

## **Goods and Services Tax (GST)**

GST is the biggest reform for indirect taxes in India in the post-independence period. It simplified indirect taxation, reduced tax complexities, removed the cascading effect and led to one nation and one tax regime in India. Experts believe that GST will have a huge positive impact on business and change the way the economy functions. In this chapter we shall have a brief introduction on new GST regime introduced in India since July, 2017. Before we are introduced to the system of GST in India let us know the concepts of Direct and Indirect taxes.

### **Evolution of GST in India:**

France was the first country to implement GST in the year 1954. Within 62 years of its advent, about 160 countries across the world have adopted GST because this tax has the capacity to raise revenue in most transparent and natural manner.

### **Kelkar Task Force 2004 :**

The Finance Ministry of Government of India set up a Task Force under the chairmanship Mr. Vijay Kelkar in 2004 on the implementation of Fiscal Responsibility and Budget Management. It made recommendations to bring about a radical transformation of the Indian Tax System. It disagreed with the existing approach of the government to reduce government expenditure to achieve the fiscal consolidation. It has advised to go for a Revenue-led Approach which focuses on enhancing the revenues instead of compressing the expenditure. It went further to suggest that the Government should enhance capital expenditure in order to counterbalance the contraction effects of fiscal consolidation. The Goods and Service Tax is an outcome of the recommendations of the Task Force under the chairmanship of Mr. Vijay Kelkar. In India the draft of Goods and Service Tax ( GST) was presented in the parliament in August, 2009.

Subsequently, the then Union Finance Minister, Shri P. Chidambaram announced that GST would be introduced from April 1, 2010. Since then, GST missed several deadlines and continued to be shrouded by the clouds of uncertainty. The talks of ushering in GST, however, gained momentum in the year 2014 when the NDA Government tabled the Constitution. (122nd Amendment) Bill, 2014 on GST in the Parliament on 19 th December, 2014.

The Lok Sabha passed the Bill on 6th May, 2015 and Rajya Sabha on 3rd August, 2016. Subsequent to ratification of the Bill by more than 50% of the States, Constitution. (122nd Amendment) Bill, 2014 received the assent of the President on 8th September, 2016 and became Constitution (101st Amendment) Act, 2016, which paved the way for introduction of GST in India.

Reference:

<http://www.unishivaji.ac.in/uploads/distedu/sim1/B.%20Com.%20III%20Adv.%20Acc.%20Sem.%20VI%20P.%20IV%20Unit-4.pdf>

In the following year, on 27th March, 2017, the Central GST legislations - Central Goods and Services Tax Bill, 2017 integrates Goods and Service Tax Bill, 2017, Union Territory Goods and Services Tax Bill, 2017 and Goods and Services Tax (Compensation to States) Bill, 2017 were introduced in Lok Sabha. Lok Sabha passed these bills on 29th March, 2017 and with the receipt of the President's assent on 12th April, 2017, the Bills were enacted.

**State GST Laws:** The enactment of the Central Acts was followed by the enactment of the State GST laws by various State Legislatures. Telangana, Rajasthan, Chhattisgarh, Punjab, Goa and Bihar were among the first ones to pass their respective State GST laws. GST is a path breaking indirect tax reform which will create a common national market. GST has subsumed multiple indirect taxes like excise duty, service tax, VAT, CST, luxury tax, entertainment tax, entry tax, etc.

**Concept of GST:** GST is a single value added tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages.

#### **Features of GST:**

**Value Added Tax:** GST is a single value added tax on the supply of goods and services levied by the government of India. Under GST, tax is levied only on the value added at each stage in the supply chain from producer to the ultimate consumer. For example, if a business house purchases the goods of Rs. 1,000 and sells it for Rs. 1500 by adding Rs. 500 to the initial cost (consisting of say business overheads Rs. 200 and Profits of Rs. 300) he will have to pay GST only on the value addition of Rs. 500 and not on the total cost of Rs. 1500.

**Comprehensive:** GST subsumes all the prevailing indirect taxes. Moreover, by bringing in a unified taxation system across the country, it ensures that there is no more arbitrariness in tax rates.

**Multi-stage:** GST is levied at each stage in the supply chain from manufacturer to the ultimate consumer where the transaction takes place. GST offers comprehensive and continuous chain of tax credits from the producer's point or service provider's point up to the retailer's level or consumer's level thereby taxing only the value added at each stage of supply chain.

**Credit of GST paid on Purchases:** The supplier at each stage is permitted to avail credit of GST paid on purchase of goods and or services and can set-off this credit against the GST payable on supply of goods and services to be made by him. Thus, only the final consumer bears the GST charged by the last supplier in the supply chain, with set-off benefits at all previous stages.

Reference:

<http://www.unishivaji.ac.in/uploads/distedu/sim1/B.%20Com.%20III%20Adv.%20Acc.%20Sem.%20VI%20P.%20IV%20Unit-4.pdf>

**Destination based consumption:** GST is collected at the point of consumption. The tax authority with appropriate jurisdiction in the place where the goods / services are finally consumed will collect the tax. For example, let us say that the cotton garments are shipped from Gujarat to Maharashtra. Gujarat is producer state and Maharashtra is the consumer state. Tax revenue under GST shall be collected by GST authorities in Maharashtra.

**No Cascading Effect:** Since only the value added at each stage is taxed under GST, there is no tax or cascading of taxes under GST system. GST does not differentiate between goods and services and thus the two are taxed at a single rate.

**Rates of GST:** Currently there are four slabs of GST on the various categories of goods and services. They are 5%, 12%, 18% and 28%.

**GST for Inter-state Sale:** Integrated Goods and Service Tax (IGST) would be levied and collected by the Centre on inter-State supply of goods and services. The GST on supplies in the course of Inter-State trade or commerce shall be levied and collected by the Government of India. Such tax shall be apportioned between the Union and the States in the manner as may be provided by the law.

### Taxes subsumed by GST

GST incorporates the following taxes earlier levied at the center and state level. GST has replaced or subsumed the following taxes:



**Taxes not to be subsumed by GST in India are:**

- Basic Customs Duty
- Export Duty
- Toll Tax
- Road and Passenger Tax
- Electricity Duty
- Stamp Duty
- Property Tax

**Note:**

1. Alcoholic beverages for human consumption are proposed to be kept out of the purview of GST
2. GST on petroleum products would be levied from a notified date to be recommended by the GST Council

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<http://www.unishivaji.ac.in/uploads/distedu/sim1/B.%20Com.%20III%20Adv.%20Acc.%20Sem.%20VI%20P.%20IV%20Unit-4.pdf>