

GOODS AND SERVICES TAX: AN OVERVIEW

Dr. (Smt.) Rajeshwari M. Shettar

Associate Professor, Department of Commerce,

Shri Hurakadli Aija Shikshan Samiti's

Smt. K. S. Jigalur Arts and Dr. (Smt.) S. M. Sheshgiri Commerce College for Women, DHARWAD-8.

ABSTRACT: The Goods and Services Tax (GST) is the biggest and substantial indirect tax reform since independence. The main aim of Goods and Services Tax is to replace the existing taxes levied on manufacture, sale and consumption of goods and services. The Goods and Services Tax will make India a formal, easier and simpler, a more revenue generating economy and One Tax, One Country and One Economy; will give a push to "Make in India". A comprehensive dual Goods and Services Tax has replaced the complex multiple indirect tax structure from 1st July, 2017. The GST act was passed in the Lok Sabha on 29th March, 2017 and came into effect from 1st July, 2017. GST becomes a reality today. The goods and service tax is a very important transformational structural reform for the economy which will have multiple benefits - the creation of a national market, enhanced ease of doing business, greater productivity and efficiency and improved tax compliance. The paper highlights the concept of GST, Problems in Present Indirect Tax Structure and Need for Introduction of GST in India, Dual Model of GST and benefits of Goods and Service Tax. The study is based on secondary data. The study found that, GST will widen the tax base, improve tax compliance and will remove unhealthy competition among states. The paper has been concluded with some suggestion for implementation of Goods and Services Tax (GST).

Key Words: Goods and Services Tax, Exemption.

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I. INTRODUCTION

The most historic tax reform, Goods and Services Tax represents One Nation, One Tax and One Market. On 8th September, 2016, the President of India approved the Constitution Amendment Bill for Goods and Services Tax (GST). The Goods and Services Tax act was passed in the Lok Sabha on 29th March, 2017, and came into effect from 1st July, 2017. A tax may be defined as a "pecuniary burden laid upon individuals or property owners to support the Government, a payment exacted by legislative authority. Tax is nothing but money that people have to pay to the Government.

Goods and Services Tax is an indirect tax on the supply of goods and services, right from the manufacturer to the consumer. GST is a destination based tax and levied at a single point at the time of consumption of goods or services by the ultimate consumer. GST is a value added tax levied on manufacture, sale and consumption of goods and services. It is a single tax for the whole nation which subsumes all the other indirect taxes on consumption like service tax, excise duty, VAT, etc.

✓ **GST:** New Article 366(12A) of the Indian Constitution defines Goods and Services Tax as "a tax on supply of goods or services or both except taxes on supply of alcoholic liquor for human consumption".

✓ **GOODS:** According to section 2(52) of the CGST Act Goods means "every kind of movable property other than money and securities but includes actionable claim, growing crops, grass and other things attached to or forming part of the land which are agreed to be severed before supply or under the contract of supply".

✓ **SERVICE:** According to section 2(102) of the CGST Act Services means "anything other than goods, money and securities but includes activity relating to the use of money or its conversion by cash or by any other mode".

II. OBJECTIVES OF THE STUDY

1. To study the concept of Goods and Services Tax.
2. To study the Problems in Present Indirect Tax Structure and Need for Introduction of GST in India.
3. To study the Dual Model of Goods and Services Tax.
4. To study the Benefits of Goods and Service Tax and Exemptions from Goods and Services Tax.

III. RESEARCH METHODOLOGY

The research is an exploratory research and the data collection is done mainly from the secondary data. The required data has been extracted from various sources like research articles; newspapers, published sources like reports, magazines, journals, various contemporary newspapers articles and the authenticated websites.

IV. REVIEW OF LITERATURE

✚ **Dr. Sutinder Singh Anantnag (2017)** the article entitled “GST (Goods and Services Tax) it’s Impact on Indian Economy”. This paper highlights the concept of GST, features of suggested GST. This paper also throws light on benefits and limitations of implementing GST in India. The study found that, GST should be preceded by adequate groundwork on the experience of other countries and a credible study on the impact of the GST regime on state revenues. The study also found that, harmonized tax structure should be the guiding principle and not the obligatory feature of the GST.

✚ **Lourdunathan F and Xavier P (2017)** the article entitled “A study on implementation of goods and services tax (GST) in India: Prospects and challenges”. In this paper an attempt has been made to study the background, prospects and challenges in implementation of goods and services tax (GST) in India. The study found that, efficient formulation of GST will lead to resource and revenue gain for both Centre and States majorly through widening of tax base and improvement in tax compliance. The study also found that, GST has a positive impact on various sectors and industry.

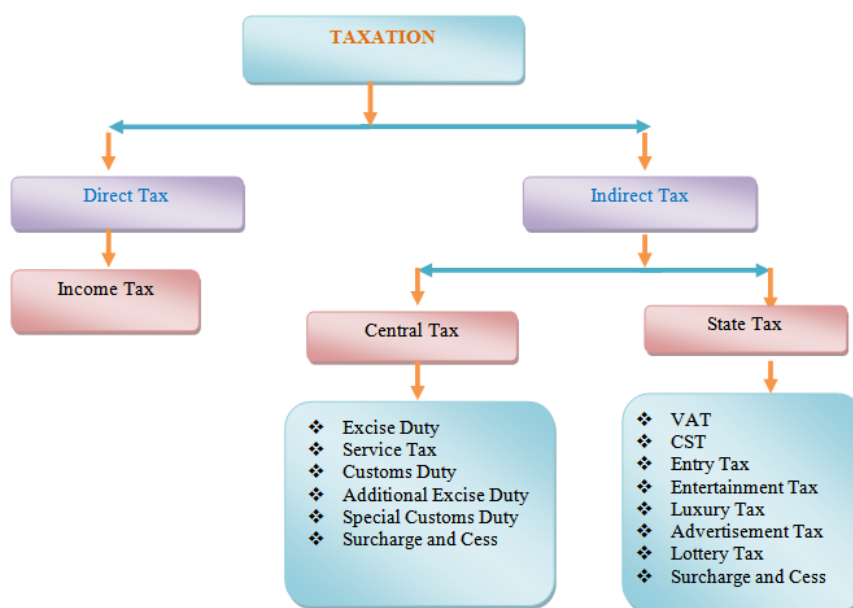
✚ **Prof. Pooja S. Kawle and Prof. Yogesh L. Aher (2017)** the article entitled “GST: An Economic Overview: Challenges and Impact Ahead”. The research intends to focus on understanding the concept of goods and service tax and its impact on Indian economy. The study found that, GST may assure the possibility of overall gain for industry, trade and agriculture. The study also found that, GST will have positive impact on the Indian economy.

V. TYPES OF TAXES

1. **Direct Taxes** - Direct taxes are taxes that are directly paid to the government by the taxpayer. The burden of taxes cannot be transferred from one person to another. **Example** Income Tax.

2. **Indirect Taxes** - Indirect taxes are applied on the manufacture or sale of goods and services. The burden of taxes is transferred from one person to another. **Example** Sales Tax, Excise Duty, GST etc.

PRESENT INDIRECT TAX STRUCTURE:



❖ **Excise Duty:** An excise duty is an indirect tax charged on goods manufactured within India. It is also known as the Central Value Added Tax (CENVAT).

❖ **Service Tax:** Service tax came into existence under the Finance Act, 1994. It is indirect tax and levied by central government on services rendered by a person on providing some services.

❖ **Customs Duty:** Customs duty is a tax which is payable for importing and exporting goods.

- ❖ **VAT:** Value added tax was introduced from 1st April 2005. The existing general sales tax laws were replaced with the Value Added Tax Act (2005) and associated VAT rules. It is levied by state government on purchase or sale of goods within a state. Here, tax will be levied at each stage of sale of a product.
- ❖ **CST:** Central Sales Tax or CST is imposed on purchase or sale of goods occurring in the course of inter-state sale. CST is levied on interstate purchase or sale of goods.
- ❖ **Entry Tax:** Entry tax was introduced on 1st September, 2000. It is a tax on the movement of goods from one state to another imposed by the state government in India.
- ❖ **Entertainment Tax:** Entertainment tax is a tax imposed by the state government on cinema, video shows, cable T.V. operators, amusement, exhibition, performance, game/sports and horse races.
- ❖ **Luxury Tax:** A luxury tax is a tax on luxury goods i.e. the products not considered essential.
- ❖ **Advertisement Tax:** Advertisement tax is collected from the Advertiser/ Agency for the display of advertisement.
- ❖ **Lottery Tax:** It is a tax levied on lottery. Game show or any entertainment program on television or electronic mode, crossword puzzle, gambling or betting, races including horse races.
- ❖ **Octroi:** It is the local charged by state government when the product enters into the state territory.
- ❖ **Toll Tax:** It is a tax levied on the vehicles for passing on the roads and bridges.

VI. PROBLEMS IN PRESENT INDIRECT TAX

- ★ Difficulties related to conceptual clarity on issues like manufacturing and valuation issues.
- ★ Exclusion of services from state taxation and related consequences.
- ★ Classification of goods and services.
- ★ Negative impact on state tax revenue.
- ★ Increased cascading effects.
- ★ Low level of automation.
- ★ Poor quality of tax returns.
- ★ Lack of cross verification with other tax compliance.
- ★ Multiple tax rates.
- ★ Time wastage due to compliance like check post in transportation.
- ★ No credit of Goods and Services Tax.
- ★ No credit of Swachh Bharat Cess (SBC) to manufacturers and service providers.
- ★ No CENVAT credit of Krishi Kalyan cess to manufacturers.
- ★ Complex tax structure.

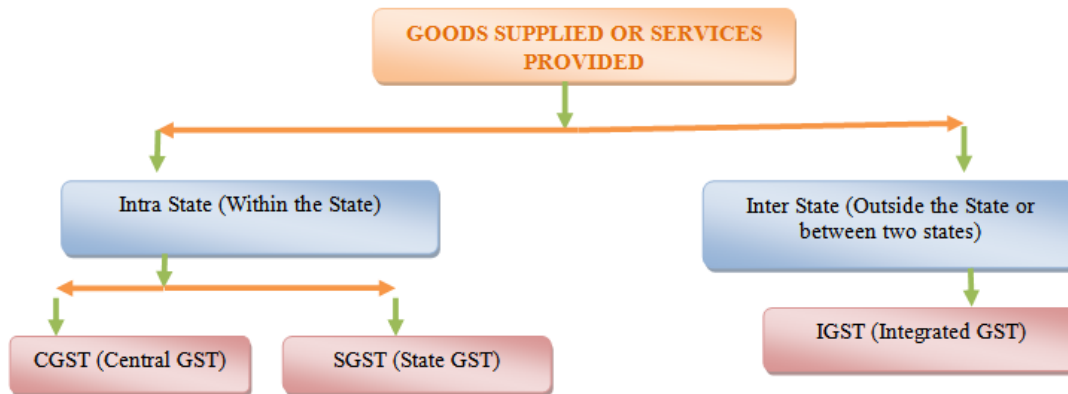
VII. NEED FOR INTRODUCTION OF GOODS AND SERVICES TAX IN INDIA

- ✚ No cascading of taxes.
- ✚ Reduced compliance cost.
- ✚ Seamless flow of credit.
- ✚ Less wastage of time and efforts to supply.
- ✚ Transparent and corruption free.
- ✚ Few number taxes.
- ✚ Supportive to compete at domestic and international market.
- ✚ Buoyancy in tax collection both for central and state.
- ✚ Minimize the inflation.
- ✚ Imperative in emerging economic environment.
- ✚ Indian economy is getting more and more globalised.

VIII. COMMODITIES TO BE KEPT OUTSIDE THE PREVIEW OF GST

- ✚ Alcoholic beverages for human consumption.
- ✚ Petroleum products namely petroleum crude, motor spirits including Aviation Turbine Fuel (ATF) and High Speed Diesel (HSD), Natural Gas and Aviation Turbine Fuel and Electricity.

IX. DUAL MODEL OF GOODS AND SERVICES TAX (GST)



- ❖ **Central Goods and Services Tax (CGST):** CGST is a part of goods and service tax. It is covered under central goods and service tax act 2016. It is levied by central government and it is applicable only within the state.
- ❖ **State Goods and Services Tax (SGST):** It is covered under state goods and service tax act 2016. A collection of SGST will be the revenue for state government. Example: if goods are sold or services are provided within the state then SGST will be levied on such transaction.
- ❖ **Integrated Goods and Services Tax (IGST):** It is covered under integrated goods and service tax act 2016. It is levied on all supplies in the course of inter state sales.

X. FEATURES OF INTEGRATED GOODS AND SERVICES TAX (IGST)

- IGST would be levied on all inter state transactions of taxable goods and services as well as importing the goods.
- Tax will be levied at a rate approximately equal to central and state rate.
- It is a destination based tax and will be accrued to importing state.
- IGST will lower down the tax burden by paying tax at inter state transaction only.
- IGST is paid after adjusting available input of IGST, CGST and SGST on purchases.
- Centre levies and collect IGST in lieu of CGST.
- IGST is shared between central and state government.
- In business to business (B2B) transactions, tax will flow to the state where purchaser claims input tax credit.
- In business to consumer (B2C) transactions, tax will flow to the state of consumer.

XI. BENEFITS OF GOODS AND SERVICES TAX

BENEFITS TO TRADE OR INDUSTRY:

- ❖ Reduction in multiplicity of taxes.
- ❖ Mitigation of cascading effect or double taxation.
- ❖ More efficient neutralization of taxes especially for exports.
- ❖ Simpler tax system i.e. fewer rates and exemptions.

BENEFITS TO CONSUMER:

- ❖ Simpler tax system.
- ❖ Reduction in prices of goods and services due to elimination of cascading effect.
- ❖ Uniform prices throughout the country.
- ❖ Transparency in taxation system.
- ❖ Increase in employment opportunities.

BENEFITS TO CENTRAL OR STATE GOVERNMENTS:

- ❖ A unified common national market to boost foreign investment and “Make in India” campaign.
- ❖ Boost to export / manufacturing activity, generation of more employment leading to reduced poverty and increased GDP growth.
- ❖ Improving the overall investment climate in the country which will benefit the development of states.
- ❖ Uniform SGST and IGST rates to reduce the incentive for tax evasion.
- ❖ Reduction in compliance costs as no requirement of multiple records keeping.

XII. EXEMPTIONS

An exemption means freedom from an obligation, liability or responsibility. Exemption from GST means a situation where a person or organization does not have to pay tax on supplies. Section 2(47) of the CGST Act 2017 defines exempted supply as supply of any goods or services or both which attracts nil rate of tax or which may be wholly exempt from tax under section 11 or under section 6 of the IGST Act and includes non taxable supply.

XIII. EXEMPTED SUPPLIERS

✚ **Agriculturists:** Agriculturists means a person who cultivates land personally. Section 2(8) defined Agriculturists as “a person who cultivates land personally for the purpose of agriculture”.

✚ **Persons falling in threshold exemptions limit:** A business organization with an annual turnover less than 20 lakh is exempted from GST registration.

✚ **Persons making nil rated / exempt supplies:** These are the persons who are engaged in the business of supplying common items which are in the exemptions list of GST.

Following are the businesses:

- All unprocessed food like rice, wheat, bread, milk, vegetables, cereals, eggs, meat, fish, salt etc.
- Train travel by local and sleeper classes.
- Education.
- Healthcare but not medicines.
- Hotels, lodges with room rent less than Rs.1,000.
- Kids coloring / drawing books.
- Bindis, sindoor, bangles etc.

✚ **Persons making non taxable supplies:** Non taxable supply means the supply which is not chargeable to tax under GST. Following are items come under the preview of GST:

- Alcohol for human consumption.
- Petroleum products.
- Electricity.
- High Speed Diesel.
- Natural Gas.

✚ **Activities that are neither supply of goods nor Services:**

- Services by an employee.
- Services by any Court or Tribunal.
- Funeral services.
- Sale of land and building
- Actionable claims.
- Functions and duties of MPs, MLAs, Members of Panchayats, Municipalities and other local authorities.
- Person holding any constitutional post.
- Person as a Chairperson or a Member or a Director in a body.

✚ **Persons making only supplies covered under reverse charge:** Reverse charge as defined in section 2(98) of CGST Act 2017 which says that the liability to pay tax by the recipient of supply of goods or services or both instead of the supplier of such goods or services or both.

XIV. OUT OF SCOPE OF SUPPLIERS

★ **Unregistered business:** An unregistered person is one who is not registered under GST and he is not liable to pay tax on supplies where as a registered person is one who has registered under GST and he is liable to pay tax on supplies.

★ **Government Department and other public sector bodies:** Supplies made by the government are generally treated as out of scope supplies. Therefore, GST will not be imposed on the supply made by the federal government and state government. Following are such suppliers:

- Healthcare services provided by hospital and clinic.
- Education services by primary and secondary school including tertiary education.
- Issuance of passport by the immigration department.
- Issuance of licenses and permits by the road transport department.

XV. GOODS EXEMPTED FROM GOODS AND SERVICES TAX (GST)

❖ Petroleum crude.

- ❖ High Speed diesel.
- ❖ Motor spirit.
- ❖ Natural Gas.
- ❖ Aviation turbine fuel.
- ❖ Alcoholic Liquor for human consumption.

XVI. SERVICES EXEMPTED FROM GOODS AND SERVICES TAX (GST)

- Agricultural related services.
- Toll for road or bridge.
- Services by educational institutions.
- Interest on loans, deposits or advances.
- Services to UN agencies.
- Specified charitable activities.
- Services of housing society and the members of the resident welfare association up to Rs. 5,000 per member per month.
- Health care and medical services, ambulance services.
- Air transport of goods from out of India upto customs station in India.
- Services provided by government where service charge is not applicable.
- Credit card transactions up to Rs. 2,000.
- Religious ceremony and renting of precincts of religious place.

XVII. FINDINGS OF THE STUDY

1. GST will widen the tax base, improve tax compliance and will remove unhealthy competition among states.
2. GST ensures uniformity of tax system across the states, regardless of place of manufacture or distribution.
3. GST will mitigate cascading and double taxation and enable better compliance through the lowering of overall tax burden on goods and services. Transparency in tax system resulting in difficulty of tax evasion.
4. The entire Indian market will be a unified market which may translate into lower business costs. It can facilitate seamless movement of goods across states and reduce the transaction costs of businesses.

XVIII. SUGGESTIONS

1. Government should construct a proper monitoring system to evaluate the impact of implementation of GST.
2. Taxpayer education or public awareness campaign need to be provisioned by central Government.
3. Joint operation between consumer association and non governmental organization to ensure worldwide pricing monitoring.
4. The researcher also suggests that, public workshops, training and various seminars on GST must be conducted in all states by their respective state governments, joint operation between consumer association and non governmental organization to ensure worldwide pricing monitoring.

XIX. CONCLUSION

Due to dissilient environment of Indian economy, it is need of the hour to implement GST. No doubt that GST will give India a world class tax system by grabbing different treatment to manufacturing and service sector. Efficient formulation of GST will lead to resource and revenue gain for both centers and states majorly through widening of tax base and improvement in tax compliance. The implementation of GST requires concentrated efforts of all the stakeholders like Central and State government, Trade and Industry. GST is a comprehensive tax levy on manufacturing, sale and consumption of goods and services at a national level. On bringing GST into practice, there would be amalgamation of Central and State taxes. At the consumer level, GST would reduce the overall tax burden, which is currently estimated at 25-30%. It is quite clear that the goods and service tax is going to put in place an indirect tax system with greater transparency and rationality. This is in tune with best global practices. This destination based tax regime would integrate markets all over the country. GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. All sectors of economy whether the industry, business including government departments and service sector shall have to bear impact of GST. The goods and service is all set to integrate state economies and boost overall growth. This will create a single, unified Indian market to make the economy stronger. 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. This will give more relief to industry, trade and agriculture through a more comprehensive and wider coverage of input tax set-off and service tax set-off and phasing out of CST.

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