GOODS AND SERVICES TAX (GST) – FEATURES, BENEFITS AND CHALLENGES

Josmy Varghese

Asst. Professor, P G Dept of Commerce, Pavanatma College, Murickassery

Abstract

Goods and Services Tax — GST — is an indirect tax and is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level. Through a tax credit mechanism, this tax is collected on value-added goods and services at each stage of sale or purchase in the supply chain. The system allows the set-off of GST paid on the procurement of goods and services against the GST which is payable on the supply of goods or services. However, the end consumer bears this tax as he is the last person in the supply chain. Experts say that GST is likely to improve tax collections and boost India's economic development by breaking tax barriers between States and integrating India through a uniform tax rate. The proposed GST structure in India proposes dual structure. GST shall have two components- Central GST and State GST. The model shall be implemented by multiple statutes- one for Central GST and SGST statute for every state. However, it is proposed that basic feature of laws related to chargeability of tax, definition of taxable event, taxable person, basis of classification, basis of value for chargeability of tax shall remain uniform. Standard GST rate in most countries vary between 15-25%.In India, it is to be fixed at 20%. And also through this paper lets discuss about the objectives ,characteristics, benefits, challenges etc.of the GST…

Key Words: GST, integration, tax rate, challenges

INTRODUCTION

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.GST will create a single, unified Indian market to make the economy stronger. Finance Minister Pranab Mukherjee while presenting the Budget on July 6, 2009, said that GST would come into effect from April 2010.The implementation of GST will lead to the abolition of other taxes such as octroi, Central Sales Tax, State-level sales tax, entry tax, stamp duty, telecom licence fees, turnover tax, tax on consumption or sale of electricity, taxes on transportation of goods and services, thus avoiding multiple layers of taxation that currently existing in India. Introduction of the Value Added Tax (VAT) at the Central and the State level has been considered to be a major step – an important breakthrough – in the sphere of indirect tax reforms in India. If the VAT is a major improvement over the pre-existing 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 a further significant improvement – the next logical step – towards a comprehensive indirect tax reforms in the country

Keeping this objective in view, an announcement was made by the then Union Finance Minister in the Central Budget (2007-08) to the effect that GST would be introduced with effect from April 1, 2010 and that the Empowered Committee of State Finance Ministers, on his request, would work with the Central Government to prepare a road map for introduction of GST in India. After this announcement, the Empowered Committee of State Finance Ministers decided to set up a Joint Working Group (May 10, 2007), with the then Adviser to the Union Finance Minister and Member-Secretary of the Empowered Committee as its Co-conveners and concerned four Joint

Secretaries of the Department of Revenue of Union Finance Ministry and all Finance Secretaries of the States as its members. This Joint Working Group got itself divided into three Sub-Groups and had several rounds of internal discussions as well as interaction with experts and representatives of Chambers of Commerce & Industry. On the basis of these discussions and interaction, the Sub-Groups submitted their reports which were then integrated and consolidated into the report of Joint Working Group (November 19, 2007).

What is GST?

Goods and Services Tax — GST — is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level. Through a tax credit mechanism, this tax is collected on value-added goods and services at each stage of sale or purchase in the supply chain. The system allows the set-off of GST paid on the procurement of goods and services against the GST which is payable on the supply of goods or services. However, the end consumer bears this tax as he is the last person in the supply chain. Experts say that GST is likely to improve tax collections and boost India's economic development by breaking tax barriers between States and integrating India through a uniform tax rate.

Goods & Services Tax Model For India

It is important to take note of the significant administrative issues involved in designing an effective GST model in a federal system with the objective of having an overall harmonious structure of rates. Together with this, there is a need for upholding the powers of Central and State Governments in their taxation matters. Further, there is also the need to propose a model that would be easily implementable, while being generally acceptable to stakeholders.

Salient features of the GST model

Keeping in view the report of the Joint Working Group on Goods and Services Tax, the views received from the States and Government of India, a dual GST structure with defined functions and responsibilities of the Centre and the States is recommended. An appropriate mechanism that will be binding on both the Centre and the States would be worked out whereby the harmonious rate structure along with the need for further modification could be upheld, if necessary with a collectively agreed Constitutional Amendment.

Salient features of the proposed model are as follows:

(i) The GST shall have two components: one levied by the Centre (hereinafter referred to as Central GST), and the other levied by the States . Rates for Central GST and State GST would be prescribed appropriately, reflecting revenue considerations and acceptability. This dual GST model would be implemented through multiple statutes (one for CGST and SGST statute for every State). However, the basic features of law such as chargeability, definition of taxable event and taxable person, measure of levy including valuation provisions, basis of classification etc. would be uniform across these statutes as far as practicable.

(ii) The Central GST and the State GST would be applicable to all transactions of goods and services made for a consideration except the exempted goods and services, goods which are outside the purview of GST and the transactions which are below the prescribed threshold limits.

(iii) The Central GST and State GST are to be paid to the accounts of the Centre and the States separately. It would have to be ensured that account-heads for all services and goods would have indication whether it relates to Central GST or State GST with identification of the State to whom the tax is to be credited .

(iv) Since the Central GST and State GST are to be treated separately, taxes paid against the Central GST shall be allowed to be taken as input tax credit (ITC) for the Central GST and could be utilized only against the payment of Central GST. The same principle will be applicable for the State GST. A taxpayer or exporter would have to maintain separate details in books of account for utilization or refund of credit. Further, the rules for taking and utilization of credit for the Central GST and the State GST would be aligned.

(v) Cross utilization of ITC between the Central GST and the State GST would not be allowed except in the case of inter-State supply of goods and services.

(vi) The problem related to credit accumulation on account of refund of GST should be avoided by both the Centre and the States except in the cases such as exports, purchase of capital goods, input tax at higher rate than output tax etc. where, again refund/adjustment should be completed in a time bound manner.

(vii) To the extent feasible, uniform procedure for collection of both Central GST and State GST would be prescribed in the respective legislation for Central GST and State GST.

(viii) The administration of the Central GST to the Centre and for State GST to the States would be given. This would imply that the Centre and the States would have concurrent jurisdiction for the entire value chain and for all taxpayers on the basis of thresholds for goods and services prescribed for the States and the Centre.

(ix) The present threshold prescribed in different State VAT Acts below which VAT is not applicable varies from State to State. A uniform State GST threshold across States is desirable and, therefore, it is considered that a threshold of gross annual turnover of Rs.10 lakh both for goods and services for all the States and Union Territories may be adopted with adequate compensation for the States (particularly, the States in North-Eastern Region and Special Category States) where lower threshold had prevailed in the VAT regime.

(x) The States are also of the view that Composition/Compounding Scheme for the purpose of GST should have an upper ceiling on gross annual turnover and a floor tax rate with respect to gross annual turnover. In particular, there would be a compounding cut-off at Rs. 50 lakh of gross annual turnover and a floor rate of 0.5% across the States. The scheme would also allow option for GST registration for dealers with turnover below the compounding cut-off.

(xi) The taxpayer would need to submit periodical returns, in common format as far as possible, to both the Central GST authority and to the concerned State GST authorities.

(xii) Each taxpayer would be allotted a PAN-linked taxpayer identification number with a total of 13/15 digits. This would bring the GST PAN-linked system in line with the prevailing PAN-based system for Income tax, facilitating data exchange and taxpayer compliance.

(xiii) Keeping in mind the need of tax payer's convenience, functions such as assessment, enforcement, scrutiny and audit would be undertaken by the authority which is collecting the tax, with information sharing between the Centre and the States.

What type of GST is proposed for India?

India is planning to implement a dual GST system. Under dual GST, a Central Goods and Services Tax (CGST) and a State Goods and Services Tax (SGST) will be levied on the taxable value of a transaction.All goods and services, barring a few exceptions, will be brought into the GST base. There will be no distinction between goods and services.

PESQUISA
ISSN-2455-0736

Which other nations have a similar tax structure?

Almost 140 countries have already implemented the GST. Most of the countries have a unified GST system. Brazil and Canada follow a dual system where GST is levied by both the Union and the State governments.France was the first country to introduce GST system in 1954.

What will be the rate of GST?

The combined GST rate is being discussed by government. The rate is expected around 14-16 per cent. After the total GST rate is arrived at, the States and the Centre will decide on the CGST and SGST rates.Currently, services are taxed at 10 per cent and the combined charge indirect taxes on most goods is around 20 per cent.

What are the items on which GST may not be applied?

Alcohol, tobacco, petroleum products are likely to be out of the GST regime.

What are the benefits of GST?

Under GST, the taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions. It is expected to help build a transparent and corruption-free tax administration. GST will be is levied only at the destination point, and not at various points from manufacturing to retail outlets .Currently, a manufacturer needs to pay tax when a finished product moves out from a factory, and it is again taxed at the retail outlet when sold.

- 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 ,all over country.
- Prices of Goods and services be justified .
- Need for a competitive tax environment in a globalising scenario: maximise revenues to provide efficient infrastructure and need to minimise distortions.
- Enhancing revenue productivity
- Compensating revenue loss from customs.
- Minimising the three costs of taxation. Cost of collection; Compliance cost; "deadweight" or "distortion" costs
- Broad base, minimum rate differentiation, careful calibration of production taxes , equity and strong administration.
- Neutrality, Equity, Revenue, Transparency, Outward orientation
- It will reduce the tax burden for consumers;
- 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.

How will it benefit the Centre and the States?

It is estimated that India will gain $15 billion a year by implementing the Goods and Services Tax as it would promote exports, raise employment and boost growth. It will divide the tax burden equitably between manufacturing and services.

What are the benefits of GST for individuals and companies?

In the 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. This will benefit individuals as prices are likely to come down. Lower prices will lead to more consumption, thereby helping companies.

How will GST benefit the exporters?

The subsuming of major Central and State taxes in GST, complete and comprehensive set-off of input goods and services and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports. The uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cost.

How will GST benefit the small entrepreneurs and small traders?

The present threshold prescribed in different State VAT Acts below which VAT is not applicable varies from State to State. The existing threshold of goods under State VAT is Rs. 5 lakhs for a majority of bigger States and a lower threshold for North Eastern States and Special Category States. A uniform State GST threshold across States is desirable and, therefore, the Empowered Committee has recommended that a threshold of gross annual turnover of Rs. 10 lakh both for goods and services for all the States and Union Territories may be adopted with adequate compensation for the States (particularly, the States in North-Eastern Region and Special Category States) where lower threshold had prevailed in the VAT regime. Keeping in view the interest of small traders and small scale industries and to avoid dual control, the States considered that the threshold for Central GST for goods may be kept at Rs.1.5 crore and the threshold for services should also be appropriately high. This raising of threshold will protect the interest of small traders.

How will GST benefit the common consumers?

All the cascading effects of CENVAT and service tax will be more comprehensively removed with a continuous chain of set-off from the producer's point to the retailer's point than what was possible under the prevailing CENVAT and VAT regime. Certain major Central and State taxes will also be subsumed in GST and CST will be phased out. Other things remaining the same, the burden of tax on goods would, in general, fall under GST and that would benefit the consumers.

Problems of GST

Everybody in the country is talking about the GST and everywhere it is said that GST will increase our GDP, boost our economy, etc., but at what & whose cost? There are a number of serious disadvantages of this system which were not addressed adequately.

First & the foremost, the basic exemption limit in excise of Rs. 1.5 Crore will be taken away in GST, thereby slowly killing the SSI. Thousands & lakhs of industries in India are surviving only for one reason that they are not required to pay excise if their turnover does not exceed 1.5 crore. This had made their products cost efficient and saleable in the market. In GST regime they will not be getting this benefit and will result in increasing the cost of their products and thereby they will be left to slow death. Think of this huge business, which would be forgone by these SSIs.

Certainly, the big industrial houses are going to get benefited in a massive way. The small industries, SSI etc, would die their own death, whereby all other people associated directly or indirectly with these SSIs would be put to undue hardship resulting in unemployment. They will be forced to work only for big houses. Whether this kind of growth is envisaged? Should they lose their self respect by shutting down their own business and go for employment? Also the thousands of CA's who are giving their professional services to these SSIs, one way or the other, would lose their professionals work. They will not have any option then to work for the big auditor firms. Thereby resulting in a big benefits to the big audit firms. They would be in a commanding position. The big salary which today they are paying to various CA's employed with them would drastically come down.

Overall economy would grow. The real wealth of our country also would grow. But this growth would be without development. The majority of the people would be at the mercy of a few number of big business houses. The rich would become more rich and poor would be more poor. Huge inequalities in income and wealth would be visible. It is just like what is happening in other developed countries. One recession is enough to shake them. Whereas, we developing nations did not have much pinch of recession.

If the government is of the opinion that overall tax collection would increase under GST regime, then why the exemption is to be removed. Instead, the limit of exemption should increase to pass on the benefit of growth to the lower income people.

Another disadvantage is that the services which hitherto were charged on receipt basis will be charged on accrual basis. This is an irony that even without having the certainty of receiving the payments for the services rendered; GST would be required to be paid, once invoice is raised.

It is high time to give a revisit to GST. If it is felt that it is the necessity of the day to go for GST, then proper measure may be taken to safeguard the interest of SSIs. This can be done by various mechanisms such as:-

1. Upto the limit of Rs. 5 crore turnover, the SGST alone should be charged and CGST need not to be charged. Above 5 crs both the taxes may be levied.
2. No CGST for essential items like food etc.
3. The turnover limit for compounding tax may be increased to 1.5 crore. The compounding GST paid on this sale shall be allowed to be set off by the purchasers as the input GST.
4. The GST on services may be charged on old system of receipt basis.

Conclusion

GST or the Goods and Services Tax is an indirect tax that brings together most of the taxes that are imposed on all goods and services (except a few) under a single banner. This is in contrast to the current system, where taxes are levied separately on goods and services. The GST, however, is a comprehensive form of tax based on a uniform rate of tax for both goods and services. However,

PESQUISA
ISSN-2455-0736

the GST is payable only at the final point of consumption. Even though the system is considered a better one than the earlier, it has some kind of limitations too. If the system is introduced after considering that drawbacks too it will be the best.

Reference:

1. International journal of Trade, Economics and Finance, volume: 2, no: 2, April 2011.
2. Seventy Third Report Of Standing Committee on Finance (2012-2013), available at http://www.prsindia.org/uploads/media/C onstitution%20115/GST%20SC%20Repo rt.pdf
3. Empowered Committee of Finance Ministers (2009). First Discussion Paper on Goods and Services Tax in India, The Empowered Committee of State Finance Ministers, New Delhi
4. Seventy Third Report Of Standing Committee on Finance (2012-2013), available at http://www.prsindia.org/uploads/media/Constitution%20115/GST%20SC%20Repo rt.pdf
5. The Empowered Committee of State Finance Ministers (2005): "A White Paper on State Level Value Added Tax", Ministry of Finance, Government of India, New Delhi.
6. Ahmad, E and N. Stern (1991), The theory and practice of tax reforms in developing countries, Cambridge University Press.
7. Thirteenth Finance Commission (2009): "Report of the Task Force on Goods and Services Tax", Government of India.