IOSR Journal of Economics and Finance (IOSR-JEF)
e-ISSN: 2321-5933, p-ISSN: 2321-5925.Volume 8, Issue 1 Ver. II (Jan-Feb. 2017), PP 01-04
www.iosrjournals.org

Goods and Service Tax (GST) India – Genuine Source for Treasuries

Dr. Pawan Kumar
Assot. Prof. in Commerce PMN College, Rajpura (Pb.)

I. Introduction

Economic reforms are taking place in order to uplift the economy in India. There are so many economic reforms, which have taken shape since 1991. Now Government of India has taken initiative to make major changes in indirect tax structure through Goods and Services Tax (GST). Indirect tax structure is very complex in India. There are many type of indirect tax. Some of which are levied by the central government and some by the state governments. A business firm has to pay these taxes by doing so many formalities.

Passing and Implementation of GST Bill

Indian Government was trying to make reforms in indirect taxes through GST Bill since 2006-07. The GST bill was introduced by the then Finance Minister Sh. P. Chidambaram in his budget speech as on 28th February, 2006 for 2006-2007 budget. The target for implementation of GST was from April, 2010. But due to one reason or another it had not implemented. Again, in order to bring uniform tax structure on indirect taxes, GST Bill was introduced by Finance Minister Sh. Arun Jaitley in Lok Sabha as on 19th Dec, 2014. This bill was passed by the house on 6th May 2015. Many hurdles come on way of passing the bill. Rajya Sabha passed the GST Bill as on 3rd August. The bill was referred again to the Lok Sabha with some amendments as on 8th August 2016. The Bill was passed by two-third majority in Lok Sabha. The GST Bill was passed in accordance with the provisions of Article 368 of the constitution and it has to be ratified about 50% of states. Assam becomes the first state to ratify the bill. When more than 50% states have given their assent, the GST Bill was presented before President of India Sh. Pranab Mukherjee for final approval. President signed the Bill as on 8th September 2016 and it was notified in the Gazette of India on the same date.

GST Council

The implementation and administration of act have been left to the newly constituted GST Council. Finance Minister Mr. Arun Jatley is the chairman of GST Council. Council consists Minister of states in charge of Revenue, Minister incharge of Finance and Taxation or any other Minister, nominated by each state.
Central Government has a third voting right where as states shall together will have two third voting power. Final decision will be taken by 3/4th majority of votes.
In order to solve the despites, mechanism will also be decided by the GST council. The target of implementing GST Bill is fixed from April 2017.

GST Council begins Series of Meeting for Implementation of GST Bill

GST Council is working hard to form various rules, policies, procedures and norms. Meetings of GST council are regularly convened through some intervals. Some of the outcomes of the meeting are mentioned in the following paras.In its first meeting as on 24th Sept., 2016, the GST Council decided that the annual turnover limit for exemption will be Rs. 20 Lakh while it would be 10 Lakh in north-eastern states. The states will have jurisdiction over assessee with annual turnover of less than Rs. 1.5 crore. Assessees with turnover of over Rs. 1.5 crore would be cross-examined either by officers from centre or state to avoid dual control.
The power for assessment of 11 Lakh service tax assessees who are currently assessed by the Central Government would remain with Central Government.
Procedure of registration by firms for GST finalized. States have developed portals to register firms under GST system. Industries, trades and firms are directed to get registered on these portals through login and password systems.Out of 11 chapters in the integrated GST (IGST) Law, 10 have been approved. The process of implementation of GST on all India level is still continued.

Meaning of Goods and Service Tax

Goods and Service Tax is proposed to be indirect tax levy on manufacture, service and consumption of goods and availing service at state or national level on input tax credit basis. GST is a destination – based tax, it is levied at the point of driven supply chain. GST will replace all indirect taxes levied on goods and services by the central and state Governments.
The Goods and Service Tax will have two components keeping in view federal structure of India. These will be Central Goods and Service Tax (CGST) and State Goods and Service Tax (SGST).

Features of GST

1. Administration of GST will be the responsibility of the GST Council.
2. The Centre will levy IGST on inter-state supply of goods and services.
3. GST bill allows for input tax credits. Tax will be only on value addition at each stage.
4. There will be single tax to replace multiple levies of centre and states on goods and services.
5. There will be uniformity of tax laws and procedures at centre and state level.
6. Unique IT system for registration, returns, refunds and tax payments.
7. It is based on demand driven supply chain fundamentally shift from a tax driven supply chain on the basis of one country one market.
8. There will be removal of entry tax / octrai across India.
9. Tax on entertainment at panchayat, municipality or district level will continue.
10. Stamp duties imposed on legal agreements by sales will continue to be levied.
11. Around 300 items are exempted under GST.
12. Sectors kept out of GST – alcohol, five petroleum product, real estate, and electricity.

Taxes to be replaced by GST

Following number of taxes will be subsumed in GST.

1. Central Government Taxes

- Central Excise Duty
- Service Tax
- Special Additional Duty of Customs
- Additional Excise Duty
- Counter-Vailing Duty
- Cesses and Surcharges

2. State Governments Taxes

- VAT
- Central Sales Tax
- Luxury Tax
- Entry Tax
- Entertainment Tax (not levied by local bodies)
- Taxes on advertisements
- Purchase Tax
- Taxes on lotteries, betting and gambling
- State Cess and Surcharges.

Present Mechanism of CEVAT and VAT in India

Presently, Value Added Tax (VAT) structure has been implemented at the Central and state levels. Central Value Added Tax (CEVAT) system extends tax set-off only against central excise duty and Service Tax paid only upto the level of production. CEVAT does not extend to value addition by the distributive channels after the stage of manufacturing. State Value Added Tax covers only states for set-off of tax. A seller can claim set-off of tax (credit) only against VAT paid on previous purchases. The VAT does not subsume a host of other taxes imposed within the states such as octrai, entertainment tax etc. Under present circumstances the ultimate consumer burdened with more taxes and most of these are paid by suppliers, manufactures, wholesalers, retailers and customers.

Mechanism in GST Regime

When Goods and Service Tax will come into force, then all the central and state level taxes and levies on all goods and services covered will be subsumed within an integrated tax having two components, a central GST and a state GST. Under new GST system, there will be tax only on value addition at each stage with supplier, producer, whole seller etc. at every stage able to set off taxes against the central or state Goods and Service Tax paid on his purchase. The customer will bear only the GST charged by the last dealer / retailer in the supply chain, with set-off benefits at all previous stages of GST paid.

Calculation of Tax and Set-off of Tax under Proposed GST Structure

It is commonly said that the overall tax payment burden will come down under GST. The benefit of less tax will ultimately be passed to end user. It can be well discussed under the following paras with an example. Suppose producer produces bread in his plant. The distribution net work is through wholesales and retailer. There are total five parties i.e., suppliers of raw material and other ingredients of bread, producer, wholesaler, retailer and customers. The rate of tax at all level is say 10%. The detail of calculation of tax and set off of tax as per GST structure is given as under.

Step 1: Producer purchases raw material and other ingredients required for producing finished bread from suppliers. Suppose he paid Rs. 15 per bread for raw material and packing material for bread to supplier. 10% Tax is included in Rs. 15. Tax paid by supplier is Rs. 1.50 [10% of Rs. 15].
Now with available raw material, producer produces the bread by putting additional cost like usage of machines, power and labour charges etc. Suppose additional value comes Rs. 5/- per bread. Now the total cost of bread is 15+5 = Rs. 20/- per bread. The tax rate is 10%.
Total Tax on bread 20X10/100 = 2
Under GST producer can set off this tax Rs. 2/- against tax he has already paid on raw material etc. Rs. 1.5/-.

So the tax paid by the producer under GST system is
Rs. 0.50 [2.00-1.50]
The cost of based is Rs. 20+0.50 (Tax)
The producer will sell the bread to whole seller at Rs. 20.50.

Cost component	Tax Component	Cost of Bread		
Supplier		13.5	1.50	
Producer		5.0	0.50	
		============	===========	
Total Cost		18.50	2.00	20.50
		============	===========	

Step 2: In next step, the breads are passed from producer to wholesaler @ Rs. 20.50 per bread. Wholesaler also incurs some expenses on these breads like transportation, office expenses, salesman commission and profit margin etc. Suppose he incurred expenses of Rs. 3/- per bread. It is called value addition.

Rate of Tax is 10%.
Total tax on bread is Rs. 2.35 [23.50 X 10%]
Now under GST, whole seller can set off the Tax on bread Rs. 2.35 against tax on his purchase from manufactures Rs. 2.00.

The effective GST charges on the whole seller are only Rs. 0.35 [2.35-2.00]. The wholesaler will charge Rs. 23.85 [20.50+3+0.35] per bread for retailer.

Cost component	Tax Component	Cost of Bread		
Supplier		13.50	1.50	
Producer		5.00	0.50	
Wholesaler		3.00	0.35	
		============	===========	
Total Cost		21.50	2.35	23.85
		============	===========	

Step 3:In this cycle of trade, now the bread will reach to retailer's shop @Rs. 23.85 per bread. Again, the retailer is incurring some expenses on bread for the purpose of sale to consumer. Most of these expenses are, shop expenses, refrigeration, salaries to staff, administrative and profit margin. Suppose he is incurring Rs. 4/- per bread. It is technically called value addition. So gross value of bread he sells will Rs. 27.85 [23.85+4]

Tax Rate is 10%.
Total Tax on bread is Rs. 2.78[27.85X10%]
Retailer has to set off this tax 2.78 against tax on his purchases from the whole seller.
Retailer has to pay effective GST Rs. 0.43 [2.78-2.35]

The final price of Rs. 28.28 [27.85 +0. 43] per bread will be charged by retailer from customer.

Cost component	Tax Component	Cost of Bread		
Supplier		13.5	1.50	
Producer		5.0	0.50	
Wholesaler		3.00	0.35	
Retailer		4.00	0.43	
		============	===========	
Total Cost		25.50	2.78	28.28
		============	===========	

So under new GST regime, the tax already paid at one step or stage can be set off or credited in the next stage of incidence of tax. It is on the basis of one India one nation concept. The customer or end user will be benefited from GST due to low price of finished product.

Advantage of GST

Implementing GST concept of indirect tax will provide the following benefits.

1. Whole India will become unified common national market.
2. Multiplicity of taxes at center and state level will be eliminated by single tax structure.
3. Simple registration and compliance procedure will reduce compliance costs.
4. Tax structure will be rationalized with the consultation of states and industry leaders.
5. Chances of duplication of activities will be reduced due to formal co-ordination between states and centre.
6. Latest software technologies will be used in order to improve efficiency and save time.
7. Huge unorganized sector of India will be covered under GST regime and it will come under tax ambit.
8. Tax evasion and avoidance will be minimized due to unified tax structure at all levels in whole of India.
9. GST Bill will bring transparency in indirect tax system.
10. The ultimate gainer will be end user or customer as indirect tax structure is based on input tax credits. The final price of the goods and services including tax will come down drastically.

Draw Backs and Hindrances in implementing GST

Followings are some of the draw backs of GST.

1. Some of the items are not covered under GST Act like alcohol, five petroleum products, real estate and electricity. These items will remain taxable under state VAT regime. Traders are required to pay tax still under old tax system.
2. Around 300 items are kept out from GST ambit. These items will be exempt from tax. Moreover, these items have potential tax revenue around Rs. 1.8 Lakh crore. So other items covered under GST will be bear more tax rates.
3. Businesses are required to get registered themselves under GST in every circle or state in which they want to operate. So telecom companies, Insurance companies, e-commerce and banking companies have to apply for 36 registration under central, states and UTs.

This would defeat at one of the main reasons for ushering in a GST regime in first place for ease of doing business in India.

4. Every type of industry needs factory sheds, godowns, offices and allied infrastructure. Real estate sector is not covered under GST. So industry cannot take the advantage of cost incurred on buildings, factory sheds or any other infrastructure under input tax credit.
5. Companies will have to reschedule their way of working. A company has to understand supplier’s cost structure so that it can get tax credit. Under the prescribed tax credit process, a transition to GST would also require ability to handle and keep the records to huge amount of transactional data.
6. Centre and state governments are negotiating on many aspects of GST under GST Council. GST Council is working hard to come to unanimity on many aspects. Stalement is continued with states hardening their position on issues like territorial jurisdiction over high sea sales and control over assessees.

GST will Transform the Economy

GST will lead to changes in the way of business is conducted. The concept of tax credit at different levels at logical way will ultimately benefit to the end users. The trader’s body, Confederation of All India Traders (CAIT) also hailed the GST Act. The collective indirect tax payment by dealers, manufactures, dealers and customers will be reduced. Unorganized trade and business will be covered under it. Overall tax collections will be increased. We the Indians are having the psychology of paying less and availing more benefits. With low indirect tax regime, everyone will happy to pay tax. Ultimately, it will lead to increase in the revenue of state and central government. Sumit Lunker, Partner-indirect tax PwC said that GST will bring a transformational change. It will usher innovative opportunities for planning and realignment of value chain that will allow early movers gain competitive edge.

International rating agency Moody’s Investors Services has maintained a positive outlook on India. It said that measures including relaxation of foreign investment restrictions, passage of the Goods and Services Tax and advancement of a workable bankruptcy code have potential to stimulate private sector investment, which could lead stable and balance growth. S&P Global Rating also welcomed the passage of GST and said that GST passage is arguable the most important structural reform and will improve the efficiency, cross-state and tax buoyancy.GST is a new indirect tax regime. India is a very vast country with diversities. Central government and state governments are approaching gradually towards consensus on major issues GST. All most all political parties have consented and supported the GST. It is well known fact that the GST Bill was passed by two third majority with 443 members voted in its favour, and none against in the final vote in Lok Sabha. It is the great feature of Indian democracy. The Goods and Service Tax structure will prove very good and genuine source for treasuries of central government and state governments.