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ENTERING THE AGE OF GST

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Abstract:

The Goods and Services Tax is considered as a biggest tax reform since independence *1947.* GST was recommended by Kelkar Taskforce in 2004. According to the Taskforce, an all India GST would be in the nature of a revolution in India's indirect Tax structure because GST would merge all Indirect Taxes imposed by the centre and states ,so there is one country ,one single Indirect Tax. As such GST would substantially bring down cascading burden of various Indirect Taxes Imposed by centre and state together which falls on a final consumer. GST has replaced many indirect taxes in India. The goods and service tax act was passed in the parliament on 29 the march 2017. The act came into effect on01 July 2017.

Single tax for one India proves to be a game changer in a positive way and proves to be beneficial not only to the common man, but to the country as a whole. It is our expectation that impact of GST will be positive and will bring positive effect to Indian economy and convert India into a unified national market with simplified tax position. Integration of goods and services taxation would give India a world class tax system and improve tax collections. It would end distortions of differential treatments of manufacturing and service sector. GST is expected to create a business friendly environment, as price levels and hence inflation rates would come down overtime as a uniform tax rate is applied. It will also improve government's fiscal health as the tax collection system would become more transparent, An attempt is made in this paper to study the concept of goods and service tax and its impact on Indian economy.

Concept of Goods and Service Tax

GST is one indirect tax for the whole nation, which will make India one unified common market. Under GST, there would be only one tax rate for both goods and services. GST is expected to create a business friendly environment, as price levels and hence inflation rates would come down overtime as a uniform tax rate is applied. It will also improve government's fiscal health as the tax collection system would become more transparent, making tax evasion difficult. The GST is expected to replace all the indirect taxes in India. At the centre's level, GST was replaced central excise duty, service tax and customs duties. At the state level, the GST was replaced State VAT.

GST is a single tax on the supply of goods and services, right from the manufacturer to the 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.

GST – How It Works In India?

The GST system is based on the same concept as VAT. Here, set-off is available in respect of taxes paid in the previous level against the GST charged at the time of sale. The GST model has some aspects which are as follows:

Components: GST will be divided into two components, namely, Central Goods and Service Tax and State Goods and Service

Applicability: GST will be applicable to all Goods and Services sold or provided in India, except from the list of exempted goods which fall outside its purview.

Payment: GST will be charged and paid separately in case of Central and State level. Input Tax

Credit: The facility of Input Tax Credit at Central level will only be available in respect of Central Goods and Service tax. In other words, the ITC of Central Goods and Service tax shall not be allowed as a set-off against State Goods and Service tax and vice versa.

How would GST be administered in India?

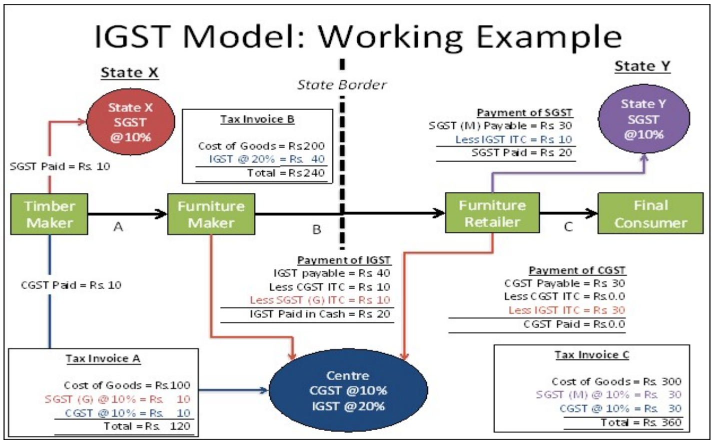
Keeping in mind the federal structure of India, there will be two components of GST – Central GST (CGST) and State GST (SGST). Both Centre and States will simultaneously levy GST across the value chain. Tax will be levied on every supply of goods and services. Centre would levy and collect Central Goods and Services Tax (CGST), and States would levy and collect the State Goods and Services Tax (SGST) on all transactions within a State. The input tax credit of CGST would be available for discharging the CGST liability on the output at each stage. Similarly, the credit of SGST paid on inputs would be allowed for paying the SGST on output. No cross utilization of credit would be permitted.

How would a particular transaction of goods and services be taxed simultaneously under Central GST (CGST) and State GST (SGST)?

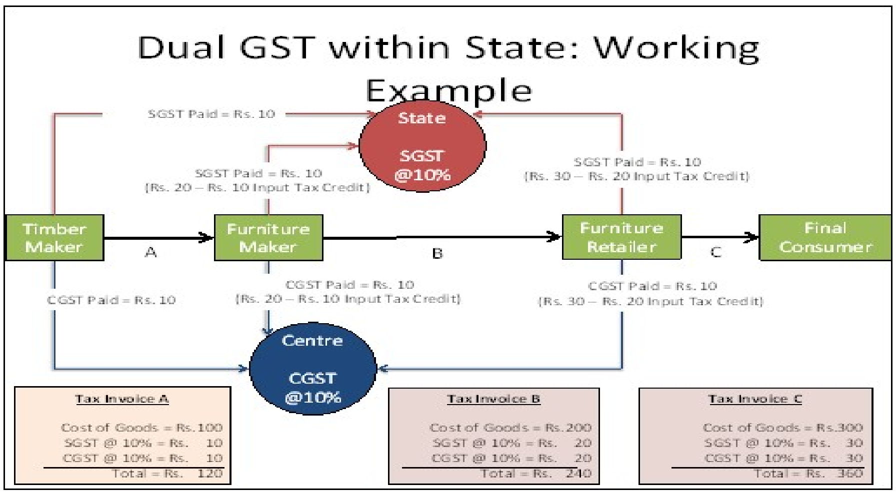
The Central GST and the State GST would be levied simultaneously on every transaction of supply of goods and services except on exempted goods and services, goods which are outside the purview of GST and the transactions which are below the prescribed threshold limits. Further, both would be levied on the same price or value unlike State VAT which is levied on the value of the goods inclusive of Central Excise.

How will be Inter-State Transactions of Goods and Services be taxed under GST in terms of IGST method?

In case of inter-State transactions, the Centre would levy and collect the Integrated Goods and Services Tax (IGST) on all inter-State supplies of goods and services under Article 269A (1) of the Constitution. The IGST would roughly be equal to CGST plus SGST. The IGST mechanism has been designed to ensure seamless flow of input tax credit from one State to another. The inter-State seller would pay IGST on the sale of his goods to the Central Government after adjusting credit of IGST, CGST and SGST on his purchases (in that order). The exporting State will transfer to the Centre the credit of SGST used in payment of IGST. The importing dealer will claim credit of IGST while discharging his output tax liability (both CGST and SGST) in his own State. The Centre will transfer to the importing State the credit of IGST used in payment of SGST.Since GST is a destination-based tax, all SGST on the final product will ordinarily accrue to the consuming State.



A diagrammatic representation of the working of the Dual GST model within a State is shown in Figure 2 below.



What are the benefits of GST?

The benefits of GST can be summarized as under:

- **For business and industry**
  - Easy compliance: A robust and comprehensive IT system would be the foundation of the GST regime in India. Therefore, all tax payer services such as registrations, returns, payments, etc. would be available to the taxpayers online, which would make compliance easy and transparent.
  - Uniformity of tax rates and structures: GST will ensure that indirect tax rates and structures are common across the country, thereby increasing certainty and ease of doing business. In other words, GST would make doing business in the country tax neutral, irrespective of the choice of place of doing business.
  - Removal of cascading: A system of seamless tax-credits throughout the value-chain, and across boundaries of States, would ensure that there is minimal cascading of taxes. This would reduce hidden costs of doing business.
  - Improved competitiveness: Reduction in transaction costs of doing business would eventually lead to an improved competitiveness for the trade and industry.

- Gain to manufacturers and exporters: The subsuming of major Central and State taxes in GST, complete and comprehensive set-off of input goods and services and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports. The uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cost.

❖ **For Central and State Governments**

- Simple and easy to administer: Multiple indirect taxes at the Central and State levels are being replaced by GST. Backed with a robust end-to-end IT system, GST would be simpler and easier to administer than all other indirect taxes of the Centre and State levied so far.
- Better controls on leakage: GST will result in better tax compliance due to a robust IT infrastructure. Due to the seamless transfer of input tax credit from one stage to another in the chain of value addition, there is an in-built mechanism in the design of GST that would incentivize tax compliance by traders.
- Higher revenue efficiency: GST is expected to decrease the cost of collection of tax revenues of the Government, and will therefore, lead to higher revenue efficiency.

❖ **For the consumer**

- Single and transparent tax proportionate to the value of goods and services: Due to multiple indirect taxes being levied by the Centre and State, with incomplete or no input tax credits available at progressive stages of value addition, the cost of most goods and services in the country today are laden with many hidden taxes. Under GST, there would be only one tax from the manufacturer to the consumer, leading to transparency of taxes paid to the final consumer.
- Relief in overall tax burden: Because of efficiency gains and prevention of leakages, the overall tax burden on most commodities will come down, which will benefit consumers.

How will imports be taxed under GST?

The Additional Duty of Excise or CVD and the Special Additional Duty or SAD presently being levied on imports will be subsumed under GST. As per explanation to clause (1) of article 269A of the Constitution, IGST will be levied on all imports into the territory of India. Unlike in the present regime, the States where imported goods are consumed will now gain their share from this IGST paid on imported goods.

Conclusion

Tax policies play an important role on the economy through their impact on both efficiency and equity. A good tax system should keep in view issues of income distribution and, at the same time, also endeavour to generate tax revenues to support government expenditure on public services and infrastructure development. The GST reform is an important reform. It is a major tax harmonisation exercise and will significantly reduce the transaction cost of doing business in India. It will unify multiple taxes into a single tax and reduce compliance and administrative cost in the long term, do away with levies like octroi and ensure a more unified market. It will reduce cascading on account of levies like octroi, purchase tax and central sales tax and make the economy more export-competitive. More importantly, it might see a significant increase in revenue productivity of income tax as the seeding of PAN in GST registration will make it difficult for businessmen to evade the tax. All these could contribute to acceleration in growth. To know how and when that will happen, we will have to wait and keep the fingers crossed.

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