



# Goods and Services Tax (GST)

## Introduction

The Goods and Services Tax (GST) is a **value-added tax** levied on most goods and services sold for domestic consumption. The GST is paid by consumers, but it is remitted to the government by the businesses selling the goods and services.

## Main Features of GST

- **Applicable On supply side:** GST is applicable on 'supply' of goods or services as against the old concept on the manufacture of goods or on sale of goods or on provision of services.
- **Destination based Taxation:** GST is based on the principle of destination-based consumption taxation as against the present principle of origin-based taxation.
- **Dual GST:** It is a dual GST with the Centre and the States simultaneously levying tax on a common base. GST to be levied by the Centre is called Central GST (CGST) and that to be levied by the States is called State GST (SGST).
  - Import of goods or services would be treated as inter-state supplies and would be subject to Integrated Goods & Services Tax (IGST) in addition to the applicable customs duties.
- **GST rates to be mutually decided:** CGST, SGST & IGST are levied at rates to be mutually agreed upon by the Centre and the States. The rates are notified on the recommendation of the GST Council.
- **Multiple Rates:** Initially GST was levied at four rates viz. 5%, 12%, 16% and 28%. The schedule or list of items that would fall under these multiple slabs are worked out by the GST council.

## Legislative Basis Of GST

- In India, GST Bill was first introduced in 2014 as The Constitution (122nd Amendment) Bill.
- This got an approval in 2016 and was renumbered in the statute by Rajya Sabha as The Constitution (101<sup>st</sup> Amendment) Act, 2016. Its provisions:
  - Central GST to cover Excise duty, Service tax etc, State GST to cover VAT, luxury tax etc.
  - Integrated GST to cover inter-state trade. IGST per se is not a tax but a system to coordinate state and union taxes.
  - **Article 246A** - States have power to tax goods and services.
- **GST Council**
  - Article 279A - **GST Council** to be formed by the President to administer & govern GST. It's Chairman is Union Finance Minister of India with ministers nominated by the state governments as its members.
  - The council is devised in such a way that the centre will have 1/3<sup>rd</sup> voting power and the states have 2/3<sup>rd</sup>.
  - The decisions are taken by 3/4<sup>th</sup> majority.
- **Reforms Brought About by GST**
  - **Creation of common national market:** By amalgamating a large number of Central and State taxes into a single tax.
  - **Mitigation of cascading effect:** GST mitigated ill effects of cascading or double taxation

- in a major way and paved the way for a common national market.
- **Reduction in Tax burden:** From the consumers' point of view, the biggest advantage would be in terms of reduction in the overall tax burden on goods.
- **Making Indian products more competitive:** Introduction of GST is making Indian products more competitive in the domestic and international markets owing to the full neutralization of input taxes across the value chain of production.
- **Easier to administer:** Because of the transparent and self-policing character of GST, it would be easier to administer.

## Advantages of GST

### For the Government

- **Create a unified common market:** Will help to create a unified common national market for India. It will also give a boost to foreign investment and "Make in India" campaign.
- **Streamline Taxation:** Through harmonization of laws, procedures and rates of tax between Centre and States and across States.
- **Increase tax Compliance:** Improved environment for compliance as all returns are to be filed online, input credits to be verified online, encouraging more paper trail of transactions at each level of supply chain;
- **Discourage Tax evasion:** Uniform SGST and IGST rates will reduce the incentive for evasion by eliminating rate arbitrage between neighbouring States and that between intra and inter-state sales.

### For Overall Economy

- **Bring about certainty:** 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;
- **Reduce corruption:** Greater use of IT will reduce human interface between the taxpayer and the tax administration, which will go a long way in reducing corruption;
- **Boost secondary sector:** It will boost export and manufacturing activity, generate more employment and thus increase GDP with gainful employment leading to substantive economic growth;
- Ultimately it will help in poverty eradication by generating more employment and more financial resources.

### For the Trade and Industry

- Simpler tax regime with fewer exemptions.
- Increased ease of doing business.
- Reduction in multiplicity of taxes.
- Elimination of double taxation on certain sectors.
- More efficient neutralization of taxes especially for exports
- Making our products more competitive in the international market.
- Simplified and automated procedures for registration, returns, refunds and tax payments.
- Decrease in average tax burden on supply of goods or services.

### For Consumers

- **Transparent prices:** Final price of goods is expected to be transparent due to seamless flow of input tax credit between the manufacturer, retailer and service supplier.
- **Price reduction:** Reduction in prices of commodities and goods in long run due to reduction in cascading impact of taxation;
- **Poverty eradication:** By generating more employment and more financial resources.

### For the States

- **Expansion of the tax base:** As states will be able to tax the entire supply chain from

manufacturing to retail.

- **More economical empowerment:** Power to tax services, which was hitherto with the Central Government only, will boost revenue and give States access to the fastest growing sector of the economy.
- **Enhancing Investments:** GST being destination based consumption tax will favour consuming States. Improve the overall investment climate in the country which will naturally benefit the development in the States.
- **Increase Compliance:** Largely uniform SGST and IGST rates will reduce the incentive for evasion by eliminating rate arbitrage between neighbouring States and that between intra and inter-state sales

### Exemptions under GST

- Custom duty will be still collected along with the levy of IGST on imported goods.
- Petroleum and tobacco products are currently exempted.
- Excise duty on liquor, stamp duty and electricity taxes are also exempted.

### Challenges Of GST

- SCGT and CGST input credit cannot be cross utilized.
- Manufacturing states lose revenue on a bigger scale.
- High rate to tax to compensate the revenue collected now from multiple taxes i.e High Revenue Neutral Rate.
- The reduction in the fiscal autonomy of the States.
- Concerns raised by banks and insurance companies over the need for multiple registrations under GST.
- The levy of additional cess.
- The capacity of State tax authorities, so far used to taxing goods and not services, to deal with the latter is an unknown quantity.
- The success of GST depends on political consensus, technology and the capacity of tax officials to adapt to the new requirements.

### Conclusion

Thus GST is a positive step towards shifting Indian economy from the informal to formal economy. It is important to utilise experiences from global economies that have implemented GST before us, to overcome the impending challenges.