

A JOURNEY OF GOODS & SERVICES TAX (GST) IN INDIA: AN OVERVIEW

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Abstract: GST is one of the most vital tax reforms in India which has been long pending. It was supposed to be implemented from April 2010, but due to governmental issues and contradictory interests of various stakeholders, it has been recently implemented. It is a complete tax system that will incorporate all indirect taxes of states and central governments and unified economy into a whole national market. A number of initiatives have been taken by the various machineries at the Centre. The present taxation system is marked as weighty, difficult, and unfavourable. It is anticipated to firm out folds of existing indirect tax system and play a vital role in growth of India. This paper presents an overview of GST concept, explains its features along with its journey in India so far. The paper also focuses on advantages of GST and challenges faced by India in execution in present scenario.

Keywords: Tax, Indirect tax, Goods and Service Tax (GST), Benefits, State Government, Central Government, India

INTRODUCTION

The present structure of indirect taxes in India is very composite. Different types of taxes are imposed by the government on the citizens, e.g. entertainment tax on watching movies, VAT on purchasing of goods & services, excise duty, import duty, luxury tax, central sales tax etc. Some of these taxes are charged by the central government while some are charged by the state government. If all taxes are combined and a single tax is charged/ payable by all Indian citizens, it will be good for an individual as well as for all organisations.

The full form of GST is Goods and Services Tax. This bill for GST brings amazing changes in India's indirect tax structure. Government wants to restructure different types of taxes and apply a single tax system in India. GST is a tax

which executed on every sale and every purchase of goods & services. It will be applicable on all types of goods & services.

There are three components of GST:

1. Central GST (CGST) – it is levied by central government.
2. State GST (SGST) – It is levied by state government.
3. Integrated GST (IGST) – It is levied by central government on interstate supply of goods and services.

GST was first announced in 2007-08 budget session. On 19th December 2014, the GST bill was presented in Lok Sabha.

France was the first country to announce this system in 1954. Nearly 140 countries are adopting this tax system. This reform could be an ongoing process until it is fully evolved.

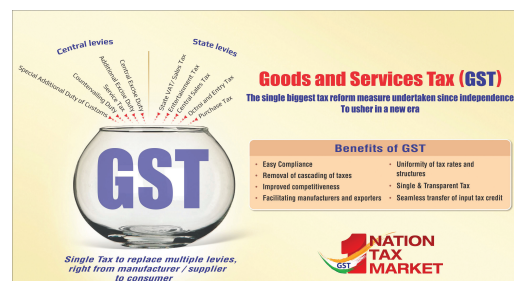


Fig. 1: An Overview of GST
Source: Advocate Jitender Jindal

The main expectation from this system is to end all indirect taxes and apply only GST. GST will be paid by customers on purchase or use of all goods & services. All organisations of goods & services are liable to pay GST.

APPLICATION OF GST

GST is a consumption based tax. It is based on the “destination principle”. GST is functional at the consumption point and selling point of goods and services.

GST is composed at each stage of sale or purchase in the supply chain. GST collected on purchase of an entity will be set off against that item and is payable on the supply of

goods or services. At last, user of services & goods has to bear this tax.

GST is an indirect tax which will be borne by the last customer. The GST will incorporate all the taxes which will rationalise multiple taxes. The final cost to the customer comes out to be lower, on deletion of dual charging system.

Indian government is opting for dual system GST. The GST has two types of taxes:-

- Central Goods & Service Tax (CGST)
- State Goods & Service Tax (SGST)

Table 1: Application of CGST & SGST Rate

Indirect Taxes	GST	Goods/Services Produced & Consumed in same State	Goods/Services Produced & Consumed in different States (Inter-State)	Goods & Services Exported	Goods & Services Imported
Excise Duty	CGST	CGST rate + SGST rate Levied	Integrated GST	GST not Applicable	CGST rate + SGST rate Levied
Service Tax					
Custom Duties					
Central Sales Tax					
State Sales Tax	SGST	CGST rate + SGST rate Levied	Integrated GST	GST not Applicable	CGST rate + SGST rate Levied
Entertainment Tax					
State VAT					
Professional Tax					

Source : www.relakhs.com

The excise duties, service tax, custom duty etc. will be merged under CGST and sales tax, entertainment tax, VAT and other state taxes will be included in SGST.

SALIENT FEATURES OF THE PROPOSED INDIAN GST SYSTEM

- The Centre will charge IGST on inter-state supply of goods and services.
- Petroleum and petroleum products are currently excluded in GST according to GST Council.
- Provision will be made for excluding octroi.
- Entertainment tax is imposed by states and complied in GST excluding panchayat, municipality taxes on entertainment.
- GST is charged on the sale of newspapers and advertisements. It will give substantial incremental revenues to the government.
- Stamp duties on legal contracts will remain same.
- Supervision of GST is the accountability of the GST Council.

GST RATE BENEFITS OF GST BILL IMPLEMENTATION

- The tax structure will be made simple.
- The entire Indian market will be an integrated market. It can simplify one-piece movement of goods across states and reduce the transaction costs of business.
- It is good for export-oriented businesses as it is not applicable for the goods/ services which are exported out of India.
- In the long run, the lower tax will reduce the charges of goods for customers.
- It will bring more transparency and better compliance.
- The number of departments will decrease, which will help to reduce corruption.
- More business units will come under the tax system. This will help to collect more tax revenue.
- Multiple taxation is removed.
- Taxes on the manufacturers are reduced.
- It helps in the seamless flow of credit in the country.

In single line we can say that GST will simplify administration, improve compliance, and remove distortions in production, trade and consumption.

CHALLENGES FOR IMPLEMENTING GST

- To implement the bill successfully, a lot of changes are required at administration level, along with sound infrastructure and IT infrastructure.
- The co-operation from state governments would be one of the key factors for the successful implementation of GST.
- There will be control on every system by the central and state governments.

EXCLUSIONS IN GST

Following products are excluded from GST:

- Petroleum products
- Alcoholic beverages
- Diesel
- Tobacco

GST PROCESS

The Goods and Services Tax (GST) is the largest restructuring of India's tax system. This system discusses the procedure of implementation of GST and its significances in India.



Fig. 2: Working of GST

Source: Express News Service October 19, 2016.

Stage 1:

Imagine a manufacturer of dress materials purchasing raw material or inputs worth Rs 200 to manufacture a dress material. This sum includes a tax of Rs 20. Let us take the value added by him to be Rs 30. The gross value of his good would, then, be Rs 200 + 30, or Rs 230.

At a tax rate of 10%, the tax on output (this shirt) will be Rs 23. In GST, the adjustment of tax will be (23-20). Therefore, the effective GST incidence on the manufacturer is only Rs 3 (23-20).

Stage 2:

The next stage includes passing the product from the manufacturer to the wholesaler. The wholesaler purchases it for Rs 230, and add his profit margin of Rs 20. The gross value of the good he sells would then be Rs 230 + 20 or Rs 250.

A 10% tax on this amount will be Rs 25. In GST system, the tax adjustment of purchase tax & sales tax will be considered. Thus, the effective GST incidence on the wholesaler is only Rs 2 (25-23).

Stage 3:

In the final stage, a retailer buys the shirt from the wholesaler. The purchase price of a shirt will be 250, now seller adds a margin of Rs. 10 in the purchase price. The gross value of product, therefore, goes up to Rs 250 + 10, or Rs 260. The tax on this, at 10% comes to be Rs 26. The adjustment of Rs 26 against the tax of purchase Rs 25 will be implement in GST. The retailer gets down the effective GST rate on himself to Re 1 (26-25).

Thus, the total GST on the complete chain from the raw material to finished goods through the manufacturer, wholesaler and retailer is, Rs 20 + 3 + 2 + 1, or Rs 26.

PRESENT SCENARIO

Presently, value-added tax (VAT) at the central as well as state levels is levied. The central VAT or CENVAT mechanism covers tax set-offs only contrary to excise duty and service tax paid up to the level of production. CENVAT does not cover to value addition by the distributive trade.

Similarly, state VAT covers only sales. Sellers may claim credit only compared to VAT paid on previous purchases.

The VAT also does not incorporate other taxes imposed within the states.

With GST coming into effect, all central- and state-level taxes and levies are subsumed within an integrated tax having two components: a central GST and a state GST.

GST IS DIFFERENT FROM OTHER TAXES

Earlier there were many indirect taxes i.e. service tax, VAT, luxury tax etc. These taxes were charged while checking out from a hotel or paying bills at a restaurant. The bill offered to us, contained all these taxes.

- GST combines all these taxes into one, i.e. subsumes all central & state level indirect taxes.
- The nature of GST is that it taxes only the final customer. Hence the cascading of taxes is evaded and production costs is reduced.

After implementation of GST, there is only a national-level central GST and a state-level GST spanning the entire value chain for all goods and services, with some exceptions.

JOURNEY OF GST SO FAR

- **Budget 2006-07:** GST by April 1, 2010, announced. Subsequently, Empowered Committee (EC) of state finance ministers tasked with drawing up roadmap and design.
- **April 2008:** EC, headed by the then West Bengal Finance Minister Asim Dasgupta, submits report to the central government, which offers its views and comments in October and December of that year. Joint working groups are then set up to examine options on exemptions and thresholds, taxation of services and inter-state supplies, etc.
- **November 2009:** EC releases its first discussion paper.
- **March 22, 2011:** The Constitution (115th Amendment) Bill is introduced in Lok Sabha; is referred to Parliamentary Standing Committee on Finance, which submitted its report on August 7, 2013. Bill lapsed as term of the Lok Sabha ended in 2014.
- **December 19, 2014:** Constitution (122nd Amendment) Bill introduced in Lok Sabha.
- **May 6, 2015:** Constitution Amendment Bill passed by Lok Sabha.
- **May 12, 2015:** Bill referred to a 21-member Select Committee of Rajya Sabha headed by Bhupender Yadav.
- **July 22, 2015:** Select Committee submits its report

- **June 2016:** Ministry of Finance release draft GST Bill.
- **August 2016:** Rajya Sabha passes GST bill. The passage of the GST constitutional bill will lead to the setup of the GST council. The council will then deliberate up on the exact GST rate, which will be ratified by the states. The final and actual GST bill will likely be taken up in winter session of the Parliament.
- **September 2016:** GST bill gets President's (Shri Pranab Mukherjee) NOD. The entrance of the bill will now pave the way for the setting up of the GST council.

CONCLUSION

GST has been implemented in the competitive environment of Indian economy. Consumption and productions of goods and services are positively increasing. The variety of taxes in earlier tax system increased the difficulties of organisations and individuals. It led to increase the submission cost. GST implementation stands for an intelligible tax system which combining most of the indirect taxes. In future, it will lead to higher productivity and more employment to Indian Youth. No doubt that GST will give India a world class tax system by grasping different dealing to manufacturing and service sector. But all this will be subject to its appropriate design and proper implementation. GST would be a big leap in the indirect taxation system and giving new energy to India's economy. More than 140 countries have introduced GST in one form or the other and is fast becoming the ideal form of indirect tax in the Asia Pacific region.

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