GOODS AND SERVICES TAX (GST) FEATURES

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Abstract

GST is a value added tax on goods and services. It will replace existing levies such as excise duty, service duty and value added tax. France is the first country to implement GST in 1954. Around 140 countries are using GST for indirect taxes. Most of the countries are using a uniform rate under the GST structure. Due to the federal structure of India, we are using a dual system for GST: CGST and SGST. Under GST, producers will receive credit for tax paid earlier, which will eliminate multiple taxation on the same product or services. Items like crude oil, diesel, and petrol are exempted from GST.GST will lead to efficient allocation of factors of production. Implementation of GST will initially be revenue neutral and later it will bring more revenue to the government. It will boost our export potential, GDP growth, allocation of resources etc. At the beginning stage, there won't be any price cuts but at a later stage it will bring down the prices of goods and services because the manufactures will pass over the benefits of GST to the end users. It will result in more income to both the central and state governments.

Key Words: GST, Multiple taxation

INTRODUCTION

GST is a value added tax on goods and services. It will replace existing levies such as excise duty, service duty and value added tax. France is the first country to implement GST in 1954. Around 140 countries are using GST for indirect taxes. Most of the countries are using a uniform rate under the GST structure. Due to the federal structure of India, we are using a dual system for GST: CGST and SGST. Under GST, producers will receive credit for tax paid earlier, which will eliminate multiple taxation on the same product or services. Items like crude oil, diesel, and petrol are exempted from GST.GST will lead to efficient allocation of factors of production. Implementation of GST will initially be revenue neutral and later it will bring more revenue to the government. It will boost our export potential, GDP growth, allocation of resources etc.At the beginning stage, there won't be any price cuts but at a later stage it will bring down the prices of goods and services because the manufactures will pass over the benefits of GST to the end users. It will result in more income to both the central and state governments.

GST is a simple, transparent and efficient system of indirect taxation. It is a destination based consumption tax. It will replace all indirect taxes levied on goods and services by the Indian Central and State governments. It is aimed at being comprehensive for most goods and services. Exports will be zero rated and imports will be levied the same taxes as domestic goods and services adhering to destination principle. It will redistribute the burden of taxation equitably between manufacturing and services. It will lower the tax rate by broadening the tax base and minimising exemptions. It will foster a common market across the country. It will promote exports and employment. All businesses, whether engaged in sales / supply of goods or supply of services, would be impacted by GST. The impact would be on supply chains, ERP, product pricing, dealer margins etc.

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DUAL MODEL OF GST

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 raise resources. A dual GST will, therefore, be in keeping with the Constitutional requirement of fiscal federalism.

(i) Consistent with the federal structure of the country, the GST will have two components: one levied by the Centre (Central GST), and the other levied by the States (State GST). This dual GST model would be implemented through multiple statutes (one for CGST and SGST statute for every State).

(ii) The Central GST and the State GST would be applicable to all transactions of goods and services 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.

(iv) Since the Central GST and State GST are to be treated separately, in general, 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.

(v) Cross utilisation of ITC between the Central GST and the State GST would, in general, not be allowed.

(vi) 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.

(vii) The administration of the Central GST would be with the Centre and for State GST with the States.

(viii) The taxpayer would need to submit periodical returns to both the Central GST authority and to the concerned State GST authorities.

(ix) Keeping in mind the need of tax payers' 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.

RATIONALE FOR GST

The implementation of GST is justified under the following grounds.

CENVAT avoids certain central taxes such as additional customsduty, surcharges etc. So the benefit of input tax and service tax set off will not be available to manufacturers/dealers. It also excludes the value added chain in the distribution trade below the manufacturing level. The introduction of GST at the central level will include more indirect central taxes and integrate goods and services taxes for set off. It will lead to revenue gain for the centre through widening of the dealer base.

In the State level VAT structure, certain indirect tax on goods and services such as luxury tax, entertainment tax etc. are not subsumed in the VAT.CENVAT load on the goods remains included in the value of goods to be taxed under state VAT resulting in cascading effect on account of CENVAT element. In the GST, the cascading effects of CENVAT are removed with set-off by a continuous chain of set off from the original producer's point and service provider's point up to the retailers' level. The GST at the state level will give a) additional power of levy of taxation of services for the states, b) system of comprehensive set-off relief, including set off for cascading burden of CENVAT, c) subsuming of several taxes in GST and removal f burden of CST.

The implementation of GST will give a collective gain for industry, trade, agriculture and common consumers as well as for the central and the state governments. It will lead to a positive sum game.

BENEFITS OF GST

Reduction in the number of taxes at the Central and State level

Decrease in effective tax rate for many goods

Removal of the current cascading effect of taxes

Reduction of transaction costs of the taxpayers through simplified tax compliance

Increased tax collections due to wider tax base and better compliance

Taxes which cannot be set off will reduce

All India tax will be based on value added

No value added implies no tax to be paid to the government

Creation of a tax neutral supply chain.

You follow any route; the tax given to the government will remain the same.

Entry tax, Octroi etc. will be there, but as is evident, these are also being slowly removed. This will make the supply chain perfectly neutral to taxes

CONCLUSION

Implementation of a comprehensive GST across goods and services is expected to increase India's GDP somewhere within a range of 0.9 per cent to 1.7 per cent. It will boost export potential and will create more employment opportunities. It will be profitable to central and state governments.

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