International Journal of Enhanced Research in Management & Computer Applications
ISSN: 2319-7471, Vol. 6 Issue 12, December-2017, Impact Factor: 3.578

Goods and Services Tax

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I.INTRODUCTION

India is one of the growing economy in the world. India is notorious for its complex taxation system. For new businesses and startups, it becomes impossible to navigate through various direct and indirect taxes. Constant changes to taxes like service tax are making things even worst. The Goods and Services tax or commonly referred to as the GST will replace the indirect taxes levied by the Central and State Governments and provide for a single and streamlined process of tax system. It presents India as a unified market to business owners and also aims at bringing a lot of black money back into the mainstream economy. But now, the things are set to change with new Goods and Service Tax commonly known as GST. The Goods and Services Tax or GST has been launched on the 1st of July, and it is set to revolutionize the way we pay our taxes. But what is GST and how will it reform the current tax structure and most importantly, why does the country need such a huge overhaul in its taxation policies. GST is one indirect tax for the whole nation, which will make India one unified common market. GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. The tax will be implemented at every step of value creation. Let's understand what is GST, how it is different from other tax systems lets understand with the example below,
Mr. verma is a businessman who wants to start a business. For this he needs various raw materials which have to be imported from China and will need to be brought to Delhi – where he has his factory – by road through various states. Once he gets down on the process of estimating his costs he is a little troubled. First, he needs to pay a customs duty for importing the materials on top of the shipping charges. This is fine but there are a lot of other taxes which he seems to be unable to comprehend. Also, he finds out that when he has his final product ready he will have paid the Central and State Governments at least 10 different taxes not all of which are exclusive of each other. The Goods and Services Tax promises to alleviate this problem among many others. It is being hailed as the game changer for India's economy and is being labelled as the biggest change in the Constitution since India's independence.

GST can be Calculated with an example;
Let us assume that the GST is set at 20%. Suppose that the manufacturing cost of a Product A is 100 and assuming a GST of 20% the total amount is Re. 120. The next step of taxation would be when the Product is sold to consumers, let's say at a price of 150. So, the GST will charge another 20% on just the difference of Re. 150 and Re. 120 i.e. only 20% on Re. 30 which is equal to Re. 6. So, the final price is Re. 150 + Re. 6. Unlike the case of petrol pricing there is no tax on a tax now. This eliminates the cascading effect of taxes which is very prevalent in our economy and has been simplified to an elemental level in the example. Since the GST will be applied at every step of value creation it will be very difficult for black money owners to participate anywhere in the value chain with the GST without accounting for all other transactions. The GST is estimated to provide an immediate boost of 0.9% – 1.4% of the GDP. The GST will fuel inflation for the short term. The GST rate starts at 5% and 18% taxation services such as restaurants, movies etc. are bound to increase prices. Another problem with the GST that many pundits feel is not including liquor and petroleum under GST's ambit. These are major revenue sources for the government and experts feel this is being done due to a few crony capitalists who need some time to funnel away their black money as the GST promises to widen the tax paying population.

Various questions roam in our minds while discussing about GST.

- What is GST?
- Why is Goods and Services Tax So Important?
- How does GST work?
- How will GST help India and common man?

While analyzing all these questions first we need to understand what is GST and various aspects about it. let's first understand GST at its various levels. Goods & Services Tax in India is a comprehensive, multi-stage, destination-based tax that will be levied on every value addition. To understand this, we need to understand the concepts under this definition. Let us start with the term 'Multi-stage'. Now, there are multiple steps an item goes through from manufacture or production to the final sale. Buying of raw materials is the first stage. The second stage is production or manufacture. Then, there is the warehousing of materials. Next, comes the sale of the product to the retailer. And in the final stage, the retailer sells you – the end consumer – the product, completing its life cycle. Goods and Services Tax will be levied on each of these stages, which makes it a multi-stage tax.

Now let us talk about 'Value Addition'. Let us assume that a manufacturer wants to make a shirt. For this he must buy yarn. This gets turned into a shirt after manufacture. So, the value of the yarn is increased when it gets woven into a shirt. Then, the manufacturer sells it 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 who packages each shirt separately and invests in marketing of the shirt thus increasing its value.

GST will be levied on these value additions, the monetary worth added at each stage to achieve the final sale to the end customer. There is one more term we need to talk about in the definition – **Destination-Based**. Goods and Services Tax will be levied on all transactions happening during the entire manufacturing chain. Earlier, when a product was manufactured, the Centre would levy an Excise Duty on the manufacturer, and then the state will add a VAT tax when the item is sold to the next stage in the cycle. Now, Goods and Services Tax will be levied at every point of sale. Assume that the entire manufacture process is happening in Delhi and the final point of sale is in Mumbai. Since Goods & Services Tax is levied at the point of consumption, so the state of Delhi will get revenue in the manufacturing and warehousing stages, but lose out on the revenue when the product moves out Delhi and reaches the end consumer in Mumbai. This means that Mumbai will earn that revenue on the final sale, because it is a destination-based tax and this revenue will be collected at the final point of sale/destination which is Mumbai.

Now, let us talk about why it will play such a significant role in transforming the current tax structure, and therefore, the economy. Currently, the Indian tax structure is divided into two – Direct and Indirect Taxes. Direct Taxes are levied where the liability cannot be passed on to someone else. An example of this is Income Tax where you earn the income and you alone are liable to pay the tax on it. In the case of Indirect Taxes, the liability of the tax can be passed on to someone else. This means that when the shopkeeper must pay VAT on his sale, he can pass on the liability to the customer. So, in effect, the customer pays the price of the item as well as the VAT on it so the shopkeeper can deposit the VAT to the government. This means that the customer must pay not just the price of the product, but he also pays the tax liability, and therefore, he has a higher outlay when he buys an item. This happens because the shopkeeper has paid a tax when he bought the item from the wholesaler. To recover that amount, as well as to make up for the VAT he must pay to the government, he passes the liability to the customer who has to pay the additional amount. There is currently no other way for the shopkeeper to recover whatever he pays from his own pocket during transactions and therefore, he has no choice but to pass on the liability to the customer.

Goods and Services Tax will address this issue after it is implemented. It has a system of Input Tax Credit which will allow sellers to claim the tax already paid, so that the final liability on the end consumer is decreased.

- **History of GST in India – Year by Year Events**

II. GST LAW IN INDIA – A DETAILED HISTORY

GST is not a new phenomenon. It was first implemented in France in 1954, and since then many countries have implemented this unified taxation system to become part of a global village. Now that India is adopting this new tax regime, let us look back at how and when of the Goods and Services Tax and its history came to this nation. France was the world's first country to implement GST Law in the year 1954. Since then, 159 other countries have adopted the GST Law in some form or other. In many countries, VAT is the substitute for GST, but unlike the Indian VAT system, these countries have a single VAT tax which fulfills the same purpose as GST.In India, the discussion on GST Law was flagged off in the year 2000, when the then Prime Minister Atal Bihari Vajpayee brought the issue to the table.

GST is being introduced in the country after a 13-year long journey since it was first discussed in the report of the Kelkar Task Force on indirect taxes. A brief chronology outlining the major milestones on the proposal for introduction of GST in India is as follows:

- In 2003, the Kelkar Task Force on indirect tax had suggested a comprehensive Goods and Services Tax (GST) based on VAT principle.
- A proposal to introduce a National Level Goods and Services Tax (GST) by April 1, 2010 was first mooted in the Budget Speech for the financial year 2006-07. Since the proposal involved reform/ restructuring of not only indirect taxes levied by the Centre but also the States, the responsibility of preparing a Design and Road Map for the implementation of GST was assigned to the Empowered Committee of State Finance Ministers (EC).
- Based on inputs from Govt of India and States, the EC released its First Discussion Paper on Goods and Services Tax in India in November, 2009.In order to take the GST related work further, a Joint Working Group consisting of officers from Central as well as State Government was constituted in September, 2009.
- In order to amend the Constitution to enable introduction of GST, the Constitution (115th Amendment) Bill was introduced in the Lok Sabha in March 2011. As per the prescribed procedure, the Bill was referred to the Standing Committee on Finance of the Parliament for examination and report. Meanwhile, in pursuance of the decision taken in a meeting between the Union Finance Minister and the Empowered Committee of State Finance Ministers on 8th November, 2012, a 'Committee on GST Design', consisting of the officials of the Government of India, State Governments and the Empowered Committee was constituted. This Committee did a detailed discussion on GST design including the Constitution (115th) Amendment Bill and submitted its report in January, 2013. Based on this Report, the EC recommended certain changes in the Constitution Amendment Bill in their meeting at Bhubaneswar in January 2013.
- The Empowered Committee in the Bhubaneswar meeting also decided to constitute three committees of officers to discuss and report on various aspects of GST as follows: -
- Committee on Place of Supply Rules and Revenue Neutral Rate
- Committee on dual control, threshold and exemptions;
- Committee on IGST and GST on imports.
- The Parliamentary Standing Committee submitted its Report in August, 2013 to the Lok Sabha. The recommendations of the Empowered Committee and the recommendations of the Parliamentary Standing Committee were examined in the Ministry in consultation with the Legislative Department. Most of the recommendations made by the Empowered Committee and the Parliamentary Standing Committee were accepted and the draft Amendment Bill was suitably revised. The final draft Constitutional Amendment Bill incorporating the above stated changes were sent to the Empowered Committee for consideration in September 2013. The EC once again made certain recommendations on the Bill after its meeting in Shillong in November 2013. Certain recommendations of the Empowered Committee were incorporated in the draft Constitution (115th Amendment) Bill. The revised draft was sent for consideration of the Empowered Committee in March, 2014.

Constitution Amendment Bill/Act

- 115th Constitution Amendment Bill, (2011)
- Standing Committee Report on 115th Constitution Amendment Bill (2013)
- 122nd Constitution Amendment Bill, 2014 (2014)
- Report of Select Committee of Rajya Sabha on 122nd Constitution Amendment Bill (2015)
- 101st Constitution Amendment Act, 2016 (2016)

The major features of the Constitution (122^{nd} Amendment) Bill, (2014) and other bills are as follows;

- Conferring simultaneous power upon Parliament and the State Legislatures to make laws governing goods and services tax;
- Subsuming of various Central indirect taxes and levies such as Central Excise Duty, Additional Excise Duties, Service Tax, Additional Customs Duty commonly known as Countervailing Duty, and Special Additional Duty of Customs;
- Subsuming of State Value Added Tax/Sales Tax, Entertainment Tax (other than the tax levied by the local bodies), Central Sales Tax (levied by the Centre and collected by the States), Octroi and Entry tax, Purchase Tax, Luxury tax, and Taxes on lottery, betting and gambling;
- Dispensing with the concept of 'declared goods of special importance' under the Constitution.
- Levy of Integrated Goods and Services Tax on inter-State transactions of goods and services;
- GST to be levied on all goods and services, except alcoholic liquor for human consumption. Petroleum and petroleum products shall be subject to the levy of GST on a later date notified on the recommendation of the Goods and Services Tax Council.
- Compensation to the States for loss of revenue arising on account of implementation of the Goods and Services Tax for a period of five years;

Creation of Goods and Services Tax Council to examine issues relating to goods and services tax and make recommendations to the Union and the States on parameters like rates, taxes, cess and surcharges to be subsumed, exemption list and threshold limits, Model GST laws, etc. The Council shall function under the Chairmanship of the Union Finance Minister and will have all the State Governments as Members. As four key supplementary GST (Goods

and Services Tax) bills were passed in Lok Sabha, Prime Minister Narendra Modi hailed the historic step, and congratulated everyone. The Prime Minister called it "New Year, New Law, New Bharat" as the government moved a step closer towards meeting the July 1 deadline for rollout of Goods and Services Tax in the country. Following a seven-hour debate on the GST bill in Parliament, the Lok Sabha approved the four supplementary legislations, but not before the Opposition raised objections to certain clauses and called for amendments to the bills.
However, the government, which has the numbers in Lok Sabha, negated the amendments and ensured the bills get cleared as it is. These bills are: Central Goods and Services Tax (CGST) Bill, Integrated GST Bill, Compensation GST Bill and Union Territory GST Bill 2017.Calling it a revolutionary bill that will benefit all, Finance Minister Arun Jaitley led the charge in Lok Sabha. He said 12 meetings of the GST Council were held to ensure the process of drafting the bill and rolling out GST was based on consensus and recommendations.

The recommendations made in the above gst meetings and the four bills passed in the lok sabha.

1. The Goods and Services (GST) is an indirect taxation wherein most of the existing taxes will be merged into a single taxation system.
2. Once the GST Bill is passed, it will allow the Centre and the states to levy indirect tax on manufacture, sale and consumption of goods and services across the country.
3. Simply put, the Goods and Services Tax would put all taxes levied by state and Central government in one basket and merge them into a single-tax system, thus doing away with multiple taxation and promoting the concept of a common market for all.
4. The Goods and Services Tax is governed by the GST Council which is headed by the Finance Minister. In Arun Jaitley's words, "once all other taxes are removed, the cascading effect is removed, goods will become slightly cheaper".
5. The biggest challenge for a smooth GST rollout is coordination between states and the Centre to ensure uniform tax rates for good and services.
6. To this effect, the GST Council has approved a four-tier uniform tax slab of 5, 12, 18 and 28 per cent on goods and services, plus an additional cess on demerit goods such as luxury cars, aerated drinks and tobacco products.
7. Food items will not attract any tax and have been kept in the zero-per cent slab. Similarly, petroleum products, although included under the GST, will remain in zero tax slab as of now. However, the GST Council is yet to take a call on whether to keep alcohol under the Goods and Services Tax.
8. With the Goods and Services Tax coming in, Centre-level taxes likes Sales Tax, Excise Duty, and state-level taxes like Value-added Tax (VAT), Entertainment Tax and Luxury Tax will be subsumed.
9. On Wednesday, among the four supplementary GST bills passed in Lok Sabha was the Central Goods and Services Tax (CGST) Bill. The CGST Bill will allow the Central government to levy and collect tax on intra-state supply of goods and services.
10. The Integrated Goods and Services Tax Bill 2017 provides for levy and collection of tax on inter-state supply.
11. The Compensation GST Bill will provide compensation to states for the loss of revenue they may incur owing to implementation of the Goods and Services Tax.
12. Clarifying on the clause, Arun Jaitley told the House that no additional tax will be imposed to provide compensation to states, and states will be paid compensation within the existing mechanism.
13. The other bill passed in Lok Sabha pertained to Union Territory Goods and Services Tax. The bill will enable levy and collection of tax on intra-state supply of goods and services or both by union territories

III. ADMINISTRATION OF GST IN INDIA

A nationwide tax reform cannot function without strict guidelines and provisions. The GST Council has devised a full proof method of implementing this new tax regime by dividing it into three categories. As explained below in detail. India is a federal democracy that is one which has clear demarcation of powers, responsibility and revenue collection between the states and the Centre in its constitution. For example, law and order falls under the state's jurisdiction while the nation's defense is the Centre's responsibility. The GST too needs to have clear provisions on what areas the Centre and the state are allowed to collect revenue from taxation to prevent an overlapping. The Central GST or CGST is the areas where the Centre has the powers and State GST where the State has taxation capabilities. The IGST or Integrated GST is for movement of goods within the states of the Indian union. This will be collected by the union however will be transferred over to the states. Thus, it is essential that if and when the GST comes out it is rolled over in the entire nation simultaneously When Goods and Services Tax is implemented, there will be 3 kinds of applicable

Goods and Services Taxes:

- **CGST:** where the revenue will be collected by the central government
- **SGST:** where the revenue will be collected by the state governments for intra-state sales
- **IGST:** where the revenue will be collected by the central government for inter-state sales

Keeping in mind the federal structure of India, there will be two components
of GST – Central GST (CGST) and State GST (SGST). Both Centre and States will simultaneously levy GST across the value chain. Tax will be levied on every supply of goods and services. Centre would levy and collect Central Goods and Services Tax (CGST), and States would levy and collect the State Goods and Services Tax (SGST) on all transactions within a State. The input tax credit of CGST would be available for discharging the CGST liability on the output at each stage. Similarly, the credit of SGST paid on inputs would be allowed for paying the SGST on output. No cross utilization of credit would be permitted.

IV.THE GST REPLACES NUMEROUS DIFFERENT INDIRECT TAXES SUCH AS:

- Central Excise Duty
- Service Tax
- Countervailing Duty
- Special Countervailing Duty
- Value Added Tax (VAT)
- Central Sales Tax (CST)
- Octroi
- Entertainment Tax
- Entry Tax
- Purchase Tax
- Luxury Tax
- Advertisement taxes
- Taxes applicable on lotteries

Taxes subsumed into GST

At the **Central** level, the following taxes are being subsumed:
- Central Excise Duty,
- Additional Excise Duty,
- Service Tax,
- Additional Customs Duty commonly known as Countervailing Duty, and
- Special Additional Duty of Customs.

At the **State** level, the following taxes are being subsumed:
- Subsuming of State Value Added Tax/Sales Tax,
- Entertainment Tax (other than the tax levied by the local bodies), Central Sales Tax (levied by the Centre and collected by the States),
- Octroi and Entry tax,
- Purchase Tax,
- Luxury tax, and
- Taxes on lottery, betting and gambling.

Adjustment of CGST, SGST, IGST between state and Centre. The particular transaction of goods and services be taxed simultaneously between **Central GST (CGST**) and **State GST (SGST).** The Central GST and the State GST would be levied simultaneously on every transaction of supply of goods and services except on exempted goods and services, goods which are outside the purview of GST and the transactions which are below the prescribed threshold limits. Further, both would be levied on the same price or value unlike State VAT which is levied on the value of the goods inclusive of Central Excise. The effect of cross utilization of credits between goods and services under GST regime would be allowed. Similarly, the facility of cross utilization of credit will be available in case of SGST. However, the cross utilization of CGST and SGST would not be allowed except in the case of inter-State supply of goods and services under the IGST model.

The taxation of Inter-State Transactions of Goods and Services be under GST in terms of IGST method is likely to be levied as the Centre would levy and collect the Integrated Goods and Services Tax (IGST) on all inter-State supplies of goods and services under Article 269A (1) of the Constitution. The IGST would roughly be equal to CGST plus SGST. The IGST mechanism has been designed to ensure seamless flow of input tax credit from one State to another. The inter-State seller would pay IGST on the sale of his goods to the Central Government after adjusting credit of IGST, CGST and SGST on his purchases (in that order). The exporting State will transfer to the Centre the credit of SGST used in payment of IGST. The importing dealer will claim credit of IGST while discharging his output tax liability (both CGST and SGST) in his own State. The Centre will transfer to the importing State the credit of IGST used in payment of SGST. Since GST is a destination-based tax, all SGST on the final product will ordinarily accrue to the consuming State.

V. USE OF IT FOR THE IMPLEMENTATION OF GST

For the implementation of GST in the country, the Central and State Governments have jointly registered Goods and Services Tax Network (GSTN) as a not-for-profit, non-Government Company to provide shared IT infrastructure and services to Central and State Governments, tax payers and other stakeholders. The key objectives of GSTN is to provide a standard and uniform interface to the taxpayers, and shared infrastructure and services to Central and State/UT governments. GSTN is working on developing a state-of-the-art comprehensive IT infrastructure including the common GST portal providing front end services of registration, returns and payments to all taxpayers, as well as the backend IT modules for certain States that include processing of returns, registrations, audits, assessments, appeals, etc. All States, accounting authorities, RBI and banks, are also preparing their IT infrastructure for the administration of GST.There would be no manual filing of returns. All taxes can also be paid online. All mis-matched returns would be auto-generated, and there would be no need for manual interventions. Most returns would be self-assessed.

VI. IMPACT ON IMPORTS AND ITS TAXATION UNDER GST

The Additional Duty of Excise or CVD and the Special Additional Duty or SAD presently being levied on imports will be subsumed under GST. As per explanation to clause (1) of article 269A of the Constitution, IGST will be levied on all imports into the territory of India. Unlike in the present regime, the States where imported goods are consumed will now gain their share from this IGST paid on imported goods

- **Benefits of GST**

The benefits of GST can be summarized as under:

- **For business and industry**
- **Easy compliance**.
- **Uniformity of tax rates and structures**
- **Removal of cascading**:
- **Improved competitiveness**:
- **Gain to manufacturers and exporters:**
- **For Central and State Governments**
- **Simple and easy to administer**
- **Better controls on leakage**
- **Higher revenue efficiency**
- **For the consumer**
- **Single and transparent tax proportionate to the value of goods and services**
- **Relief in overall tax burden**
- **The Proposed registration procedures under GST** are as follows:
- **Existing dealers**: Existing VAT/Central excise/Service Tax payers will not have to apply afresh for registration under GST.
- **New dealers**: Single application to be filed online for registration under GST.
- The registration number will be PAN based and will serve the purpose for Centre and State.
- Unified application to both tax authorities.
- Each dealer to be given unique ID GSTIN.
- Deemed approval within three days.
- Post registration verification in risk based cases only.
- **The Proposed Returns Filing procedures under GST** are as follows:

Common return would serve the purpose of both Centre and State Government.
There are eight forms provided for in the GST business processes for filing for returns. Most of the average tax payers would be using only four forms for filing their returns. These are return for supplies, return for purchases, monthly returns and annual return.
Small taxpayers: Small taxpayers who have opted composition scheme shall have to file return on quarterly basis. Filing of returns shall be completely online. All taxes can also be paid online.

VII. THE PROPOSED PAYMENT PROCEDURES UNDER GST

Major features of the proposed payments procedures under GST are as follows:

- Electronic payment process- no generation of paper at any stage
- Single point interface for challan generation- GSTN

- Ease of payment – payment can be made through online banking, Credit Card/Debit Card, NEFT/RTGS and through cheque/cash at the bank
- Common challan form with auto-population features
- Use of single challan and single payment instrument
- Common set of authorized banks
- Common Accounting Codes

VIII. THE IMPACT OF GST (GOODS AND SERVICES TAX) IN INDIA

The Lok Sabha has finally Passed the Goods and Services Tax Bill and it is expected to have a significant impact on every industry and every consumer. Apart from filling the loopholes of the current system, it is also aimed at boosting the Indian economy. This will be done by simplifying and unifying the indirect taxes for all states throughout India. The things that will be influenced by the GST.

What will be expensive:

- **Eating Out**
- **Phone Bills**
- **Jewelry**
- **Online Shopping**
- **Effect on a common man**

The basis of Goods and Services Tax is the seamless flow of Input Tax Credit (ITC) along the entire value addition chain. At every step of the manufacturing process, businesses will have the option to claim the tax already paid in the previous transaction. Understanding this process is crucial for businesses. A detailed explanation here. To understand this, let us first understand what is Input Tax Credit. It is the credit an individual receives for the tax paid on the inputs used in manufacturing the product. So, if there is a 10% tax that the individual must submit to the government, he can subtract the amount he has paid in taxes at the time of purchase and submit the balance amount to the government.

So essentially, Goods & Services Tax is going to have a two-pronged benefit. One, it will reduce the cascading effect of taxes, and second, by allowing input tax credit, it will reduce the burden of taxes and, hopefully, prices.

IX. SUMMARY

The idea behind having one consolidated indirect tax to subsume multiple currently existing indirect taxes is to benefit the Indian economy in a number of ways:

- It will help the country’s businesses gain a level playing field
- It will put us on par with foreign nations who have a more structured tax system
- It will also translate into gains for the end consumer who not have to pay cascading taxes any more
- There will now be a single tax on goods and services

In addition to the above, the Goods and Services Tax Law aims at streamlining the indirect taxation regime. As mentioned above, GST will subsume all indirect taxes levied on goods and service, including State and Central level taxes. The GST mechanism is an advancement on the VAT system, the idea being that a unified GST Law will create a seamless nationwide market. It is also expected that Goods and Services Tax will improve the collection of taxes as well as boost the development of Indian economy by removing the indirect tax barriers between states and integrating the country through a uniform tax rate.

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