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Basic Concepts of Goods and Services Tax In India

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Abstract:

This paper is an analysis of what the impact of GST (Goods and Services Tax) will be on Indian Tax Scenario. Here stated with a brief description of the historical scenario of Indian taxation and its tax structure. Then the need arose for the change in tax structure from traditional to GST model. GST has be detailed discuss in this paper as the background, silent features and the impact of GST in the present tax scenario in India. The Goods and Services Tax (GST) is a value added tax to be implemented in India, the decision on which is pending. GST is the only indirect tax that directly affects all sectors and sections of our economy. Ignorance of law is no excuse but is liable to panel provisions, hence why not start learning GST and avoid the cost of ignorance. Therefore, we all need to learn it whether willingly or as compulsion. The goods and services tax (GST) is aimed at creating a single, unified market that will benefit both corporate and the economy. The changed indirect tax system GST-Goods and service tax is planned to execute in India. Several countries implemented this tax system followed by France, the first country introduced GST. Goods and service tax is a new story of VAT which gives a widespread setoff for input tax credit and subsuming many indirect taxes from state and national level. The GST Implementation is not yet declared by government and the drafting of GST law is still under process and a clear picture will be available only after announcement of Implementation. India is a centralized democratic and therefore the GST will be implemented parallel by the central and state governments as CGST and SGST respectively. The objective will be to maintain a commonality between the basic structure and design of the CGST, SGST and SGST between states .In this article, I have started with the introduction, in general of GST and have tried to highlight the objectives the proposed GST is trying to achieve. Thereafter, I have discussed the possible challenges and threats; and then, opportunities that GST brings before us to strengthen our free market economy.

Key Words: GST, CGST, SGST, VAT, INPUT CREDIT

What is Tax?

The word tax is derived from the Latin word '*taxare'* meaning to estimate. A tax is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority" and is any contribution imposed by government whether under the name of toll, tribute, impost, duty, custom, excise, subsidy, aid,supply, or other name."In 1922, the country witnessed a paradigm shift in the overall Indian taxation system. Setting up of administrative system and taxation system was first done by the Britishers. Broadly, there are two types of Taxes viz. Direct and Indirect taxes. Taxes in India are levied by the Central Government and the State Governments. Some minor taxes are also levied by the local authorities such as Municipality or Local Council. The authority to levy tax is derived from the Constitution of India which allocates the power to levy various taxes between Centre and State.

<u>Definition of GST:</u>

"GST is a tax on goods and services with value addition at each stage having comprehensive and continuous chain of set of benefits from the producer's or service provider's point up to the retailers level where only the final consumer should bear the tax."

Objectives of GST:

- One Country – One Tax.
- Consumption based tax instead of Manufacturing.
- Uniform GST Registration, payment and Input tax Credit.
- To eliminate the cascading effect of Indirect taxes on single transaction.
- Subsume all indirect taxes at Centre and State Level under.
- Reduce tax evasion and corruption.
- Increase productivity.
- Increase Tax to GDP Ratio and revenue surplus.
- Increase Compliance.
- Reducing economic distortions.

<u>GST Advantages and Disadvantages:</u>

The GST is a Value added Tax (VAT) is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. It will replace all indirect taxes levied on goods and services by the Indian Central and State governments. Though GST is considered to be a historical tax reform in India, it also has some demerits. We here would look into GST Taxation and deal with its advantages and disadvantages.

<u>GST Advantages:</u>

1. GST is a transparent tax and also reduces number of indirect taxes.
2. GST will not be a cost to registered retailers therefore there will be no hidden taxes and the cost of doing business will be lower.
3. Benefit people as prices will come down which in turn will help companies as consumption will increase.
4. There is no doubt that in production and distribution of goods, services are increasingly used or consumed and vice versa.
5. Separate taxes for goods and services, which is the present taxation system, requires division of transaction values into value of goods and services for taxation, leading to greater complications, administration, including compliances costs.
6. In the GST system, when all the taxes are integrated, it would make possible the taxation burden to be split equitably between manufacturing and services.

7. GST will be levied only at the final destination of consumption based on VAT principle and not at various points (from manufacturing to retail outlets). This will help in removing economic distortions and bring about development of a common national market.
8. GST will also help to build a transparent and corruption free tax administration.
9. Presently, a tax is levied on when a finished product moves out from a factory, which is paid by the manufacturer, and it is again levied at the retail outlet when sold.
10. GST is backed by the GSTN, which is a fully integrated tax platform to deal with all aspects of GST.

GST Disadvantages:

1. Some Economist says that GST in India would impact negatively on the real estate market. It would add up to 8 percent to the cost of new homes and reduce demand by about 12 percent.
2. Some Experts says that CGST (Central GST), SGST (State GST) are nothing but new names for Central Excise/Service Tax, VAT and CST. Hence, there is no major reduction in the number of tax layers.
3. Some retail products currently have only four percent tax on them. After GST, garments and clothes could become more expensive.
4. The aviation industry would be affected. Service taxes on airfares currently range from six to nine percent. With GST, this rate will surpass fifteen percent and effectively double the tax rate.
5. Adoption and migration to the new GST system would involve teething troubles and learning for the entire ecosystem.

India GST – The difference between CGST, SGST and IGST

CGST, SGST and IGST are three components of GST tax law. CGST and SGST are applicable within the state while IGST is applicable in the course of interstate trade and commerce. Let us understand the difference between the trios,

Basis of Distinction	Central GST	State GST	Integrated GST
Meaning	It is levied by Central government to replace the existing tax like service tax, excise, etc	It is levied by State government to replace the existing tax like sales tax, luxury tax, entry tax, etc.	It is a combined form of CGST and SGST levied and collected by Central government.
Applicability	It is applicable only within the state	It is applicable only within the state	It is applicable only in the course of interstate supply.
Input Tax Credit	The credit of CGST, is available only against CGST and IGST	The credit of SGST is available only against SGST and IGST	The credit of IGST is available against CGST, SGST and IGST.
Collection of tax	It is collected by	It is collected by	It is collected by

	central government	State government	central government
Exemption limit	The exemption limit of Rs.20 Lakh is applicable	The exemption limit of Rs.20 Lakh is applicable	No exemption limit is applicable.
Composition Scheme	The dealer can use the benefit of composition scheme up to turnover of 50 lakh.	The dealer can use the benefit of composition scheme up to turnover of 50 lakh.	Composition scheme is not applicable in the course of interstate supply.
Free Supplies	Applicable on free supplies	Applicable on free supplies	Applicable on free supplies
Registration	No registration till the turnover crosses 20 Lakh (*10 Lakh in north eastern states*).	No registration till the turnover crosses 20 Lakh (*10 Lakh in north eastern states*).	Registration mandatory if any supply is made outside the state.

THE IMPACT OF GST (GOODS AND SERVICES TAX) IN INDIA

After a lot of deliberation, our GST council has finalized the rates for all the goods and major service categories under various tax slabs, and the GST is expected to fill the loopholes in the current system and boost the Indian economy. This is being done by unifying the indirect taxes for all states throughout India.

The tax rate under GST are set at 0%, 5%, 12%, 18% and 28% for various goods and services, and almost 50% of goods & services comes under 18% tax rate. But how is our life going to change post GST. Let’s see how GST on some day-to-day good and services will have an impact on an end user’s pocket.

1) Footwear& Apparels/Garments:

Footwear costing more than INR 500 will have a GST rate of 18% from an earlier rate of 14.41 rate but rates for the footwear below INR 500 has been reduced to 5%. So, you need to shell out more for buying a footwear above INR 500/-. And with respect to the ready-made garments, the rates have been reduced to 12% from an existing 18.16% this will make them cheaper.

2) Cab and Taxi rides:

Now, taking an Ola or an Uber will be cheaper because the tax rate has come down to 5% from an earlier 6% for a cab booking made online.

3) Airline tickets:

Under the GST, tax rate for economy class for flight tickets is set at 5% but the tax for business class tickets will have a higher tax rate of 12%.

4)Train Fare:

There will not be much of an impact. The effective tax rate has increased from 4.5% to 5% in GST. But, a passenger who travels for business trips can claim Input Tax Credit on their rail ticket which can help them to reduce expenses. People travelling by local trains or in the sleeper class will not be affected, but first-class & AC travellers will have to pay more.

5) Movie Tickets:

Movies tickets costing below INR 100 will be charged a GST rate of 18% but prices above INR 100 will have a higher tax rate of 28%.

6) Life Insurance Premium:

The Premium Amounts on policies will rise, with an immediate impact can be seen on your term and endowment policy premiums as the rates have been increased under GST across life, health and general insurance.

7) Mutual funds Returns:

GST impact on your returns from mutual funds' investments will largely be marginal as the GST will be charged on the TER i.e. Total Expense Ratio of a mutual fund. The TER is commonly called as expense ratio of a mutual fund company, and the same is set to go up by 3%. The return what you get as an investor will be reduced to that extent unless the respective mutual fund company i.e. AMC absorbs it but that anyhow will be a marginal difference.

8) Jewellery:

The gold investment will become slightly expensive because there will be 3% GST on gold & 5% on the making charges. The earlier tax rate on gold was around 2% in most of the states and the GST is increased from the existing rate to around 2% to 3%.

9) Buying a Property:

Under construction properties will be cheaper than read-to-move-in properties. The GST rate for an under-construction property is 18% but the effective rate on this kind of property will be around 12% due to input tax credits the builder will avail of.

10) Education& Medical Facilities:

Education and Medical sectors have been kept outside the GST ambit and both the primary education & healthcare is exempt from GST. It means a consumer will not pay any tax for the money you spent on these services. But due to increase in the rate of taxes for certain goods & services as procured by these organizations, they may pass on the additional tax burden to the consumers.

11) Hotel Stay:

For your hotel stay, if your room tariff is less than Rs 1,000, then there will be no GST, but anything above Rs 5,000 will attract 28% tax.

12) Buying a Car:

Most of the cars in the Indian market will become slightly cheaper, except for the hybrid cars because the GST rate will be 28% tax on all the vehicles irrespective of their make, engine capacity or model. However, over and above this 28%, an additional cess will be levied which can be either 1%, 3% or 15 %, depending on the particular car segment.

13) Mobile Bills:

People will have to pay more on mobile phone bills as GST on telecom services is now 18%, as opposed to the earlier tax rate of 15%. However, telecom companies may absorb this 3% rise due to fierce competition.

14) Restaurant Bills/EATING OUT:

Your restaurant bill would depend on whether you dined at an AC or Non-AC establishments which do not serve alcohol. Now dining at five-star hotels will be charged at 18% GST rate and the Non-AC restaurants will be charged 12% and a 5% GST will be charged from small hotels, dhabas and restaurants that do not cross an annual turnover of INR 50 Lakh.

15) IPL & other related events:

Events like IPL i.e. sporting events will have a 28% GST rate which is higher than the earlier 20%.rates. This will increase the price of your tickets. And the GST rate for other events like theatre, circus or Indian classical music shows or a folk dance performance or a drama show will be at 18% GST rate, this is lesser than the earlier tax rate.

16) DTH and cable services:

The money you pay towards your DTH (Direct-To-Home) connections or to your cable operator will reduce a bit as the rate is fixed at 18%, which is lower than the earlier taxes which were comprising of entertainment tax in the range of 10% to 30%, apart from the service tax of 15%.

CONCLUSION:-

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. Oneof 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.

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