



GOODS AND SERVICES TAX (INDIA)

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ABSTRACT

The reform process of India's indirect tax regime was started in 1986 by Vishwanath Pratap Singh, Finance Minister in Rajiv Gandhi's government, with the introduction of the Modified Value Added Tax (MODVAT). Subsequently, Manmohan Singh, the then Finance Minister under P V Narasimha Rao, initiated early discussions on a Value Added Tax at the state level. A single common "Goods and Services Tax (GST)" was proposed and given a go-ahead in 1999 during a meeting between the then Prime Minister Atal Bihari Vajpayee and his economic advisory panel, which included three former RBI governors IG Patel, Bimal Jalan and C Rangarajan. Vajpayee set up a committee headed by the then finance minister of West Bengal, Asim Dasgupta to design a GST model. GST is an indirect tax levied on the supply of goods and services. GST Law has replaced many indirect tax laws that previously existed in India.

KEYWORDS : Value added tax, Goods and service tax, Modified value added tax.

INTRODUCTION

Goods and Services Tax (GST) is an indirect tax which was introduced in India on 1 July 2017 and was applicable throughout India which replaced multiple cascading taxes levied by the central and state governments. It was introduced as The Constitution (One Hundred and First Amendment) Act 2017 following the passage of Constitution 122nd Amendment Act Bill. The GST is governed by a GST Council and its Chairman is the Finance Minister of India. Under GST, goods and services are taxed at the following rates, 0%, 5%, 12%, 18% and 28%. There is a special rate of 0.25% on rough precious and semi-precious stones and 3% on gold.^[2] In addition a cess of 22% or other rates on top of 28% GST applies on few items like aerated drinks, luxury cars and tobacco products.^[3] GST replaced a slew of indirect taxes with a unified tax and is therefore set to dramatically reshape the country's 2 trillion dollar economy.

A 22-members select committee was formed to look into the proposed GST laws. State and Union Territory GST laws were passed by all the states and Union Territories of India except Jammu & Kashmir, paving the way for smooth rollout of the tax from 1 July 2017. The Jammu and Kashmir state legislature passed its GST act on 7 July 2017, thereby ensuring that the entire nation is brought under an unified indirect taxation system. There was to be no GST on the sale and purchase of securities. That continues to be governed by Securities Transaction Tax (STT).

Taxation scheme

Taxes subsumed

The single GST (goods and service taxes) replaced several former taxes and levies which included: central excise duty, services tax, additional customs duty, surcharges, state-level value added tax and Octroi. Other levies which were applicable on inter-state transportation of goods have also been done away with in GST regime. GST is levied on all transactions such as sale, transfer, purchase, barter, lease, or import of goods and/or services. India adopted a dual GST model, meaning that taxation is administered by both the Union and State Governments. Transactions made within a single state are levied with Central GST (CGST) by the Central Government and State GST (SGST) by the State governments. For inter-state transactions and imported goods or services, an Integrated GST (IGST) is levied by the Central Government. GST is a consumption-based tax, therefore, taxes are paid to the state where the goods or services are consumed not the state in which they were produced. IGST complicates tax collection for State Governments by disabling them from collecting the tax owed to them directly from the Central Government. Under the previous system, a state would only have to deal with a single

government in order to collect tax revenue.

HSN code in GST

HSN (Harmonized System of Nomenclature) is an 8-digit code for identifying the applicable rate of GST on different products as per CGST rules. If a company has turnover up to Rs. 1.5 Crore in preceding financial year then they need not to mention HSN code while supplying goods on invoices, if a company has turnover more than 1.5 Cr but up to 5 Cr then they need to mention 2 digit HSN code while supplying goods on invoices and if turnover cross 5 Cr then they shall mention 4 digit HSN code on invoices.

Rates

The GST is imposed at variable rates on variable items. The rate of GST is 2% for soaps and 28% on washing detergents. GST on movie tickets is based on slabs, with 18% GST for tickets that cost less than Rs. 100 and 28% GST on tickets costing more than Rs.100 and 5% on readymade clothes. The rate on under-construction property booking is 12%. Some industries and products were exempted by the government and remain untaxed under GST, such as dairy products, products of milling industries, fresh vegetables & fruits, meat products, and other groceries and necessities. Check posts across the country were abolished ensuring free and fast movement of goods.

The Central Government had proposed to insulate the revenues of the States from the impact of GST, with the expectation that in due course, GST will be levied on petroleum and petroleum products. The central government had assured states of compensation for any revenue loss incurred by them from the date of GST for a period of five years. However, no concrete laws have yet been made to support such action. GST council adopted concept paper discouraging tinkering with rates.

Goods & Services Tax Law in India is a comprehensive, multi-stage, destination-based tax that will be levied on every value addition.

Multi-stage

There are multiple change-of-hands an item goes through along its supply chain : from manufacture to final sale to consumer.

Let us consider the following case:

- Purchase of raw materials
- Production or manufacture
- Warehousing of finished goods
- Sale of the product to the retailer
- Sale to the end consumer

Value Addition

The manufacturer who makes shirts buys yarn. The value of yarn gets increased when the yarn is woven into a shirt.

The manufacturer then sells the shirt to the warehousing agent who attaches labels and tags to each shirt. That is another addition of value after which the warehouse sells it to the retailer.

The retailer packages each shirt separately and invests in the marketing of the shirt thus increasing its value.

Components of GST

There are 3 applicable taxes under GST: CGST, SGST & IGST.

- CGST: Collected by the Central Government on an intra-state sale (Example: Within Karnataka)
- SGST: Collected by the State Government on an intra-state sale (Example: Within Karnataka)
- IGST: Collected by the Central Government for inter-state sale (Example: Karnataka to Tamil Nadu)

Transaction	New Regime	Old Regime	
Sale within the State	CGST + SGST	VAT + Central Excise/Service tax	Revenue will be shared equally between the Centre and the State
Sale to another State	IGST	Central Sales Tax + Excise/Service Tax	There will only be one type of tax (central) in case of inter-state sales. The Center will then share the IGST revenue based on the destination of goods.

Merits of GST

- Removing cascading tax effect
- Higher threshold for registration
- Lesser Complains
- Defined treatment for e-commerce
- Regulating the unorganized sector
- Increased efficiency in logistics

Demerits of GST

Change in Business Software

Most businesses use accounting software or ERPs for filing tax returns which have excise, VAT, and service tax already incorporated in them. The transition to GST will require businesses to change their ERPs, too; either by upgrading the software or by purchasing new GST-compliant software. This will lead to increased costs of buying new software and training employees on how to use it.

Clear Tax is the first company in India to launch ready-to-use GST software. It is currently available at reduced prices for SMEs, to help them to transit to GST smoothly. To ease the pain of the people, it doesn't require you to update the existing software and provide free services for first 3 months.

GST Compliance

SMEs are still not completely aware of the nuances of the new tax regime. Changing over to a completely new system of taxation requires understanding of the minutiae, which businesses lack right now. Most of them are worried about filing timely returns, but it is important to note that even before businesses can reach the filing stage they have to issue GST-compliant invoices. For a traditionally pen-and-paper economy like India, this change to digital record-keeping is going to be massive. Invoices after 1st July will need to be GST-compliant with all details such as GSTIN, place of supply, HSN code etc. as mandated by the law.

The Clear Tax Bill Book web application, which is available for free on their site, is an easy solution to this problem. It will help every

business issue GST-compliant invoices to their customers. These same invoices can then be used for return filing through the Clear Tax platform.

Increase in Operating Costs

Most small businesses in India do not employ tax professionals, and have traditionally preferred to pay taxes and file returns on their own to save costs. However, they will require professional assistance to become GST compliant as it is a completely new system. While this will benefit the professionals, the small businesses will have to bear the additional cost of hiring experts.

Also, businesses will need to train their employees in GST compliance, further increasing their overhead expenses.

Policy Change during the Middle of the Year

GST will go live three months into the financial year 2017-18. So, for FY 2017-18, business will follow the old tax structure for the first 3 months, and GST for the rest of the time. It is impossible to cross over from one tax structure to the other in just a day, and hence businesses will end up running both tax systems in parallel, which might result in confusion and compliance issues.

Online Procedure

GST compliance, return filing and payments all have to be done online. Many small businesses are not tech-savvy and do not have the resources for fully computerized compliance. Even as the rest of the nation gets ready to go digital, businesses in small cities across India face a huge technology problem in the days ahead.

Cloud-based software like the Clear Tax GST software could be an answer to this problem. This does not require any downloads, and the process for return filing on Clear Tax GST is very simple. Business owners need only upload their invoices, and the software will populate the return forms automatically with the information from the invoices. Any errors in invoices will be clearly identified by the software in real-time thus increasing efficiency and timeliness.

No Clarity on Tax Holidays

Many manufacturers (textile, pharmaceutical, FMCG industries) enjoy tax holidays and state benefit schemes. There is still no notification regarding these benefits. This will mean increased costs for these industries, which will probably be passed on to the end consumers.

Disruption to Business

Cloth merchants (unorganized) are going on strike to protest against GST. Eateries and drug shops in Chennai are also threatening to protest the regime change – and this is only the tip of the iceberg. In the coming days, we can expect to see more of these protests happening across the country and these will undoubtedly disrupt business. If there's any solace, it's in knowing that other countries who implemented GST never had it easy either. Malaysia recently introduced GST in 2014 and faced nationwide strikes and protests. How the Indian government will handle these events is left to be seen.

Conclusion

The government is trying to reduce the burden of compliance for businesses by relaxing the return filing requirements for the first two months post implementation. Also, the provisions of TCS on e-commerce and registration for online sellers have also been relaxed for the time being. Change is definitely never easy. The government is trying to smoothen the road to GST. It is important to take a leaf from global economies that have implemented GST before us, and who overcame the teething troubles to experience the advantages of having a unified tax system and easy input credits. Once GST is implemented, most of the current challenges of this move will be a story of the past. India will become a single market where goods can move freely and there will lesser compliances to deal with for businesses. The benefits of GST will definitely outweigh the

disadvantages of GST.

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