

“Goods and Service Tax Explained With Benefits”

Dr. Anwar Hussain*

Abstract—Goods and Service Tax or GST as it is known is all set to be a game changer for the Indian economy. The Finance Minister in his budget speech of Budget 2015 has announced time and again that the tax will be introduced on 1 April, 2016. VAT or Value Added Tax was first introduced in France somewhere in 1954. The concept of VAT is applying a tax only on the value added by each person at each stage; by allowing the person input credit of taxes paid up to his stage of procurement. Thus the tax is expected to reduce the concept of ‘tax on tax’, increase the gross domestic product of the economy and reduce prices. Overall it is known to be beneficial to both the consumer, business and the Government. In India, there are different indirect taxes applied on goods and services by central and state government. GST is intended to include all these taxes into one tax with seamless ITC and charged on both goods and services. Thus excise duty, special additional duty, service tax, VAT to name a few will get repealed and will be added into GST. For this, GST will have 3 parts – CGST, SGST and IGST.

Keywords: Benefit of GST, Importance of GST in Indian Economy.

I. Introduction—Thus going forward on all transactions of both goods and services, only one tax will apply which is GST comprising of CGST and SGST. IGST would be applied instead of SGST for interstate transactions. Input credit of all these taxes will be available against all the respective outputs. For successful implementation of GST, it is necessary that the Government at both centre and state levels, agree to merge all their taxes into CGST/SGST. Further, the base for taxation for both has to be the same. The exemptions, abatements etc. under GST need to be common for both centre and all states to avoid litigation. Further exemptions/exclusions should be minimum to avoid break of credit chain. The law needs to provide for single point compliances, absence of multistate audits etc. for the assesses. Conceptually GST is expected to have numerous benefits like reduction in compliances in the

*Research fellow Dept. Of Commerce B.R.A. Bihar University
Muzaffarpur Bihar

long run since multiple taxes will be replaced with one tax. It is expected to bring down prices and hence the inflation since it will remove the impact of tax on tax and enable seamless credit. It is expected to generate revenue for the country as the tax base will increase as the GST rate will be somewhere around 27% with both goods and services covered. It is also expected to make exports from India competitive and India a preferred destination for foreign investment since GST is a globally accepted tax. To this goal, in 2012 the Government introduced the Negative list regime of taxation and Place of Provision of Services Rules, 2012. They have also recently circulated the draft Place of Supply Rules towards GST which has certain drastic differences from the earlier rules. Even in the Budget of 2015, the Government has shown its intention of moving towards GST by increasing the excise rate to flat 12.5% and service tax rate to flat 14% and removing the applicable cesses. Thus once the Constitution Amendment Bill is passed the much awaited GST will be introduced. Financial service industry – specifically financial institutions like Banks and NBFCs are the backbone of any economy. They are the drivers of the economy and contribute approximately 6% of the indirect taxes. Thus they are a significant player and an adverse impact on the sector impacts the economy. Further, Banks currently operate only in the service sector and are covered by Service Tax @ 12.36% currently. Going forward with GST, they will have to pay approx. 27% GST. Further since all major Banks have multistate operations they would need to understand and implement multistate compliances under GST. Thus before the impending GST, addressing issues faced by the financial service industry is important to address. The industry is currently facing issues inter alia on determining nature of taxability of their incomes, input credit recovery, deciding the place of provision of their service, issues like intermediary service income, interchange income, correspondent bank charges income, format of the service tax returns, time limits for compliances and revision of returns, and so on. Unless these issues are addressed the industry would face major hurdles with GST. GST is a multistate tax with compliances expected in different states. Thus it is imperative to address the issue of “place of supply” with clarity before GST. Further double taxation issues like taxing intermediary services, interchange income, correspondent bank charges etc. needs to be addressed so that India is globally competitive. Issues

around compliances need to be clarified since going forward there is an apprehension of multistate compliances and so on.

II. Literature Review-GST (Goods and Services Tax) is the biggest indirect tax reform of India. GST is a single tax on the supply of goods and services. It is a destination based tax. GST will subsume Central Excise Law, Service Tax Law, VAT, Entry Tax, Octroi, etc.

GST Regime:-GST is one of the biggest indirect tax reforms in the country. GST is expected to bring together state economies and improve overall economic growth of the nation.

GST is a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. It will replace all indirect taxes levied on goods and services by states and Central.

There are around 160 countries in the world that have GST in place. GST is a destination based taxed where the tax is collected by the State where goods are consumed. India is going to implement the GST from July 1, 2017 and it has adopted the Dual GST model in which both States and Central levies tax on Goods or Services or both.

SGST – State GST, collected by the State Govt.

CGST – Central GST, collected by the Central Govt.

IGST – Integrated GST, collected by the Central Govt.

Need for GST in India:-Introduction of GST is considered to be a significant step in the reform of indirect taxation in India. Amalgamating of various Central and State taxes into a single tax would help mitigate the double taxation, cascading, multiplicity of taxes, classification issues, taxable event, and etc., and leading to a common national market.

VAT rates and regulations differ from state to state. On the other hand, GST brings in uniform tax system across all the states. Here, the taxes would be divided between the Central and State government.

Benefits of GST:

To trade	To Consumers	
· Reduction in multiplicity of taxes	· Simpler Tax system	· Create unified common national market for India, giving a boost to Foreign investment and “Make in India” campaign
· Mitigation of cascading/ double taxation	· Reduction in prices of goods & services due to elimination of cascading	· Boost export and manufacturing activity and leading to substantive economic growth
· More efficient neutralization of taxes especially for exports	· Uniform prices throughout the country	· Help in poverty eradication by generating more employment

· Development of common national market	· Transparency in taxation system	· Uniform SGST and IGST rates to reduce the incentive for tax evasion
· Simpler tax regime	· Increase in employment opportunities	
· Fewer rates and exemptions		
· Distinction between Goods & Services no longer required		

III. Methodology

Other Benefits of Goods And Services Tax:

· Will prevent cascading of taxes as Input Tax Credit will be available across goods and services at every stage of supply.

· Harmonization of laws, procedures and rates of tax.

· More efficient neutralization of taxes especially for exports thereby making our products more competitive in the international market and give boost to Indian Exports.

Improve the overall investment climate in the country which will naturally benefit the development in the states.

· Average tax burden on companies is likely to come down which is expected to reduce prices and lower prices mean more consumption, which in turn means more production thereby helping in the growth of the industries. This will create India as a “Manufacturing hub”.

Will improve environment of compliance as all returns to be filed online, input credits to be verified online, encouraging more paper trail of transactions.

· Common procedures for registration of taxpayers, refund of taxes, uniform formats of tax return, common tax base, common system of classification of goods and services will lend greater certainty to taxation system.

Timelines to be provided for important activities like obtaining registration, refunds, etc. GST will be beneficial with more transparency, efficient compliance, ramp up in GDP growth to the Centre, states, industrialists, manufacturers, the common man and the country at large.

Manner of utilization:

IGST- The input tax available in IGST will be utilized first to make the payment of IGST and if anything remains shall be utilized next to CGST, and finally still remaining balance can be utilized to SGST

CGST- The input tax available in CGST will be utilized first to make the payment of CGST and if anything remains shall be utilized next to IGST. CGST input cannot be utilized against SGST

SGST- The input tax available in SGST will be utilized first to make the payment of SGST and if anything remains shall be utilized next to IGST. SGST input cannot be utilized against CGST

Where the input tax exceeds for the same period in any of IGST ,CGST, SGST may be carried forward to subsequent period and adjusted with output tax as the same manner and order as above.

Any unutilized credit available at the end of tax period at any category of input may be refunded as per act.

GST restrict the input tax credit and not available for the following

A. motor vehicles, except when they are supplied in the usual course of business or are used for providing the following taxable services—

(i) Transportation of passengers,

(ii) Transportation of goods,

(iii) Imparting training on motor driving skills;

B. High speed diesel oil, motor spirit, aviation turbine fuel, petroleum crude oil, aviation gasoline,

C. goods or services provided in relation to outdoor catering, beauty treatment, health services, cosmetic and plastic surgery, membership of a club, health and fitness centre, life insurance, health insurance and travel benefits extended to employees on vacation such as leave or home travel concession, when such goods and/or services are used primarily for personal use or consumption of any employee.

D. Goods and/or services acquired by the principal in the execution of works contract when such contract results in construction of immovable property, other than plant and machinery;

E. Goods acquired by a principal, the property in which is not transferred (whether as goods or in some other form) to any other person, which are used in the construction of immovable property, other than plant and machinery;

F. Goods and/or services on which tax has been paid under section 8 of the Act (Compound levy)

G. Goods and/or services used for private or personal consumption, to the extent they are so consumed.

Conclusion-GST will bring in transparent and corruption-free tax administration, removing the current shortcomings in indirect tax

structure. GST is business friendly as well as consumer friendly. GST in India is poised to drastically improve the positions of each of these stakeholders. We need a change in the taxation system which is better than earlier taxation. This need for change leads us to ‘need for GST’.

GST will allow India to better negotiate its terms in the international trade forums. GST aimed at increasing the taxpayer base by bringing SMEs and the unorganized sector under its compliance. This will make the Indian market more stable than before and Indian companies can compete with foreign companies.

References

- CA Vishal Raheja College of Commerce
- CA Brijesh Kumar
- Dr. Lal Babu DAS College Of Commerce
- Dr. Ravi Kumar M H College Ghaziabad

