Goods And Services Tax-Analysis

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Taxation System in India

India has a well-developed tax structure with clearly demarcated authority between Central and State Governments and local bodies.

Indian taxation system has undergone tremendous reforms during the last decade. The tax rates have been rationalized and tax laws have been simplified resulting in better compliance, ease of tax payment and better enforcement. The process of rationalization of tax administration is ongoing in India.

One of the important components of tax reforms initiated since liberalization before Goods and Services Tax(GST) is the introduction of **Value Added Tax (VAT).**

VAT is a multi-point destination based system of taxation, with tax being levied on value addition at each stage of transaction in the production/ distribution chain. The term 'value addition' implies the increase in value of goods and services at each stage of production or transfer of goods and services. VAT is a tax on the final consumption of goods or services and is ultimately borne by the consumer. It is a multi-stage tax with the provision to allow 'Input tax credit (ITC)' on tax at an earlier stage, which can be appropriated against the VAT liability on subsequent sale.

Classification of Taxes

Direct tax

A tax paid by the individual or organization on which it is levied. For example, the personal income tax is levied on individuals, who end up bearing the entire burden of the tax. A direct tax cannot be shifted from the entity on which itis levied. Direct taxes are incurred on income received, unlike indirect taxes, such as value added taxes, that are incurred when income is spent Direct taxes are progressive, insofar as the amount paid varies according to the income and wealth of the taxpayer. By contrast,

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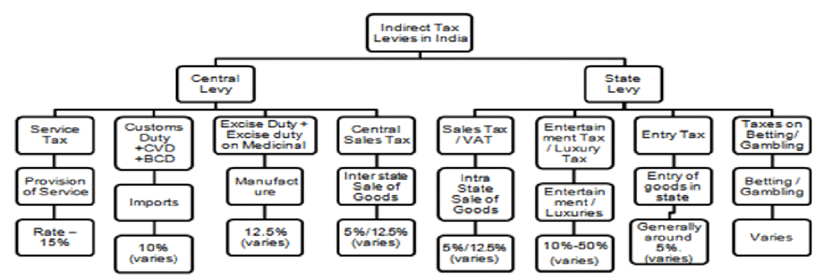
indirect tax is regressive, insofar as the same amount is paid by each tax-paying consumerregardless of his or her income.

Indirect tax

A tax paid by an entity other than the one on which it is levied.For example, a retail sales tax is collected and remitted to the government by a business even though the tax is ultimately paid by the consumers.indirect tax a TAX imposed by the government on goods and services (which is incorporated into the product's final price) in order to raise revenues and as an instrument of FISCAL POLICY in managing the economy. The main forms of indirect tax ,generally are vat ,excise , sales, custom.Indirect taxes are referred to as 'expenditure' taxes since they are incurred when income is spent, unlike DIRECT TAXES, such as INCOME TAX, which are incurred when 'income' is received.

Changes in indirect tax can be used as part of fiscal policy to regulate the level of AGGREGATE DEMAND, increases in tax serving to reduce disposable income available for consumption spending, while decreases in tax increase disposable income. Increases in indirect tax serving to discourage consumption of socially disapproved products like cigarettes or alcoholic drinks, while reductions in indirect taxes encourage consumption of socially approved products like basic foodstuffs or books.Unlike a DIRECT TAX, which varies according to the income of the taxpayer (PROGRESSIVE TAXATION), indirect taxes are regressive, insofar as the same amount is paid by each taxpaying consumer regardless of income.



Evolution of Indian taxation after 1991

- **1991**
- Interest Tax Act, 1974 revived.
- **1997**
- Rates of Income-tax reduced significantly.

- Presumptive tax scheme discontinued.
- Voluntary Disclosure Scheme 1997 introduced.
- Minimum Alternate Tax introduced.
- National Computer Centre (NCC) was set up in Delhi.
- **2002**
- The National Website of the Income Tax Department (www.incometaxindia.gov.in) was launched to provide a vital interface between the Department and taxpayers.
- **2004**
- As a measure of widening of tax base, the concept of AIR (Annual Information Return) was introduced.
- Fringe Benefit Tax (FBT) was introduced as a major step towards widening of tax base and bolstering of the Direct Tax Collection.
- Securities Transaction Tax (STT) was introduced.
- **2005**
- Tonnage Tax was introduced for the Shipping Companies.
- Banking Cash Transaction Tax (BCTT) was introduced w.e.f. 01-06-2005.
- **2006**
- A project for enabling electronic filing (e-filing) of Income Tax Returns was launched.
- Tax Return Preparer Scheme (TRPS) was launched to assist individuals and HUF taxpayers to file their Return of Income.
- **2007**
- The Refund Banker Scheme was launched in Delhi and Patna charges.
- Sevottam Scheme was launchedto standardize service delivery to the taxpayers.
- The first citizen-friendly single window AayakarSeva Kendra (ASK)wassetup, for centralized receipt and registration of specified categories of documents, including income tax returns.
- All India Tax Network (TAXNET) was setup connecting more than 700 offices in more than 500 cities. Consolidation of 36 (RCC) independent regional databases into a single centralized database (PDC or Primary Data Centre) was carried out.
- Integrated Taxpayer Data Management System (ITDMS) for drawing of 360° taxpayer profile was launched.
- **2008**
- Cyber Forensic Labs were setup to identify relevant digital data during search and survey operations, recover hidden or password

protected or deleted data and store retrieved data in a manner so that it could be used as evidence in judicial proceedings.

- **2010**
- To simplify the 50 years old Income-tax Act, 1961,'The Direct Taxes Code Bill, 2010' was introduced in the Parliament.
- **2011**
- A new simplified form 'Sugam' was introduced to reduce the compliance burden of small tax payers falling within presumptive taxation..
- **2014**
- SIT to investigate Black Money in Swiss Bank Accounts formed.
- Tax Administrative Reforms Commission (TARC) headed by Dr. ParthasarathiShome submitted its report of reviewing the applicability of tax policies and tax laws in the context of global best practices and recommending measures for reforms required in tax administration to enhance its effectiveness and efficiency.

HISTORY OF GST

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:

a. In 2003, the **Kelkar Task Force** on indirect tax had suggested a comprehensive Goods and Services Tax (GST) based on VAT principle.

b. 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.

c. 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).**

d. 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.

e. 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.

f. In order to amend the Constitution to enable introduction of GST, the **Constitution (115th Amendment) Bill** was introduced in the

LokSabha 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.

g. 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.

h. 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.

i. The Empowered Committee in the Bhubaneswar meeting also decided to constitute committees of officers to discuss and report on various aspects of GST as follows:-

(a)Committee on Place of **Supply Rules and Revenue Neutral Rates**;

(b)Committee on **dual control**, threshold and exemptions;

j. The Parliamentary Standing Committee submitted its Report in August, 2013 to the LokSabha. 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.

k. The final **draft Constitutional Amendment Bill** incorporating the above stated changes were sent to the Empowered Committee for consideration **in September 2013.**

l. The 115th Constitutional (Amendment) Bill, 2011, for the introduction of GST introduced in the LokSabha in March 2011 **lapsed with the dissolution of the 15th LokSabha.**

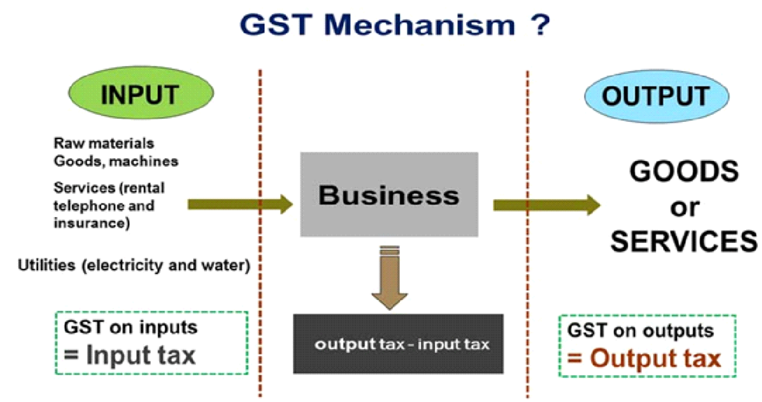
m. The Bill was introduced in the LokSabha on 19.12.2014, and was passed by the LokSabha on 06.05.2015. It was then referred to the Select Committee of RajyaSabha, which submitted its report on 22.07.2015.

BASIC CONCEPT OF "GST"

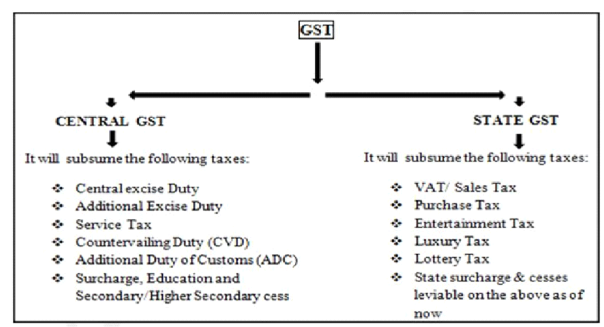
What is GST? How does it work?

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. 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.



TYPES OF GST IN INDIA



WHAT IS CGST?

Central Goods and Services Tax (CGST) is a sector of GST with an idea of one tax one nation. CGST depends upon Central Goods and Service Tax act 2016. CGST is dictated on the actions of goods and services of high norm stocks and services. These services can be modify time to time by a distinct body. The finances collected under CGST stands for center. The investment tax accredited on CGST is designated to states so that it could be bring into service for the payment of Central GST.

WHAT IS SGST?

The expanded form of SGST is State Goods and Service Tax. The earnings collected under the guidance of SGST is for non-other than State government. It comes under State Goods and Service Tax Act 2016. SGST is imposed at the definitive phase of distribution of goods and services. The finance collected from SGST is allocated for State government.

Which taxes at the Centre and State level are being subsumed into GST?

At the **Central** level, the following taxes are being subsumed:

a. Central Excise Duty,
b. Additional Excise Duty,
c. Service Tax,
d. Additional Customs Duty commonly known as Countervailing Duty, and
e. Special Additional Duty of Customs.

At the **State** level, the following taxes are being subsumed:

a. Subsuming of State Value Added Tax/Sales Tax,
b. Entertainment Tax (other than the tax levied by the local bodies), Central Sales Tax (levied by the Centre and collected by the States),
c. Octroi and Entry tax,
d. Purchase Tax,
e. Luxury tax, and
f. Taxes on lottery, betting and gambling.

How would GST be administered in India?

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.

How would a particular transaction of goods and services be taxed simultaneously under Central GST (CGST) and State GST (SGST)?

TheCentral 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.

How will IT be used 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 are 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 frontend 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 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.

What are the major features of the proposed payment procedures under GST?

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

i. Electronic payment process- no generation of paper at any stage
ii. Single point interface for challan generation- GSTN
iii. Ease of payment – payment can be made through online banking, Credit Card/Debit Card, NEFT/RTGS and through cheque/cash at the bank
iv. Common challan form with auto-population features
v. Use of single challan and single payment instrument
vi. Common set of authorized banks
vii. Common Accounting Codes

WHY GST IS IMPORTANT FOR INDIA?

The Constitution Amendment bill for Goods and Services that is ''GST'' has been accepted by the President of India after it's routing in the Parliament on 3rd August 2016 (RajyaSabha) and 8th August 2016 in LokSabha. It also has the confirmation to a greater extent up to 50 percent of State legislature. The Indian government is accomplished to supersede all indiscernible taxes imposed by the Center and States and also to bring GST into operation by April 2017.

In present scenario the tax formation of India is intricate. Examining to the worldwide evolution and tax structure of developed countries, GST challenges for affluence in India. GST is extensive and vast tariff on fabrication, marketing and expenditure of products and services at national platform. The introduced tax will be assessable on all undertakings implying supply of goods and services.

IMPACT OF GST ON BUSINESSES

GST will have a wide ranging impression on approximately all the phases of merchandise manipulation in the country, for example financial records, price formation of commodities and services, tax conformity methods and supply sequence renovation. This can be proved by the following:

RESOURCE- GST can openly provide favorable chances to integrate to retailers and dealers, it may also provide surplus duty and remarkable duty elements to be replaced.

DISPENSATION- Transformation in tax methodology could authorize changes in both procurement and dispensation system. When GST will come into being, present mechanism structure and commodity flow may require scrutiny and eventual conversion.

PRICING AND ECONOMIC BENEFIT- Tax reduction arise from

GST structure would need revalue the rate of commodities. Range or tariff enlargement would also need to be re-investigate.

SYSTEM CHANGE AND TRADE MONOGRAPH- GST will bring easy going transition so that existing agreement stabilize as on the cut-off date need to be transmigrated. GST also need to take applicable changes to IT techniques and methods of accounting in major areas namely educating customer, training of staffs, conformity beneath GST so that GST could make sure tranquil changes in its governance.

NUMERICAL EXAMPLE OF GST

CURRENT TAX SYSTEM	GST SYSTEM
Cost Add: 100.00	Cost Add: 100.00
Excise Duty @ 16% 16.00	CGST@ 15% 15.00
Factory Price Add: 116.00	Factory Price Add: 115.00
VAT@14% 16.24	SGST@ 12% 12.00
Wholesale Price 132.24	Wholesale Price 127.00

EXAMPLE 2:

PRESENT TAX SYSTEM	GST SYSTEM
Product Sold from Mumbai to Nagpur Price: Rs 1000	Product Sold from Mumbai to Nagpur Price: Rs 1000
	CGST @ 5% = RS 50
VAT @ 10%= Rs 100	SGST @5%= =Rs50
Product Sold from Nagpur to Chennai. Cost Rs= 1100 Profit Rs= 1000 Sale Price Rs= 2100	Product Sold from Nagpur to Chennai. Cost Rs= 1100 Profit Rs= 1000 Sale Price Rs= 2100
Total Cost of Product=Rs.	IGST@ 10%= 110= 210-CGST-SGST Total Cost of Product= Rs.
2310	2210

BENEFITS OF GOODS AND SERVICE PRODUCTS TAX

For business and industry

· Easy compliance: A robust and comprehensive IT system would be the foundation of the GST regime in India. Therefore, all tax payer services such as registrations, returns, payments, etc. would be available to the taxpayers online, which would make compliance easy and transparent.

· Uniformity of tax rates and structures: GST will ensure that indirect tax rates and structures are common across the country, thereby increasing certainty and ease of doing business. In other words, GST would make doing business in the country tax neutral, irrespective of the choice of place of doing business.

· Removal of cascading: A system of seamless tax-credits throughout the value-chain, and across boundaries of States, would ensure that there is minimal cascading of taxes. This would reduce hidden costs of doing business.

· Improved competitiveness: Reduction in transaction costs of doing business would eventually lead to an improved competitiveness for the trade and industry.

· Gain to manufacturers and 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.

For Central and State Governments

· Simple and easy to administer: Multiple indirect taxes at the Central and State levels are being replaced by GST. Backed with a robust end-to-end IT system, GST would be simpler and easier to administer than all other indirect taxes of the Centre and State levied so far.

· Better controls on leakage: GST will result in better tax compliance due to a robust IT infrastructure. Due to the seamless transfer of input tax credit from one stage to another in the chain of value addition, there is an in-built mechanism in the design of GST that would incentivize tax compliance by traders.

· Higher revenue efficiency: GST is expected to decrease the cost of collection of tax revenues of the Government, and will therefore, lead to higher revenue efficiency.

For the consumer

· Single and transparent tax proportionate to the value of goods and services: Due to multiple indirect taxes being levied by the Centre and State, with incomplete or no input tax credits available at progressive stages of value addition, the cost of most goods and services in the country today are laden with many hidden taxes. Under GST, there would be only one tax from the manufacturer to the consumer, leading to transparency of taxes paid to the final consumer.

· Relief in overall tax burden: Because of efficiency gains and prevention of leakages, the overall tax burden on most commodities will come down, which will benefit consumers.

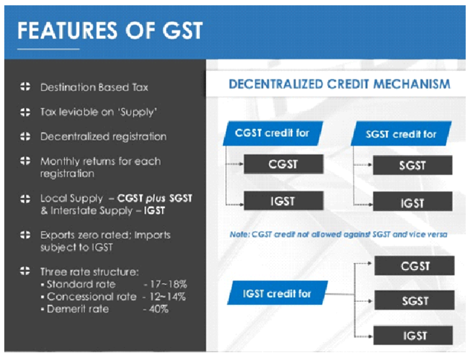
IMPACT OF GST ON INDIAN ECONOMY

1) GST will dislodge the custom duties relevant on exports and due to this our emulative will decrease and competitiveness in global market would increase induced by the inferior transaction.
2) GST will bring transparency in the regime as the consumers would know strictly that how much taxes they are paying and on which groundwork.
3) GST would add to polity finances by increasing the tax base.
4) GST bestow credit balance to the taxes conferred by the manufacturers earlier in goods and services chain and this would stimulate these manufacturers to purchase raw products from various registered vendors to and this would introduce more and more suppliers under the operational area of taxation.
5) It will detract the tax burden on the manufacturers and stimulate growth through more output. This twofold taxation inhibit producers from producing to their optimal efficiency and operate growth. GST would solve this case by supplying tax credit to the producers.

SALIENT FEATURES OF GOODS AND SERVICE TAX

1)SUBSUMING OF CENTRAL TAXES- It is an issue that GST shall subsume multiple Central indirect taxes and taxes such as Central Excise Duty and Additional Excise Duties would be assessable under the Medicinal and Toilet Preparations, Act 1955. Service tax and Additional Custom Duty are incumbrancersand imposition as they are related with supply of goods and services.

2)SUBSUMING OF STATE AND OTHER TAXES: GST shall even subsume taxes like Sales Tax, Central Sales Tax, Entertainment Tax, Luxury Tax, till they are referred as supply of goods and services.
3)ALLOCATION WITH THE NOTION OF "Products of special weightage"- The bill of 286(3) exclude command to allocate with such belief or theory.
4)DIVISION OF GST: The goods and service collected and assessable under Government of India comes under Clause 270(1A) of the bill, excluding the tax assigned under clause 269A (1). According to the clause 269A (2) it should be dispensed in the mode provided between the States and the Union.
5)SCOPE OF GST- Except intoxicating liquor for human utilization, GST shall cover all the goods and services. When it comes to petroleum goods, it has been subordinated that these goods dose not comes under assessable of Goods and Services. The GST also represents a historic opportunity to rationalize the tax system that is complicated in terms of rates and structures and has become an ¯Exemptions Raj, rife with opportunities for selectivity and discretion. Tax policy cannot be overly burdened with achieving industrial, regional, and social policy goals; more targeted instruments should be found to meet such goals, for example, easing the costs of doing business, public investment, and direct benefit transfers, respectively; cesses should be reduced and sparingly used



<u>CONCLUSION</u>

GST will not make the things cheaper immediately, in fact applying the uniform rate of GST will increase the prices in the short term in some areas where they are currently tax, less than the uniform rate. However in the long term, GST will reduce the prices of goods and services due to no tax on tax and improvement in productivity.

The nation is on the cusp of **<u>executing one of the most ambitious and remarkable tax reforms</u>** in its independent history. Implementing a new tax, encompassing both goods and services, to be implemented by the Centre, 29 States And 2 Union Territories, in a large and complex federal system, via a constitutional amendment requiring broad political consensus, affecting potentially 2-2.5 million tax entities, and marshalling the latest technology to use and improve tax implementation capability, is perhaps unprecedented in modern global tax history. The **time is ripe to collectively seize this historic opportunity**.