury and sin items like BMW, cigarettes and aerated drinks (+15% cess).

5. BENEFITS OF GST

Goods and Services Tax have its significant pros. It is due to GST that Indian products have become competitive in both domestic and international markets. Moreover, being transparent reform in taxation system, it is easy to administer any loopholes.

5.1 BENEFITS FOR BUSINESS AND INDUSTRY

- GST has easy compliance for business and industry sector. There is easy online access to registration, returns and payments.
- GST has uniformity of tax rates and structures. There are basically 4 slabs on which all products and services are categorised.
- GST has abolished the system of cascading taxes due to which there is no hidden cost.
- Due to GST, tendency and nature of competitiveness has become fair.
- GST has a lot of benefits for manufacturers and exporters.

5.2 BENEFITS FOR CENTRAL AND STATE GOVERNMENTS

- GST is simple and easy to administer because it has minimized the scope of any loopholes present.
- GST has higher revenue efficiency because of abolishment of cascading taxes at different levels from suppliers to customers.
- Since there is only one tax in the whole country, Government can set higher control on any leakages.

5.3 BENEFITS FOR CONSUMERS

- GST is simple and transparent tax.
- Due to a single taxation system, GST has brought a relief in overall tax burden on customer.

6. LONG-TERM IMPACT OF GST:

The idea behind having one consolidated indirect tax, under GST, to subsume multiple currently existing indirect taxes is to benefit the Indian economy in a number of ways:

- It will help the country's businesses gain a level playing field
- It will put us on par with foreign nations who have a more structured tax system
- It will also translate into gains for the end consumer who not have to pay cascading taxes any more
- There will now be a single tax on goods and services

In addition to the above,

- The Goods and Services Tax Law aims at streamlining the indirect taxation regime. As mentioned above, GST will subsume all indirect taxes levied on goods and service, including State and Central level taxes. The GST mechanism is an advancement on the VAT system, the idea being that a unified GST Law will create a seamless nationwide market.
- It is also expected that Goods and Services Tax will improve the collection of taxes as well as boost the development of Indian economy by removing the indirect tax barriers between states and integrating the country through a uniform tax rate.

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