



Goods and services tax: An indirect tax

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Abstract

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. More than 150 countries have implemented GST so far. India's biggest tax reform since Independence Goods and Services Tax (GST) was launched at a special session in Parliament's Central Hall at the stroke of midnight. The GST Council at its 14th meeting finalized four tax rates of 5, 12, 18, and 28 % for services, including telecom, insurance, hotels and restaurants, under the new regime set to kick in from July 1. Goods and Services Tax Law in India is a comprehensive, multi-stage, destination-based tax that will be levied on every value addition. This paper highlights that the GST is a very significant step in the field of Indirect tax reforms in India. GST will reduce the existing complexity of taxes as it subsumes VAT, excise duty, service tax and sales tax. GST is an indirect tax levied on the supply of goods and services. GST Law has replaced many indirect tax laws that previously existing in India. GST will be an indirect tax at all the stages of production to bring about uniformity in the system. The classification of goods under different tax slabs of GST are by and large fitted in the correct basket and it is expected that goods will be cheaper under GST. However, on the other side several items will pinch the common man.

Keywords: goods and services tax, GST in India, indirect tax

Introduction

GST is a comprehensive indirect tax levied on manufacture, sale and consumption of goods and service. It is a tax on value addition. It will reduce the existing complexity of taxes as it subsumes VAT, excise duty, service tax and sales tax and paving the way to transparent indirect tax. Goods and Services Tax (GST) is an indirect tax which was introduced in India on 1st July and was applicable throughout India which replaced multiple cascading taxes levied by the central and state governments. It was introduced as The Constitution (one hundred and first amendment) Act 2017, following the passage of Constitution 122nd Amendment Act Bill. The GST is governed by a GST Council and its Chairman is the Finance Minister of India. GST implementation is a milestone in Indian tax system. It transforms the country into one unified common market.

The Goods and Services Tax is a vast concept that simplifies the giant tax structure by enhancing the economic growth of a country. GST is a comprehensive tax levy on manufacturing, sale and consumption of goods and services at a national level ^[1]. This paper highlights the advantages of GST, GST Council and GST Rates.

GST – Goods and Services Tax

GST is an indirect tax system which replaces taxes like service tax, excise duty, VAT, turnover tax, etc. Goods and Services Tax popularly known as GST. GST brings about uniformity in the system. On bringing GST into practice, there would be amalgamation of Central and State taxes into a single tax payment. It would also enhance the position of India in both, domestic as well as international market. At the

consumer level, GST would reduce the overall tax burden, which is currently estimated at 25 – 30 %. Under the GST, the consumer pays the final tax but an efficient input tax credit system ensures that there is no cascading of taxes – tax on tax paid on inputs that go into manufacture of goods ^[2].

Following taxes / duties are to be subsumed in GST

A. From Central Government -

1. Central excise duty.
2. Duties of excise (medicinal and toilet preparations).
3. Additional duties of customs (CVD).
4. Special additional duty.

B. From State Government -

1. State VAT.
2. Purchase tax.
3. Luxury tax.
4. Entry tax.
5. Entertainment tax.
6. Taxes on lotteries, betting and gambling.
7. Taxes on advertisements.

Dr. R. Vasanthagopal (2011) studied that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian Economy. Success of GST will lead to its acceptance by more than 130 countries in world and a new preferred form of indirect tax system in Asia also ^[3].

Pinki, Supriya Kamna and Richa Verma (July 2014) studied and concluded that the new NDA 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 [4].

Advantages of GST

1. Growth of revenue in States and Union –It is expected that the introduction of GST will increase the tax base but lowers down the tax rates and also revenues the multiple point. This, will lead to higher amount of revenue to both the states and the union.
2. Reduces the corruption – It is one of the major problems that India is overwhelmed with. We cannot expect anything substantial unless there exists a political will to root it out. This will be a step towards corruption free Indian.
3. Broader base – Under pre GST tax regime due to different thresholds, numerous exemptions and concessions, the number of persons covered under tax was very less in comparison to international standards. It is expected that GST regime will broaden the tax base in the country.
4. Increase in employment – It is expected that GST will give boost to manufacturing sector in the country due to less compliance cost, less logistic cost etc. This will ultimately lead to more employment in the country.
5. Get rid of distortions of the existing system of multiple taxation.
6. Reduce the tax burden for consumers.
7. GST will result in a simple, transparent and easy tax structure; merging all levies on goods and services into one GST.
8. A uniform GST system would make India a single market instead of a group of different states with different local and state level taxes.
9. GST will bring uniformity and reduce the cascading effect of these taxes by giving input tax credit.

GST Council

It is set up by president under article 279 – A. It is chaired by Union Finance Minister. It will constitute union minister of state in charge of revenue and minister in charge of finance or taxation or any other field nominated by state governments. The 2/3rd representatives in council are from states and 1/3rd from union. The decision of council is made by 3/4th majority of the votes cast and quorum of council is 50 %. GST Council may also work as Dispute Settlement Authority for GST. It will make recommendations on taxes, surcharge, cess of central and states which will be integrated in GST, goods and services which may be exempted from GST, interstate commerce – IGST – proportion of distribution between state and center, GST floor rates [5].

The GST Council at its 14th meeting finalized four tax rates of 5, 12, 18 and 28 % for services, including telecom, insurance, hotels under the new regime set to kick in from July 1. With this rates for all items except a handful, including gold and precious metals, footwear and branded items, have been decided ahead of the July 1 rollout of the GST regime. Finance Minister Arun Jaitley said that we made sure that consumers don't have to pay more. The net effect of goods and services is not going to be inflationary because once the system of input credits starts, the actual incidence is going to be positively impacted. The GST Council has decided to set

up a committee consisting of officers from both the centre and states under the chairmanship of the Revenue Secretary to examine issues related to exports. The Council has also decided to constitute a Group of Ministers to monitor and resolve the IT challenges faced during GST implementation.

GST rates

The Council decided to reduce the tax rate on 178 of current 228 items from 28 % to 18%, with effect from November 15, 2017. The GST Council on November 10, 2017 sharply reduce to just 50 the number of items in the highest tax rate of 28 %. At its 23rd meeting in Guwahati, chaired by Union Finance Minister Arun Jaitley, the Council also staggered the return filing process.

GST Rate on mass consumption items cut to 18 % bracket –

1. Mostly demerit, sin and luxury goods (consumption of which is discouraged) will figure in the 28 % bracket.
2. Chewing gum, chocolates, preparation for facial make-up, shaving and after – shave items, shampoo, deodorants, washing powder, granite and marble to be charged 18 % GST.
3. Paints and cements have been retained in the 28 % tax bracket along with washing machines and air – conditioners.
4. All restaurants, both air – conditioned and non – AC, to be charged 5 % GST. All restaurants will be taxed at 5 %, except those in hotels with a tariff of Rupees 7500 or more, which will be taxed at 18 % with ITC [6].

The council also provided relief to businesses by easing requirements for return filing as well as lowering the penalty for late filing. Now, businesses will have to file simplified Initial GSTR-3B returns till March. The Council decided to give a simplified GSTR-3B form to those businesses which have nil – tax liability or have no transactions to file in invoice. As many as 40% of the businesses filing returns on GST Network portal have nil tax.

Conclusion

GST is a tax on goods and services with comprehensive and continuous chain of set – off benefits from the producer's point and service provider's point up to the retailer level. It is essentially a tax only on value addition at each stage, and a supplier at each stage is permitted to set – off, through a tax credit mechanism, the GST paid on the purchase of goods and services as available for set – off on the GST to be paid on the supply of goods and services. 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. GST would subsume all indirect taxes at the centre and the state level.

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