

## GST- A BIGGEST TAX REFORM IN INDIA

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GST- Goods and services tax is the tax which suits perfect for twenty-first century. World has taken a step ahead towards GST long ago. India shifted into GST on 1-7-2017. GST simplified a slew of indirect taxes with a unified tax and is therefore expected to dramatically reshape the country's 2 trillion dollar economy.<sup>1</sup>

### Weaknesses in the previous system of indirect taxes:

- Earlier, the tax system was a pack of confusion, litigation and double taxation in a number of cases.
- Cascading effect was a major cause of concern. It was because of CST and Entry Tax.
- The serious matter was involvement of corruption.
- Every state had its own State VAT laws and that too with different provisions, procedures and criterias. However, it was a difficult task for the taxable people who is doing business in two or more states and found it quiet tough to work.
- For every movement of goods, from one state to another, Central Sales Tax (CST) was payable at the rate of 2% , and Input Service Credit i.e. set off of input taxes was not accessible every time.
- In India, movement of goods is taxable from one state to another.
- The system got vague as the difference between goods and services was not defined; it was due to overlapping of Central Service Tax and State VAT.
- Example: Food rated services, IPR related services, lottery, renting of goods, etc.

### GST is a solution to the above mentioned drawbacks:

<sup>1</sup> ["Film theatres in Tamil Nadu to begin indefinite strike against GST".](#) *The Hindu*. 2 July 2017. Retrieved 3 July 2017.

GST came into effect on 1-7-2017 and is a solution to the drawbacks in the scenario of Indirect taxes.

To have a better taxation system, aim was to have common national market and to avoid cascading effect of taxes.

The reform process of India's indirect tax regime was started in 1986 by Vishwanath Pratap Singh, Finance Minister in Rajiv Gandhi's government, with the introduction of the Modified Value Added Tax (MODVAT). Subsequently, Prime Minister P V Narasimha Rao and his Finance Minister Manmohan Singh, initiated early discussions on a Value Added Tax (VAT) at the state level.<sup>2</sup> A single common "Goods and Services Tax (GST)" was proposed and given a go-ahead in 1999 during a meeting between the Prime Minister Atal Bihari Vajpayee and his economic advisory panel, which included three former RBI governors IG Patel, Bimal Jalan and C Rangarajan. Vajpayee set up a committee headed by the Finance Minister of West Bengal, Asim Dasgupta to design a GST model.<sup>3</sup>

In year 2004, Kelkar Committee introduced the idea of National GST. It was on the recommendation by Dr. Vijay Kelkar. In the year 2006, that is, on 28-2-2006, our, the then <sup>4</sup>Finance Minister, P. Chidambaram made first announcement for the introduction of GST in the budget speech. The proposal was to introduce nationwide GST w.e.f 1-4-2010. Because of the political difference, GST did not come into effect and thus the target date could not be accomplished.

After the Constitution (one hundred and first amendment) bill, 2014 related to GST was passed by the Indian Parliament and also ratified by various states as required. Assent of the President was received on 8<sup>th</sup> day of 2016.

### Meaning of Goods and Services Tax

Goods and services tax is a tax on supply of either goods or services or both. It excludes taxes on supply of alcoholic liquor for human consumption. Supply covers stock transfers, branch

<sup>2</sup> ["Looking back at GST's journey: How an idea is now near reality", \*Indian Express\*, 31 March 2017](#)

<sup>3</sup> ["GST: A 17-year-old dream, 17 phases towards creating history", \*India Today\*, 29 June 2017](#)

transfers and not sale. GST is based on a scheme that it will be operational in India on supply of either goods or services or both. It is further classified for the purpose of supply within the state or Union Territory –CGST, SGST & IGST.

- **CGST:** Collected by the Central Government on an intra-state sale (Eg: Within Maharashtra)
- **SGST:** Collected by the State Government on an intra-state sale (Eg: Within Maharashtra)
- **IGST:** Collected by the Central Government for inter-state sale (Eg: Maharashtra to Tamil Nadu)<sup>5</sup>

In most cases, the tax structure under the new regime will be as follows:

Transaction	New Regime	Old Regime	
Sale within the State	CGST + SGST	VAT + Central Excise/Service tax	Revenue will be shared equally between the Centre and the State
Sale to another State	IGST	Central Sales Tax + Excise/Service Tax	There will only be one type of tax (central) in case of inter-state sales. The Center will then share the IGST revenue based on the destination of goods. <sup>6</sup>

#### Illustration:

- Let us assume that a dealer in Gujrat had sold the goods to a dealer in Punjab worth Rs. 50,000. The GST rate is 18% comprising of only IGST.

In such case, the dealer has to charge Rs. 9,000 as IGST. This IGST revenue will go to the Central Government.

<sup>5</sup> <https://cleartax.in/s/gst-law-goods-and-services-tax>

<sup>6</sup> <https://cleartax.in/s/gst-law-goods-and-services-tax>

- The same dealer sells goods to a consumer in Gujrat worth Rs. 50,000. The GST rate on the good is 12%. This rate comprises of CGST at 6% and SGST at 6%.

The dealer has to collect Rs. 6,000 as Goods and Service Tax. Rs. 3,000 will go to the Central Government and Rs. 3,000 will go to the Gujarat government as the sale is within the state.<sup>7</sup>

There will be elimination of distinction between goods and services and it will contribute in elimination of problem of dual taxation. Such problem has been faced by construction industry, food related services.

- GST's motive is to avoid cascading effect of taxes. The concept of GST is based on VAT concept of input tax credit.
- GST can be better understood as consumption based tax
- GST rates are –  
Nil,5%,12%,18% and 28%.  
Exceptional – 0.25%, 3%
- It avoided dual control system as the state government authorities or central government authorities exercise their own control.
- The determination of policies of GST will be done by GST Council which is Apex constitutional body.

### **Dual GST for supply of goods and services within state**

The system of dual GST has been introduced.

[Section 246A – (1) Notwithstanding anything contained in article 246 and 254, Parliament and subject to clause (2), the legislature of every state, have power to make laws with respect to goods and services tax imposed by the union or by such state.

(2) Parliament has exclusive power to make laws with respect to goods and services tax where the supply of goods or of services or both takes place in the course of inter-state trade or commerce.

<sup>7</sup> <https://cleartax.in/s/gst-law-goods-and-services-tax>

Explanation- the provisions of this article, shall in respect of goods and service tax referred to in clause (5) of article 279A, take effect from the date recommended by the goods and services tax council.]<sup>8</sup>

Both CGST and SGST are imposed on the supply of goods and services within the state.

### **Central Excise duty on tobacco and other goods**

Duties of excise on tobacco and other goods manufactured or produced in India except-

- a) Alcoholic liquors for human consumption ,
- b) Opium, Indian hemp and other narcotic drugs and narcotics,  
But including medicinal and toilet preparations containing alcohol or any substance included in sub paragraph (b) of this entity.<sup>9</sup>

Tobacco products are subjected to both Excise duty as well as GST.

### **Abolition of other taxes and duties**

Service tax, Central Excise duty (excluding petroleum products) etc- all will be under CGST and SGST.

State VAT, Central sales tax, entry tax, luxury tax, betting and gambling etc will be under SGST and also CGST.

Basic custom duty on imports will be in continuance and also stamp duties and motor vehicle taxes.

### **Characteristics of the GST regime**

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<sup>8</sup> As amended by the Constitution (one hundred and first amendment) Act, 2016. Article 246A inserted w.e.f 16-9-2016.

<sup>9</sup> Entity 84 of List I (Union list) of Seventh Schedule of Constitution of India as amended w.e.f 16-9-2016

The GST system is characterized by the following features:

- GST is applicable on the “supply” of services or goods as opposed to the earlier concept of taxation on goods manufacture, sale of goods, or service provision.
- GST is a destination-based tax structure unlike the origin-based structure that existed previously.
- CGST, IGST, and SGST/UTGST are levied at rates that would be mutually agreed upon by the states and Centre.
- GST will replace the central taxes mentioned below:
  - Duties of Excise (medicinal and toilet needs)
  - Central Excise Duty
  - Additional Duties of Excise (Goods of Special Importance)
  - Additional Duties of Customs (CVD)
  - Service Tax
  - Special Additional Duty of Customs(SAD)
  - Additional Duties of Excise (Textiles and Textile Products)
  - Cesses and surcharges
- GST will subsume the following state taxes:
  - Central Sales Tax
  - Entry Tax
  - State VAT
  - Luxury Tax
  - Purchase Tax
  - Entertainment Tax, except that levied by local entities
  - Taxes on lotteries and gambling
  - Taxes on advertisements
  - State cesses and surcharges
- Taxpayers with annual turnover of Rs.20 lakh is exempt from GST. For special category states, this cut-off is Rs.10 lakh. An option of compounding is available to small-scale taxpayers with annual turnover of Rs.50 lakh or below. The choice of threshold exemption and the compounding scheme are optional.

- Input credit of CGST shall be used only for paying CGST on the output. Similarly, input credit of SGST/UTGST will be used only for the payment of SGST/UTGST. Therefore, the two channels of input tax credit cannot be cross-utilised, except for the payment of IGST for inter-state supplies.<sup>10</sup>

### **Advantages Of GST**

GST will mainly remove the Cascading effect on the sale of goods and services. Removal of cascading effect will directly impact the cost of goods. The cost of goods should decrease since tax on tax is eliminated in the GST regime.

GST is also mainly technologically driven. All activities like registration, return filing, application for refund and response to notice needs to be done online on the GST Portal. This will speed up the processes.

- Removing Cascading tax effect
- Higher threshold for registration
- Composition scheme for small businesses
- Online simpler procedure under GST
- Lessor compliances
- Defined treatment for e-commerce
- Increased efficiency in logistics
- Regulating the unorganized sector<sup>11</sup>

### **Issues and concerns related to GST**

- Troublesome business in GST. Overall GST provisions are fruitful but there are some defective provisions as well. The compliance cost is high. And more problems will be noticed with the passage of time.

<sup>10</sup> <https://www.bankbazaar.com/tax/history-of-gst.html>

<sup>11</sup> <https://cleartax.in/s/gst-law-goods-and-services-tax>



- After the advance is received, GST becomes payable, even if the supply of goods and services are to be made later. Here it is pertinent to mention that input tax credit won't be available on such instances. However, the business will be affected.
- Though GST is a major tax reform since independence. Thus, the GST led to increase in costs of buying new software and to train these employees for the same.
- GST – compliance is a big issue. From traditionally pen and paper economy, it is now changed to digital record to be kept.
- Operational costs are increased due to GST. It could be a problem for the small businesses who do not employ tax professionals.
- A lot of confusion will be faced as for the financial year 2017-2018, old tax system was followed for the first 3 months of financial year 2017, i.e April, may and June, and for rest of the year, GST took place.
- Because of the online system, many small businesses could face problems regarding the resources. They might not be well aware of the system.
- Imposition of higher tax burden on the small business is another issue.
- No notification has been received regarding clarity on tax holidays.

### **Conclusion**

GST (goods and services tax) which came into effect on 1-7-2017 is the best possible act to improve the taxation system.

The way of handling business is changed. So many positive and negative aspects could be seen.

The government is trying to settle down various issues arose till date. Its aim is to establish a common national market.

However, hopefully, GST benefits will soon supersede GST disadvantages.

Goods and Service Tax, with end-to-end IT-enabled tax mechanism, is likely to bring buoyancy to government revenue. It is expected that the malicious activity of tax theft will go away under Goods and Service Tax regime in order to benefit both governments as well as



the consumer. In reality, that extra revenue that the government is expecting to generate won't come from the consumers' pocket but from the reduction of tax theft.<sup>12</sup>

GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. GST is leviable on all supply of goods and provision of services as well combination thereof. All sectors of economy whether the industry, business including Govt. departments and service sector shall have to bear impact of GST. All sections of economy viz., big, medium, small scale units, intermediaries, importers, exporters, traders, professionals and consumers shall be directly affected by GST.<sup>13</sup>

One of the biggest taxation reforms in India – the Goods and Service Tax (GST) -- is all set to integrate State economies and boost overall

growth. GST will create a single, unified Indian market to make the economy stronger. Experts say that GST is likely to improve tax collections and Boost India's economic development by breaking tax barriers between States and integrating India through a uniform tax rate.

Under GST, the taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions.<sup>14</sup> GST will bring in transparent and corruption-free tax administration, removing the current shortcomings in indirect tax structure. GST is business friendly as well as consumer friendly. GST in India is poised to drastically improve the positions of each of these stakeholders. We need a change in the taxation system which is better than earlier taxation. This need for change leads us to 'need for GST'.<sup>15</sup>

GST will allow India to better negotiate its terms in the international trade forums. GST aimed at increasing the taxpayer base by bringing SMEs and the unorganized sector under its compliance. This will make the Indian market more stable than before and Indian companies can compete with foreign companies.<sup>16</sup>

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<sup>12</sup> <https://www.quora.com/What-is-the-conclusion-of-GST>

<sup>13</sup> <http://www.egstax.in/2017/03/impact-of-goods-and-service-tax.html>

<sup>14</sup> <http://www.egstax.in/2017/03/impact-of-goods-and-service-tax.html>

<sup>15</sup> <https://www.taxmann.com/blogpost/2000000048/what-is-gst-goods-and-services-tax-explained-with-benefits.aspx>

<sup>16</sup> <https://www.taxmann.com/blogpost/2000000048/what-is-gst-goods-and-services-tax-explained-with-benefits.aspx>

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