

Goods and Services Tax – Conceptual and Implementation Framework

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ABSTRACT

There are multiple issues within the current indirect tax environment. There are numerous compliances that need to be fulfilled under several indirect taxes which create challenges to business. The GST offers an opportunity to mitigate many ills existing in the current tax environment and therefore the GST is necessary. GST will lead to a transition from the existing “complex” tax system to a relatively “simpler and unified” one. The proposed system would be fully automated and administered through a common portal requiring minimal interface between the tax payers and the authorities. This will be leading to considerable administrative and compliance cost saving for businesses. GST is expected to boost economic growth and integrate state economies. GST may lead to boost exports and stabilize prices. GST is expected to encourage voluntary compliance.

Introduction

Goods and Services Tax (GST) is a tax levied on the consumption of goods and services at a uniform rate. GST is an indirect tax. Under Indian Constitution indirect taxes are levied by both the Central and State Governments. Custom duties, central excise duty, service tax, are levied by Central Government. The State Government levy VAT (Value Added Tax), entry tax, octroi, entertainment tax, etc. There are numerous compliances that need to be fulfilled under the several indirect tax regimes which create challenges to the business. GST offers an opportunity to mitigate many inconveniences in the current tax environment. The GST structure that is proposed is unique under India's federal set up.

GST Components and Features

GST is a revolutionary step as it involves both the Central and State Governments to be empowered to levy and administer the taxes on the same taxable event which shall be the supply of all goods and services.

- I) The GST shall have two components: One levied by the Centre (Central GST) and the other levied by the States (State GST). Rates for the Central GST and State GST would be approved appropriately reflecting revenue considerations and acceptability.
- II) The Central GST and State GST would be applicable to all transactions of goods and services made for a consideration except the exempted goods and services.
- III) The Central GST and State GST are to be paid to the accounts of the two Governments individually.
- IV) Since Central GST and State GST are to be treated individually, taxes paid against the Central GST shall be allowed to be taken as Input Tax Credit (ITC) for the Central GST and could be utilized only against payment of Central GST.
- V) Cross utilization of ITC between Central GST and State GST would not be permitted except in the case of inter-state supply of goods and services.

Indirect Taxes Included in GST

Following indirect taxes from State and Central level are going to integrate with GST.

I) State Taxes

- 1) VAT/Sales Tax
- 2) Entertainment Tax
- 3) Luxury Tax
- 4) Taxes on Lottery, Betting and Gambling
- 5) State Cesses and Surcharges in so far as they relate to supply of goods and services.
- 6) Entry Tax not in lieu of Octroi.

II) Central Taxes

- 1) Central Excise Duty
- 2) Additional Excise Duty
- 3) Excise Duty levied under the Medical and Toiletries Preparation Act
- 4) Service Tax
- 5) Addition Customs Duty commonly known as Countervailing Duty (CVD)
- 6) Special Additional Duty of Customs (SAD)
- 7) Surcharges
- 8) Cesses

The above taxes dissolve under GST.

Applicability of GST

A prescribed limit on turnover is fixed for levying the GST and some goods and services are exempted under the GST. Threshold for annual turnover for goods and services would be Rs. 10 lakhs for SGST and for CGST for goods may be Rs. 1.5 crore. Services would have separate threshold.

Benefits of GST

The dual GST model will include every transaction whether goods or services and shall have a Central GST component as well as State GST component. The GST proposed would shift the tax base from production to consumption making it a destination based tax.

- 1) GST will result in transparent taxation system.
- 2) Reduces the number of indirect taxes.
- 3) Cost of doing business will be lower.
- 4) Customers will know exactly how much tax they are paying on the product they buy or services they use.
- 5) GST will help export becoming more competitive.
- 6) Tax burden will be divided equally between manufacturing and services.
- 7) GST will help increase tax base and reduce exemptions.

The study undertaken by the National Council of Applied Economic Research (NCAER) has reported that the implementation of a model GST will bring considerable economic benefits for the country. The study estimates that the introduction of the GST would enhance the country's GDP by 0.9 percent to 1.7 percent in the medium term. It is anticipated that GST will bring economic development, growth in export, moderation in taxes, stability in prices, etc. GST is expected to encourage voluntary compliance which would urge sectors currently under parallel economy to become part of the mainstream economy. Further, the simplification of processes and the indirect tax regime could improve India's case of doing business rankings.

Implementation of GST – Areas of Concern

A well implemented GST system will benefit the country in many ways. World over it is generally accepted that a single GST is the ideal GST. However, considering the complexity of tax laws in India the government has decided to go in for a Dual GST System CGST at the Central level and SGST at the State level. Later, the government added a third GST in the form of IGST for interstate transfers. It was decided that GST would be a destination based tax. The tax would be levied at point of destination and not at the point of origin. This would impact producing or manufacturing states the most as they would not be getting their full pound of flesh from taxes. To make up for the loss the Central Government has agreed to compensate states for a period of five years.

Conclusion

Goods and Services Tax (GST) will be the most revolutionary structural transformation of the indirect tax system in India since independence. It is a comprehensive indirect tax reform in our country. All sectors of the economy will have to bear the impact of GST. All sections of the economy viz. big, medium, small scale units, intermediaries, importers, exporters, traders, professionals and consumers shall be directly affected by GST. GST is all set to integrate state economies and boost overall growth. It is presumed by experts that GST is likely to improve tax collections and boost India's economic growth through uniform tax rate. The taxation burden will be divided equitably between manufacturing and services through a lower tax rate by increasing the tax base and minimising exemptions.

References

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