



Basic Concepts and Features of Good and Service Tax in India

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ABSTRACT

The present structure of Indirect Taxes is very complex in India. There are so many types of taxes that are levied by the Central and State Governments on Goods & Services. We have to pay 'Entertainment Tax' for watching a movie. We have to pay Value Added Tax (VAT) on purchasing goods & services. And there are Excise duties, Import Duties, Luxury Tax, Central Sales Tax, Service Tax...etc As of today some of these taxes are levied by the Central Government and some are by the State governments. How nice will it be if there is only one unified tax rate instead of all these taxes? In this post, let us understand – what is Goods and Services Tax and its importance. What are the benefits of GST Bill to Corp orates, common man and end consumer? What are the advantages, disadvantages and challenges? 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 been detailed discuss in this paper as the background, silent features and the impact of GST in the present tax scenario in India.

KEYWORDS

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."¹ The first known system of taxation was in Ancient Egypt around 3000 BC - 2800 BC in the first dynasty of the Old Kingdom. Records from that time show that the pharaoh would conduct a biennial tour of the kingdom, collecting tax revenues from the people. Other records are granary receipts on limestone flakes and papyrus. Early taxation is also described in the Bible. In Genesis², it states "But when the crop comes in, gives a fifth of it to Pharaoh. The other four-fifths you may keep as seed for the fields and as food for yourselves and your households and your children." Joseph was telling the people of Egypt how to divide their crop, providing a portion to the Pharaoh. A share³ of the crop was the tax. In India, the tradition of taxation has been in force from ancient times. It finds its references in many ancient books like 'Manu Smriti'⁴ and 'Arthashastra'. The Islamic rulers imposed jizya⁵. It was later on abolished by Akbar. However, Aurangzeb, the last prominent Mughal Emperor, levied jizya on his mostly Hindu subjects in 1679. Reasons for this are cited to be financial stringency and personal inclination on the part of the emperor, and a petition by the ulema⁶. The period of British rule in India witnessed some remarkable change in the whole taxation system of India. Although, it was highly in favour of the British government and its exchequer but it incorporated modern and scientific method of taxation tools and systems. 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. Direct⁷ and Indirect taxes⁸. 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.

INTRODUCTION OF GST

Introduction of the Value Added Tax (VAT) at the Central and the State level has been considered to be a major step – an important step forward – in the globe of indirect tax reforms in India. If the VAT is a major improvement over the pre-ex-

isting Central excise duty at the national level and the sales tax system at the State level, then the Goods and Services Tax (GST) will indeed be an additional important perfection – the next logical step – towards a widespread indirect tax reforms in the country. Initially, it was conceptualized that there would be a national level goods and services tax. Almost 150 countries have introduced GST in some form. While countries such as Singapore and New Zealand tax virtually everything at a single rate, Indonesia has five positive rates, a zero rate and over 30 categories of exemptions. In China, GST applies only to goods and the provision of repairs, replacement and processing services. Under the GST scheme, a person who was liable to pay tax on his output, whether for provision of service or sale of goods, is entitled to get input tax credit (ITC) on the tax paid on its inputs. France was the first country to introduce this system in 1954. Nearly 140 countries are following this tax system. GST could be the next biggest tax reform in India. This reform could be a continuing process until it is fully evolved. We need to wait few more months for more details on Goods & Services Tax system.

OBJECTIVES OF GST

One of the main objectives of GST would be to eliminate the cascading impact of taxes on production and distribution cost of goods and services. The exclusion of cascading effects i.e. tax on tax will significantly improve the competitiveness of original goods and services which leads to beneficial impact to the GDP growth. It is felt that the GST would serve a superior reason to achieve the objective of streamlining indirect tax regime in India which can remove cascading effects in supply chain till the level of final consumers only when all such above mentioned indirect taxes are completely included in GST. It is understood that alcohol, tobacco and petroleum products will not be enclosed by GST as alcohol and tobacco are considered as Sin Goods, and governments do not like to allow free trade on these property.

OPPORTUNITIES

An end to cascading effects

This will be the major contribution of GST for the business and commerce. At present, there are different state level and centre level indirect tax levies that are compulsory one after another on the supply chain till the time of its utilization.

Growth of Revenue in States and Union

It is expected that the introduction of GST will increase the tax base but lowers down the tax rates and also removes the mul-

multiple point This, will lead to higher amount of revenue to both the states and the union.

Reduces transaction costs and unnecessary wastages

If government works in an efficient mode, it may be also possible that a single registration and single compliance will suffice for both SGST and CGST provided government produces effective IT infrastructure and integration of such infrastructure of states level with the union.

Eliminates the multiplicity of taxation

One of the great advantages that a taxpayer can expect from GST is elimination of multiplicity of taxation. The reduction in the number of taxation applicable in a chain of transaction will help to clean up the current mess that is brought by existing indirect tax laws.

One Point Single Tax

Another feature that GST must hold is it should be 'one point single taxation'. This also gives a lot of comforts and confidence to business community that they would focus on business rather than worrying about other taxation that may crop at later stage. This will help the business community to decide their supply chain, pricing modalities and in the long run helps the consumers being goods competitive as price will no longer be the function of tax components but function of sheer business intelligence and innovation.

Reduces average tax burdens

Under GST mechanism, the cost of tax that consumers have to bear will be certain, and GST would reduce the average tax burdens on the consumers.

CHALLENGES

With respect to nature of taxes

The taxes that are generally included in GST would be excise duty, countervailing duty, cess, service tax, and state level VATs among others. Interestingly, there are numerous other states and union taxes that would be still out of GST.

With respect to number of enactments of statutes

There will be two types of GST laws, one at a centre level called 'Central GST (CGST)' and the other one at the state level - 'State GST (SGST)'. As there seems to have different tax rates for goods and services at the Central Level and at the State Level, and further division based on necessary and other property based on the need, location, geography and resources of each state.

With respect to Rates of taxation

It is true that a tax rate should be devised in accordance with the state's necessity of funds.

Whenever states feel that they need to raise greater revenues to fund the increased expenditure, then, ideally, they should have power to decide how to increase the revenue.

With respect to tax management and infrastructure

It depends on the states and the union how they are going to make GST a simple one. Success of any tax reform policy or managerial measures depends on the inherent simplifications of the system, which leads to the high conformity with the administrative measures and policies.

Benefits of GST Bill implementation

The tax structure will be made lean and simple

The entire Indian market will be a unified market which may translate into lower business costs. It can facilitate seamless movement of goods across states and reduce the transaction costs of businesses.

It is good for export oriented businesses. Because it is not applied for goods/services which are exported out of India.

In the long run, the lower tax burden could translate into lower prices on goods for consumers.

The Suppliers, manufacturers, wholesalers and retailers are able to recover GST incurred on input costs as tax credits. This reduces the cost of doing business, thus enabling fairer prices for consumers.

It can bring more transparency and better compliance.

Number of departments will reduce which in turn may lead to less corruption

More business entities will come under the tax system thus widening the tax base. This may lead to better and more tax revenue collections.

Companies which are under unorganized sector will come under tax regime.

Demerits of the GST

Doesn't include petroleum and alcohol products. Heavy loss to the exchequer.

Instead of blurring out the difference between goods and services tax, it highlights them. An aam aadmi (common man) filing the tax-returns will have to suffer.

It requires strong IT (Information Technology) infrastructure at grass-root levels. India essentially lacks this. This factor is going to be the bottleneck, if not addressed well in advance.

Very high rates 16% compared to current 12.5 % VAT.

Tax-sharing between states and the Centre was another bottleneck. Nice to see that there is a consensus now.

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.. One of the biggest taxation reforms in India -- the Goods and Service Tax (GST) -- is all set to integrate State economies and boost overall growth.