GST in India- A Conceptual Frame Work

Abstract

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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 speechof 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 upto his stage ofprocurement. 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.The implementation of GST will help create Indian market and reduce the cascading effect of tax on the cost of goods and services. It will impact tax structure, tax incidence, tax computation, utilization and reporting, leading to a complete overhaul of the current indirect tax system. For this, GST will have 3 parts – CGST, SGST and IGST. The central taxes like excise duty will be subsumed into CGST and state taxes like VAT into SGST. For the introduction of GST in the above form, the Government needs to get the Constitution Amendment Bill passed so that the proposed objective of subsuming all taxes and allowing states to tax subjects in Union list and vice versa is achieved. Without these powers it is not legally possible to move towards GST. 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 willbe available against all the respective outputs.

Key words: GST, CGST, SGAT, IGST, Indirect Tax,Constitution.

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1. Introduction

Introduction of the Value Added Tax (VAT) at the Central and the State level has been considered to be a major step in 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 an additional important perfection – the next logical step –towards a widespread indirect tax reforms in the country. Initially, it was conceptualized that there would be a national level goods and services tax.

GST was first introduced during 2007-08 budget session. On 17th December 2014, the current Union Cabinet ministry approved the proposal for introduction GST constitutional Amendment Bill. On 19th of December 2014, the bill was presented on GST in Loksabha. The Bill will be tabled and taken up for discussion during the coming Budget session. The current central government is very determined to implement GST constitutional Amendment Bill.

GST is a tax we need to pay on supply of goods and services. Any person, who is providing or supplying goods and services, is liable to charge GST.

The President of India approved the Constitution Amendment Bill for Goods and Services Tax (GST) on 8 September 2016, following the bill's passage in the Indian parliament and its ratification by more than 50% of state legislatures. This law will replace all indirect taxes levied on goods and services by the central government and state government and implement GST by April 2017. The implementation of GST will have a far-reaching impact on almost all the aspects of the business operations in India. With more than 140 countries now adopting some form of GST, India has long been a stand-out exception.

GST is a value-added tax levied at all points in the supply chain, with credit allowed for any tax paid on input acquired for use in making the supply. It would apply to both goods and services in a comprehensive manner, with exemptions restricted to a minimum.

In keeping with the federal structure of India, it is proposed that the GST will be levied concurrently by the central government (CGST) and the state government (SGST). It is expected that the base and other essential design features would be common between CGST and SGSTs for individual states. The inter-state supplies within India would attract an integrated GST (IGST), which is the aggregate of CGST and the SGST of the destination state.

2. Literature Review

Dr. R. Vasanthagopal (2011) studied,“GST in India: A Big Leap in the Indirect Taxation System” and concluded that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy. Success of GST will lead to its acceptance by more than 130 countries in world and a new preferred form of indirect tax system in Asia also.

Ehtisham Ahmed and Satya Poddar (2009) studied, “Goods and Service Tax Reforms and Intergovernmental Consideration in India” and found that GST introduction will provide simplier and transparent tax system with increase in output and productivity of economy in India. But the benefits of GST are critically dependent on rational design of GST.

Nitin Kumar (2014) studied, “Goods and Service Tax- A Way Forward” and concluded that implementation of GST in India help in removing economic distortion by current indirect tax system and expected to encourage unbiased tax structure which is indifferent to geographical locations.

Pinki, Supriya Kamma and Richa Verma (July 2014) studied, “Goods and Service Tax- Panacea For Indirect Tax System in India” and concluded that the new NDA government in India is positive towards implementation of GST and it is beneficial for central government , state government and as well as for consumers in long run if its implementation is backed by strong IT infrastructure.

3. Objective of study

1. To Study the difference between tradition tax system and GST
2. To study the GST and its impact on Indian economy

4. Research Design

4.1 Scope

The study was conducted to analyze the effectiveness of implementing GST in India. It brought to light the beneficial impacts of GST. This study was conducted with regard difference between tradition tax system and GST.The implementation of GST will help create Indian market and reduce the cascading effect of tax on the cost of goods and services. It will impact tax structure, tax incidence, tax computation, utilization and reporting, leading to a complete overhaul of the current indirect tax system.

4.2 Methodology

This is an “Exploratory research” in which information’s are collected from the different sources to find out the detail information about Implementation of GST in India. This research is based on secondary sources of data.

5. Conceptual Frame work of GST

GST (goods and service tax) is a comprehensive tax levy on manufacture, sale and consumption of goods and service at a national level.

‘G’-Goods

‘S’- Services

‘T’-Tax

GST is a tax on goods and services with value addition at each stage having comprehensive and continuous chain of set-of benefits from the producer’s/service provider’s point up to the retailer’s level where only the final consumer should bear the tax.” Through a tax credit mechanism, GST is collected on value-added goods and services at each stage of sales or purchase in the supply chain.

GST is paid on the procurement of goods and services can be set off against that payable on the supply of goods or services. But being the last person in the supply chain, the end consumer has to bear this tax and so, in many respects, GST is like a last-point retail tax.

Basically, GST is a value added tax, levied at all points in the apply chain with credit allowed for any tax paid on inputs acquired for use in making the supply. It is indirect tax that brings most of the taxes imposed on goods and services, manufacture, sale and consumption of goods and services, under a single domain at the national level. It would apply to both goods and services in a comprehensive manner with exemptions restricted to a minimum and it is payable at the final point of consumption.

It has been long pending issue to streamline all the different types of indirect taxes and implement a “single taxation” system. This system is called as GST (GST is the abbreviated form of goods and services Tax) the main expectation from this system is to abolish all indirect taxes and only GST would be levied. As the name suggests. The GST will be levied both on goods and services.

GST: GST is a major indirect tax reform in India which takes VAT to its logical conclusion.

5.1 Significance of GST in India

Introduction of a GST to replace the existing multiple tax structures of centre and state taxes are not only desirable but imperative in the emerging economic environment. Increasingly, services are used or consumed in production and distribution of goods and vice versa. Separate taxation of goods and services often requires splitting of transaction values into value of goods and services for taxation, which leads to greater complexities, administration and compliances costs.

Integration of various taxes into GST system would make it possible to give full credit for inputs taxes collected. GST, being a destination-based consumption tax based on VAT principle, would also greatly help in removing economic distortions and will help in development of a common national market.

The implementation of GST will help create Indian market and reduce the cascading effect of tax on the cost of goods and services. It will impact tax structure, tax incidence, tax computation, utilization and reporting, leading to a complete overhaul of the current indirect tax system.

GST will have a far-reaching impact on almost all aspects of business operations in a country, including pricing of products and services: supply chain optimization: IT, accounting and tax compliance systems. GST is expected to be a critical reform in spurring growth in the economy. When introduced, GST will also help in increased compliance, boost tax revenues, reduce the tax outflow in the hands of the consumers and make exports competitive.

It is hoped that the new Government will set forth a roadmap of the GST implementation in the upcoming Budget. The GST or the Goods and service Tax is a long pending indirect tax reform which India has been waiting for, and which is hoped to Orin out the wrinkles in the existing tax system. This comprehensive tax policy is expected to be one of the most important reforms in contributing to the India growth story.

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The introduction of the GST system is by far the most important tax reform in India. Consensus and coordination among states is required for it to succeed. It will affect prices, business processes and investments in all segments of the economy. It will act as a catalyst for promoting manufacturing in the country, thereby, supporting the 'Make in India' program of the Government.

The Government of India is proposing to replace the current complex structure of multiple indirect taxes in favor of a comprehensive dual Goods and Services Tax (GST) expected to be implemented from 1 April 2016. GST will be one of the most significant taxes in the fiscal history of India.

5.2 Difference between Tradition Taxation system and GST

5.2 a Traditional:

Tax is compulsory contribution to state revenue, levied by the government on workers income and business profits, or added to the cost of some goods, services, and transactions.

5.2 b Traditional Tax Structure

Direct Tax

- Income Tax
- Wealth Tax

Indirect Tax

- **Levied by Central Govt.**
  - Central Excise
  - Customers
  - Service Tax
- **Levied by State Govt.**
  - VAT
  - Entertainment Tax
  - Luxury Tax
  - Entry Tax

5.2 C Direct Taxes:

These types of taxes are directly imposed and paid to government of India. There has been a study rise in the net Direct Tax collections in India over the years, which is healthy signal. Direct taxes, which are imposed by the government of India, are:

- **Income Tax**: income tax, this tax is mostly known to everyone. Every individual whose total income exceeds taxable limit has to pay income tax based on prevailing rates applicable time to time. By doing investment in certain scheme you can save Income Tax.
- **Wealth tax-** A wealth tax (also called a capital tax, equity tax, or net worth tax) is a levy on the total value of personal assets, including owner-occupied housing: cash, bank

deposits, money funds, and savings in insurance and pension plans: investment in real estate and unincorporated businesses: and corporate stock, financial securities, and personal trusts. Typically, liabilities (primarily mortgages and other loans) are deducted: hence it is sometimes called a net wealth tax. A wealth tax taxes the accumulated stock of purchasing power, in contrast to income tax, which is a tax on the flow of assets.

- **Capital Gains Tax-** capital Gain tax as name suggests it is tax on gain in capital. If you sale property, shares, bonds and precious material etc. and earn profit on it within predefined time frame you are supposed to pay capital gain tax. The capital gain is the difference between the money received from selling the asset and the price paid for it. Capital gain tax is categorized into short-term gain and long- term gains. The long-term Capital Gains Tax is charges if the capital assets are kept for more than certain period 1 year in case of share and 3 years in case of share and 3 years in of property. Short-term capital Gain Tax is applicable if these assets are held for less than the above-mentioned period.

5.2 D Indirect Tax:

An indirect tax is a tax collected by an intermediary (such as a retail store) from the person who bears the ultimate economic burden of the tax (such as the consumer). The intermediary later files a tax return and forwards the proceeds to government with the return. Some of the indirect taxes imposed are:

- **Sales Tax**: sales tax charged on the sales of movable goods. Sale tax on interstate sale is charged by Union Government, while sales tax on inter-state sale (sale within State) (now termed as VAT) is charged by State Government. Sales can be broadly classified in three categories. (a) Inter-state sale (b) sale during import/export (c) Inter-State (i.e. within the state) sale. State Government can impose sales tax only on sale within the state.CST is payable on inter-State sales is @ 2%, if C from is obtained. Even if CST is charged by Union Government, the revenue goes to state Government. State from which movement of goods commence gets revenue. CST Act is administered by State Government.

- **Service Tax**: most of the paid services you take you have to pay service tax on those services. This tax is called service tax. Over the past few years, service tax been expanded to cover new services. Few of the major service which comes under vicinity of service tax are telephone, tour operator, architect, interior decorator, advertising, beauty prior, health center, banking and financial service, event management, maintenance service, consultancy service. Current rate of interest on service tax is 14%, this tax is passed on to us by service provider.

- **Value Added Tax**: the Sales Tax is the most important source of revenue of the State governments: every state has their respective Sales Tax Act. The tax rates are also different for respective states. Tax imposed by central government on sale of goods is called as sales tax same is called as value added tax by state government. VAT is additional to the price of goods and passed on to us as buyer (end user). Around 220+ items are covered with VAT. Vat rates vary based on nature of item and state.
- Custom duty and Octroi (on goods): Custom Duty is a type of indirect tax charged on goods imports into India. One has to pay this duty, on goods that are imported from a foreign country into India.
- Excise Duty: An excise or excise duty is a type of tax charged goods produced within the country. This is opposite to custom duty which is charged on bringing goods from outside of country.
- Entertainment Tax: tax is also likable on entertainment: this tax is imposed by state government on every financial transaction that is related to entertainment such as movie tickets, major commercial shows exhibition, broadcasting service, DTH service and cable service.

5.3 GST

GST is a major indirect tax reform in India which takes vat to its logical conclusion. GST would avoid burden of multiple taxation (tax on tax) with a cascading effect. GST seeks to rule out cascading tax effect. Once it introduced, CST will also be removed.

The proposed model of GST and the rate-

A dual GST system is planned to be implemented in India as proposed by the empowered committee under which the GST will be divided into two parts:

- State Goods and Services Tax(SGST)
- Central Goods and Services Tax(CGST)
- Integrated Goods and Services Tax(IGST)

Both SGST and CGST will be levied on the taxable value of a transaction. All goods and services, leaving aside a few, will be brought into the GST and there will be no difference between goods and services. The GST system will combine Central excise duty, additional excise duty, services tax, state VAT entertainment tax etc. under one banner.

Indirect taxes that will be included under GST:

State tax which will be subsumed in GST-

- VAT/Sales Tax
- Entertainment Tax(unless it is levied by local bodies)
- Luxury Tax
- Taxes on lottery, betting and gambling.
- State cess and surcharges to the extent related to supply of goods and services.
- Entry tax not on in lieu of octroi
- Central Taxes which will be subsumed in CGST-
- Central Excise Duty.
- Additional Excise Duty.
- The Excise Duty levied under the medical and Toiletries preparation Act
- Service Tax.
- Additional customs Duty, commonly known as countervailing Duty(CVD)
- special additional duty of customs(SAD)
- education Cess
- Surcharges.

Taxes that may or may not be subsumed due to a consensus between the Central and State Government-

- Stamp Duty
- Vehicle Tax
- Electricity Duty
- Other Entry taxes and Octrop
- Entertainment Tax (levied by local bodies)
- Basic customs duty and safeguard duties on import of goods into India.

5.4 GST IMPACT ON INDIAN ECONOMY:

GST will indeed provide a boost to the Indian economy and corresponding results can be seen on the stock market indices which are nothing but aggregate of Indian Inc.

Sectors which have long value chain from basic goods to final consumption stage with operation spread in multiple states such as FMCG, pharma, consumer durables, etc. should benefit. FMCG companies could generate substantial savings in logistics and distribution costs as the need for multiple sales depots will be eliminated

FMCG companies pay nearly 24-25 per cent including excise duty, VAT and entry tax and a lower rate of 18 per cent could yield significant reduction in taxes. But a higher GST rate of 28 per cent for consumer durables and some FMCG products may disappoint the market. Warehouse rationalization and reduction of overall tax rates, is expected to generate saving.

Automobiles sector could too benefit from GST from lowering of rates however high premium cars would attract highest slab rate which is negative for the sector.

Telecom sector would also benefit from GST. Their services would be taxed at 18% as against 15% now. There is hue and cry among the telecom operator on increase in the rate but this time after implementation of GST they would be able to get credit of inputs which would ultimately lower the tax incidence.

6. CONCLUSION

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. The implementation of GST will help create Indian market and reduce the cascading effect of tax on the cost of goods and services. It will impact tax structure, tax incidence, tax computation, utilization and reporting, leading to a complete overhaul of the current indirect tax system.GST is a major indirect tax reform in India which takes vat to its logical conclusion. GST would avoid burden of multiple taxation (tax on tax) with a cascading effect. GST seeks to rule out cascading tax effect. Once it introduced, CST will also be removed. The introduction of the GST system is by far the most important tax reform in India. Consensus and coordination among states is required for it to succeed. It will affect prices, business processes and investments in all segments of the economy. It will act as a catalyst for promoting manufacturing in the country, thereby, supporting the 'Make in India' program of the Government.

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