Available online at http://www.journalcra.com

International Journal of Current Research
Vol. 7, Issue, 04, pp.15323-15326, April, 2015

INTERNATIONAL JOURNAL
OF CURRENT RESEARCH

ISSN: 0975-833X

REVIEW ARTICLE

GOODS AND SERVICE TAX (GST): NEW BUZZ WORD IN THE INDIAN TAX REGIME

*Nidhi Khandelwal

Research Scholar, Mewar University, India

ARTICLE INFO

Article History:
Received 19th January, 2015
Received in revised form
26th February, 2015
Accepted 19th March, 2015
Published online 30th April, 2015

Key words:

VAT reform,
Malaysia introduces GST.

ABSTRACT

The India operates one of the most complex and inefficient consumption tax regimes in the world. There are a number of taxes, including:

- Indian VAT levied on goods separately by most of the 29 Indian states;
- Indian Service Tax which is charged on services
- CENVAT a VAT on the supply of goods charged by the central government
- Professional Tax

The taxes often overlap, resulting in double taxation, and impose a heavy administrative burden on taxable persons. There is also limited scope for the recovery of VAT, resulting in spiralling compound tax. It is estimated that the consolidated tax burden on the economy is over 30% compared to the OECD average of less than 20%.All of these factors act as a drag on the Indian economy – certainly costing the country 1% GDP growth per annum. There is also a narrow and unstable tax base with the current regime, which leads to unpredictable variations in government revenues. Other emerging countries have also introduced plans to reform their tax systems, and are much further down the line than India like Chinese VAT reform and Malaysia introduces GST.

INTRODUCTION

The differential multiple tax regime across sectors of production leads to distortions in allocation of resources thus introducing inefficiencies in the sectors of domestic production. With regard to India's exports, this leads to lack of international competitiveness of the sectors which would have been relatively efficient under distortion-free indirect tax regime. Further, there is lack of full offsets of taxes loaded on to the export prices. Efficient allocation of productive resources and providing full tax offsets is expected to result in gains for GDP, returns to the factors of production and exports of the economy. Implementation of a comprehensive goods and services tax (GST) is expected, ceteris paribus, to provide gains in Indias GDP. It is expected that the real returns to the factors of production would go up. In sum, implementation of a comprehensive GST in India is expected to lead to efficient allocation of factors of production thus leading to gains in GDP and exports. This would translate into enhanced economic welfare and higher returns to the factors of production, viz. land, labour and capital. A modern Goods and Services Tax (GST) would do much to alleviate the problems of India's current indirect tax system which is a serious impediment to the formation of a single common market and further economic growth. The Centre and the States should both have access to the full GST base, which means that the tax assignment issue should be separated from GST design aspects. It is not necessary or desirable to have a uniform GST for the Centre and the States. Neither is an integrated GST to tax transactions between States required. Last but not least, the system of taxation by classification and valuation should be replaced by a self-assessment system mainly monitored through checks upon books of account. India now aims to introduce a single, country-wide indirect tax system to replace all existing consumption taxes. This will be known as Goods and Services Tax (GST), and will be based on the standard VAT model, aiming to make GST neutral on taxable persons, and only a tax or expense on the final consumer. GST will be levied on the supply of goods and services, with potential reduced rate and exempt supplies for essential supplies such as foodstuffs and public transport. Imports will be subject to GST; but exports will be exempt. There will be a single GST rate for all major supplies, currently planned to be around 16%. This will be split between the Central Delhi government and the local states based on the values of the transactions in their locations.

***Corresponding author: Nidhi Khandelwal,**
Research Scholar, Mewar University, India.

Understanding GST

GST shall be levied and charged on the taxable supply of goods and services made in the course or furtherance of business in India by a taxable person. GST is also charged on the importation of goods and services. A taxable supply is a supply which is standard rated or zero rated. Exempt and out of scope supplies are not taxable supplies. GST is to be levied and charged on the value of the supply. GST can only be levied and charged if the business is registered under GST. A business is not liable to be registered if its annual turnover of taxable supplies does not reach the prescribed threshold. Therefore, such businesses cannot charge and collect GST on the supply of goods and services made to their customers. Nevertheless, businesses can apply to be registered voluntarily. Almost all countries collect income tax, which is a percentage of what you earn as an individual. Another way the government gets revenue is by collecting tax from business operations, like sales tax and duties on items that are bought or sold. We need to pay tax so that the government can operate. GST is one method of collecting taxes which works better than others.

Salient features of GST

- Consistent with the federal structure of the country, the GST will have two components: one levied by the Centre (hereinafter referred to as Central GST), and the other levied by the States (hereinafter referred to as State GST). This dual GST model would be implemented through multiple statutes (one for CGST and SGST statute for every State). However, the basic features of law such as chargeability, definition of taxable event and taxable person, measure of levy including valuation provisions, basis of classification etc. would be uniform across these statutes as far as practicable.
- The Central GST and the State GST would be applicable to all transactions of goods and services except the exempted goods and services, goods which are outside the purview of GST and the transactions which are below the prescribed threshold limits.
- The Central GST and State GST are to be paid to the accounts of the Centre and the States separately.
- Since the Central GST and State GST are to be treated separately, in general, 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 the payment of Central GST. The same principle will be applicable for the State GST.
- Cross utilisation of ITC between the Central GST and the State GST would, in general, not be allowed.
- To the extent feasible, uniform procedure for collection of both Central GST and State GST would be prescribed in the respective legislation for Central GST and State GST.
- The administration of the Central GST would be with the Centre and for State GST with the States.
- The taxpayer would need to submit periodical returns to both the Central GST authority and to the concerned State GST authorities.
- Each taxpayer would be allotted a PAN- linked taxpayer identification number with a total of 13/15 digits. This would bring the GST PAN-linked system in line with the prevailing PAN-based system for Income tax facilitating data exchange and taxpayer compliance. The exact design would be worked out in consultation with the Income-Tax Department.
- Keeping in mind the need of tax payers convenience, functions such as assessment, enforcement, scrutiny and audit would be undertaken by the authority which is collecting the tax, with information sharing between the Centre and the States.

Why GST?

GST is proposed to replace the current consumption tax i.e. the sales tax and service tax (SST). The introduction of GST is part of the Government's tax reform programmed to enhance the efficiency and effectiveness of the existing taxation system. GST is proven to be a better tax system as it is more effective, efficient, transparent and business friendly and could spur economic growth as well as increase competitiveness in the global market. GST is capable of generating a more stable source of revenue to the nation because it is less susceptible to economic fluctuations. It is important to replace the existing tax system in order to eliminate its inherent weaknesses such as cascading and compounding effects, transfer pricing and value shifting, no complete relief on goods exported, discourage vertical integration, administrative bureaucratic red tape, classification issues and etc. Various benefits that GST can offer to Indian consumers and businesses are:

Improved Standard of Living

The revenue from GST could be used for development purposes for social infrastructure like health facilities and institutions, educational infrastructures and public facilities to further improve the standard of living.

Lower Cost of Doing Business

Under the current system, some businesses pay multiple taxes and higher levels of tax-on-tax (cascading tax). With GST, businesses can benefit from recovering input tax, thus reducing cost of doing business.

Nation-Building

GST is a better and more efficient method of revenue collection for the government. More funds can be channeled into nation-building projects for progress towards achieving a high income nation.

Fairness and Equality

With the GST, taxes are levied fairly among all the businesses involved, whether they are in the manufacturing, wholesaling, retailing or service sectors.

Enhanced Delivery System

GST will be administrated in a fully computerized environment, therefore speeding up the delivery, especially for refund claims. This makes it faster, more efficient and reliable.

Increase Global Competitiveness

Prices of Indian exports will become more competitive on the global stage as no GST is imposed on exported goods and services, while GST incurred on inputs can be recovered along the supplies chain. This will strengthen our export industry, helping the country progress even further.

Enhanced Compliance

The current tax system has many inherent weaknesses making administration difficult. GST system has in-built mechanism to make the tax administration self-policing and therefore will enhance compliance.

Reduces Red Tape

Under the present tax system, businesses must apply for approval to get tax-free materials and also for special exemption for capital goods. Under GST, this system is abolished as businesses can offset the GST on inputs in their returns.

Fair Pricing to Consumers

GST eliminates double taxation under present system. Consumers will pay fairer prices for most goods and services.

Greater Transparency

Unlike the present sales tax, consumers would benefit under GST as they will know exactly whether the goods they consume are subject to tax and the amount they pay for.

Indian Indirect Tax regime

In India, our tax system involves several different indirect taxes:

Custom Duty

Imports into India are charged with duties in the nature of customs duty and in the nature of turnover tax on import. The following are the most important:

A.**Basic Duty:** It is the "standard rate" of tariff. Currently it is either 7.5 % or 10 % for most goods.
B.**Additional Duty (Countervailing Duty) (CVD):** The Additional Duty is equal to the Excise Duty levied on a like product manufactured or produced in India. For most goods the rate currently stands at 12% (effectively 12.36% including Education Cess).
C.**Special Additional Duty (Special Countervailing Duty):** Imported goods are also liable to Special Additional Duty having regard to the maximum sales tax, local tax or any other charges for the time being classified on a like article if it was sold or purchased in India. It is calculated at 4%. However, this duty is refundable if the imported goods are sold by the importer as such (no manufacturing) after payment of applicable VAT or Central Sales Tax.

Value Added Tax

VAT is levied by State Governments on intra-State sale of goods in India. VAT rate varies depending upon the relevant State Legislations and the nature of goods. The general rate of VAT is 12.5%, 4% and 0%. In case of few States the VAT rate of 4% has been increased to 5%. A dealer is allowed to take input tax credit of VAT paid on inputs and utilize the same against its output VAT/ CST liability subject to compliance with the prescribed conditions. The are two kinds of sales Intra state and interstate sales. Intra state sale is a sale which happens within the limits of any one State. This type of sales attrates VAT. Other transaction are known as interstate transaction, these transaction happens between two or more States. Such transaction attacts Central Sales Tax (CST). The rate of CST is 2% if concessional form i.e. FORM C is available.

Service Tax

Service Tax is a Central levy on provision of notified taxable services specified under Chapter V of the Finance Act, 1994. The Finance Act in the year 1994 has introduced service tax only on three services viz. (1) Telephone (2) Stockbroker (3) General Insurance. But over the years, numerous services have been brought under the purview of this tax. Due to constant amendments in the Finance Act by introduction of new services, the maximum GDP of about 55.1% in the year 2006-07 was collected from the Service sector. At the time when this tax was introduced, the rate of service tax was 5%. But over the years this rate had increased upto 12% along with Education Cess of 2% and Secondary & Higher Education Cess of 1%. Currently the rate of Service Tax is 12% plus education cess of 2% and secondary & higher education cess of 1% i.e. 12.36%.

Service tax is a destination based consumption tax. When any taxable service classified under Section 65 (105) of the Finance Act is rendered, the service provider is liable to pay service tax. The service tax is actually borne by the service recipient in normal circumstances. The total consideration paid by the recipient of the taxable services is considered to be the amount on which Service Tax is chargeable.

Central Excise Duty

Central Excise duty is an indirect tax levied on goods manufactured in India. The tax is administered by the Central Government under the authority of Entry 84 of the Union list (List I) of the Constitution of India. The Central Excise Duty is levied in terms of Central Excise Act, 1944 and rates of duty, ad valorem or specific, are prescribed under the Schedule I and II of the Central Excise Tariff Act, 1985. Generally, the effective rate of the central excise is 10.30%. Two conditions must be satisfied for levy of central excise:-

- The article should be "Goods'; and
- It should have come into existence as a result of "Manufacture"

Proposed Goods and Service Tax (GST)

GST is new buzz word in the tax regime. It is proposed to merge service tax, value added tax and central excise into one tax i.e. GST. Goods and Service Tax is a comprehensive indirect tax levy on manufacture, sale, supply and consumption of goods and services. Its main objective is the converge of all indirect taxes into a single tax, replacing multiple tax levies, overcoming limitation of current indirect tax structure and creating efficiencies in tax administration. The current taxation framework allows limited inter-levy credits between Central

Excise Duty and Service Tax. However, no cross credits are available in respect of other taxes specifically VAT, CST, Entry Tax. Introduction of GST would allow the inter levy credits and thus rationalize tax content in product price; enhance ability of assesse to compete globally and possible trickle down the benefit to ultimate consumer. GST is levied at every stage of production-distribution chain with applicable set off/ credits in respect of tax paid at previous stages. Under dual GST system, taxable base is proposed to be subject to the following taxes:

At the federal level, it is proposed that CGST will primarily subsume CVD, SAD, Central Excise Duty, Service Tax and CST.State Goods and Service Tax ("SGST"): At a State level, it is proposed that SGST will primarily subsume VAT, Octroi and Entry Tax. Integrated Goods and Service Tax ("IGST"): At the federal level, it is proposed that IGST would be CGST and SGST and applicable on all inter- State transactions of taxable goods and services.

Conclusion

Both the CENVAT and the State VAT have certain incompleteness. The introduction of GST will not only include comprehensively more indirect Central taxes and integrate goods and services taxes for set-off relief, but also capture certain value addition in the distributive trade. Similarly, in the present State-level VAT scheme, CENVAT load on the goods has not yet been removed and the cascading effect of that part of tax burden has remained unrelieved. Moreover, there are several taxes in the States, such as, Luxury Tax, Entertainment Tax, etc. which have still not been subsumed in the VAT. Further, there has also not been any integration of VAT on goods with tax on services at the State level with removal of cascading effect of service tax. In addition, although the burden of Central Sales Tax (CST) on inter-State movement of goods has been lessened with reduction of CST rate from 4% to 2%, this burden has also not been fully phased out. With the introduction of GST at the State level, the additional burden of CENVAT and services tax would be comprehensively removed, and a continuous chain of set-off from the original producer's point and service provider's point upto the retailer's level would be established which would eliminate the burden of all cascading effects, including the burden of CENVAT and service tax. This is the essence of GST. Also, major Central and State taxes will get subsumed into GST which will reduce the multiplicity of taxes, and thus bring down the compliance cost. With GST, the burden of CST will also be phased out. Thus GST is not simply VAT plus service tax, but a major improvement over the previous system of VAT and disjointed services tax – a justified step forward.

REFERENCES

Datta, B. C. Laymen's Guide to GST, 2011

Empowered Committee of State Finance Ministers, 2008. A Model and Roadmap for Goods and Services Tax in India, New Delhi.

John, P. V. 2010. Reforms in Sales Tax Structure: A Study with Special Reference to VAT in Kerala, Unpublished PhD Thesis, Mahatma Gandhi University, Kottayam.

Majumdar, and Sumit Dutt. GST in India, 2014

Rajkumar S. Adukir 2009. A Study on Proposed Goods and Services Tax (GST) Frame work in India, Paper presented at the National Tax Association, Annual conference of Taxation, New Delhi, Nov.10-11.

Thirteenth Finance Commission, 2009. Report of the Task Force on Goods and Services Tax, New Delhi.

****