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Goods and Services Tax- Feasibility in India

* Ms.P.Deepa ** Dr.K.Raja Alias Pranmalai
*** CM Maran

* Assistant Professor (Part Time Research Scholar, Gandhigram Rural Institute, Gandhigram), Arulmigu Palaniandavar Arts College for Women, Palani.

**Associate Professor, Dept of Rural Industries & Management, Gandhigram Rural Institute, (Deemed University), Gandhigram

*** Assistant Professor – Senior, VIT Business School, VIT University, Vellore, Tamilnadu, India

INTRODUCTION

GST (Goods and Services Tax), refers to the tax reform which aims to bring in efficiency and harmonise the consumption tax. This would mark the end of the parallel system of consumption taxation by the central and state governments. Goods and Services Tax (GST) in India has been proposed to be implemented from April, 2011. Though initially it was proposed to be implemented from this year itself, there was a protest from a number of states on the grounds on unresolved issues and request from states like Orissa, Madhya Pradesh, Rajasthan and Tamil Nadu to defer the same. The main reason as understood by market players are that there is a state-central tussle over the share of the revenue and the loss of the control over the tax rate by the state governments.

WHAT IS GST?

Goods and Services Tax is a tax on goods and services, which will be levied at each point of sale or provision of service, in which at the time of sale of goods or providing the services the seller or service provider can claim the input credit of tax which he has paid while purchasing the goods or procuring the service.

DUAL GST

Dual GST means, the proposed model will have two component called

1. CGST – Central goods and service tax levied by central Govt.
2. SGST – State goods and service tax levied by state Govt.

India is a federal country where both the Centre and the States have been assigned the powers to levy and collect taxes through appropriate legislation. Both the levels of Government have distinct responsibilities to perform according to the division of powers prescribed in the Constitution for which they need to mobilize resources. A dual GST will, therefore, be in keeping with the Constitutional requirement of fiscal federalism.

GST RATES

The tax will be collected in three tiers rates.

1. Goods at lower rate
2. Goods at standard rate
3. Services.

Year	Categories	Central GST	State GST	Total Tax Liability
2011 April	Goods at lower rate	6	6	12
	Goods at standard rate	10	10	20
	Services	8	8	16

INDIRECT TAXES SUBSUMED UNDER GST

The following indirect taxes from state and central level is going to integrated with GST

Central Taxes

1. Central Excise Duty.
2. Additional Excise Duty.
3. The Excise Duty levied under the medical and Toiletries Preparation Act
4. Service Tax.
5. Additional Customs Duty, commonly known as countervailing Duty (CVD)
6. Special Additional duty of custums-4% (SAD)
7. Surcharges
8. Cessess

State Taxes

1. VAT/Sales tax
2. Entertainment Tax (unless it is levied by local bodies)
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 on in lieu of Octri.

HOW GST WILL WORK

Generally, the dealers registered under GST (Manufacturers, Wholesalers and retailers and service providers) charge GST on the price of goods and services from their customers and claim credits for the GST included in the price of their own purchases of goods and services used by them. While GST is paid at each step in the supply chain of goods and services, the paying dealers don't actually bear the burden of the tax because GST is an indirect tax and ultimate burden of the GST has to be taken by the last customer. This is because they include GST in the price of the goods and services they sell and can claim credits for the most GST included in the price of goods and services they buy. The cost of GST is borne by the final consumer, who can't claim GST credits, i.e. input credit of the tax paid. The GST can be divided into following sections to understand it better:

1. Charging Tax: The dealers registered under GST (Manufacturers, Wholesalers and Retailers and Service Providers) are required to charge GST at the specified rate of tax on goods and services that they supply to customers. The GST payable is included in the price paid by the recipient of the goods and services. The supplier must deposit this amount of GST with the Government.

2. Getting Credit of GST: If the recipient of goods or services is a registered dealer (Manufacturers, Wholesalers and Retailers and Service Providers), he will normally be able to claim a credit for the amount of GST he has paid, provided he holds a proper tax invoice. This "input tax credit" is set-off against any GST (Out Put), which the dealer charges on goods and services, which he supplies, to his customers.

3. Ultimate Burden of Tax on Last Customer: The net effect is that dealers charge GST but do not keep it, and pay GST but get a credit for it. This means that they act essentially as collecting agents for the Government. The ultimate burden of the tax falls on the last and final consumer of the goods and services, as this person gets no credit for the GST paid by him to his sellers or service providers.

4. Registration: Dealers will have to register for GST. These dealers will include the suppliers, manufacturers, service providers, wholesalers and retailers. If a dealer is not registered, he normally cannot charge GST and cannot claim credit for the GST he pays and further cannot issue a tax invoice.

5. Tax Period: The tax period will have to be decided by the respective law and normally it is monthly and/or quarterly. On a particular tax period, which is applicable to the dealer concerned, the dealer has to deposit the tax if his output credit is more than the input credit after considering the opening balance, if any, of the input credit.

6. Refunds: If for a tax period the input credit of a dealer is more than the output credit then he is eligible for refund subject to the provisions of law applicable in this respect. The excess may be carried forward to next period or may be refunded immediately depending upon the provision of law.

7. Exempted Goods and Services: Certain goods and services may be declared as exempted goods and services and in that case the input credit cannot be claimed on the GST paid for purchasing the raw material in this respect or GST paid on services used for providing such goods and services.

8. Zero Rated Goods and Services: Generally, export of goods and services are zero-rated and in that case the GST paid by the exporters of these goods and services is refunded. This is the basic difference between Zero rated goods and services and exempted goods and services.

9. Tax Invoice: Tax invoice is the basic and important document in the GST and a dealer registered under GST can issue a tax invoice and on the basis of this invoice the credit (Input) can be claimed. Normally a tax invoice must bear the name of supplying dealer, his tax identification nos., address and tax invoice nos. coupled with the name and address of the purchasing dealer, his tax identification nos., address and description of goods sold or service provided.

SYSTEMS OF GST

Internationally, there are three systems in vogue:
(a) Invoice System
(b) Payment System
(c) Hybrid System

(a) Invoice System:

In the invoice system, the GST (Input) is claimed on the basis of invoice and it is claimed when the invoice is received, it is immaterial whether payment is made or not. Further the GST (Output) is accounted for when invoice is raised. Here also the time of receipt of payment is immaterial.

One may treat it as mercantile system of accounting. In India the present system of sales tax on goods is an invoice system of VAT and here it is immaterial whether the taxpayer is following the cash basis of accounting or mercantile basis of accounting.

The advantage of invoice system is that the input credit can be claimed without making the payment. The disadvantage of the invoice system is that the GST has to be paid without receiving the payment.

(b) Payment System:

In the payment system of GST, the GST (Input) is claimed when the payment for purchases is made and the GST (Output) is accounted for when the payment is made. In this system, it is immaterial whether the assessee is maintaining the accounts on cash basis or not.

The advantage of cash invoice system is that the Tax (output) need not be deposited until the payment for the goods and/or services is received. The disadvantage of the payment system is that the GST (input) cannot be claimed without making the payment.

The Taxes on services in India are based on this payment system since service tax is payable on receipt basis and further Cenvat credit is only allowable when payment of the service is made.

In some countries, this system is also adopted for small traders to keep them away from the complexities of the Invoice system, which is purely a mercantile system.

(c) Hybrid System:

In hybrid system the GST (Input) is claimed on the basis of invoice and GST (Output) is accounted for on the basis of payment, if allowed by the law. In some countries the dealers have to put their option for this system or for a reversal of this system before adopting the same.

ADVANTAGES OF IMPLICATION OF GST IN INDIA

- ❖ It will boost up economic unification of India; it will assist in better conformity and revenue resilience; it will evade the cascading effect in Indirect tax regime.
- ❖ · In GST system, both Central and state taxes will be collected at the point of sale. Both components (the Central and state GST) will be charged on the manufacturing cost.
- ❖ It will reduce the tax burden for consumers;
- ❖ It will result in a simple, transparent and easy tax structure; merging all levies on goods and services into one GST.
- ❖ It will bring uniformity in tax rates with only one or two tax rates across the supply chain;
- ❖ It will result in a good administration of tax structure;
- ❖ It may broaden the tax base;
- ❖ It will increase tax collections due to wide coverage of goods and services.
- ❖ It will result in cost competitiveness of goods and services in Global market.
- ❖ It will reduce transaction costs for taxpayers through simplified tax compliance.
- ❖ It will result in increased tax collections due to wider tax base and better conformity.

DISADVANTAGES OF IMPLEMENTATION OF GST

- · Not using the correct accounting method.
- · Incorrectly claiming GST credits on bank fees
- · Incorrectly claiming GST credits on government charges --such as land tax, council rates, and water rates.
- · Incorrectly claiming a GST credit on the 'total cost' of a business insurance policy.
- · Because there's a stamp duty component in the premium which is not subject to GST, a GST credit cannot be claimed on this portion of the payment.
- · Not remitting GST on some government grants and incentives which are received inclusive of GST
- · GST is not paid on the sale of cars and equipment including the trade of motor vehicles.
- · Incorrectly claiming GST credits on wages and superannuation payments.
- · Incorrectly claiming GST credits on GST-free purchases such as basic food items, exports and some health services.
- · Claiming the entire GST credits on a car purchased for more than the luxury car limit.
- · Sole traders and partnerships are not apportioning input tax credits and making adjustments to expenditure that's partly private and partly business use.

CONCLUSION

The introduction of the GST method would definitely go a long way in improving and rationalizing the quality of the indirect tax regime as it incorporates all the desirable features of an efficient tax system. It is for the first time that the system of a continuous set of relief for taxes paid either on Inputs or in the previous stage of distributive trade has been proposed. The ultimate process of integration of taxes and equalization of rates is positive step which proves to be the hallmark in the proposed GST regime. Apparently, the proposed regime has given much emphasis to the system of refunds and also fails to provide any justifiable explanation for the reduction in the overall tax burden on the manufacturers / traders and more importantly the final consumers. It is felt that apart from the above issues the biggest of challenges for implementation of the GST model would come in the form of having a sound IT infrastructure to manage the impact as well as the transition towards the GST regime in a more effective and sound manner.

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