A Conceptual Study on GST – A Substitute to Indirect Taxes in India

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Abstract:
The Goods and service Tax Bill officially termed as the constitution Bill, 2014, is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. The main Objective is to create a single tax to replace all indirect tax levies and thereby removing all the inefficiencies in the indirect tax structure. GST will have a far-reaching impact on almost all the aspects of the economy , for instance, pricing of products and services, supply chain optimization, IT, accounting, and tax compliance systems.GST aims to simplify the indirect tax pattern in the country and is expected to curtail inflation through reducing cost of production and thereby empowering Indian trade and industry to be competitive. It is expected that through the introduction of proposed GST Indian economy will flourish and achieve significant growth. A major change in administering GST will be that the tax incidence is at the point of sale as against the present system of point of origin. This analytical study attempt to familiarize the concept of GST path of evolution, salient features, reason for introduction, Impact on various sectors, tax rate slabs, central and state level taxes to be subsumed by GST, benefits and drawbacks. The study was purely based on secondary data. It attempt to provide an overview to the concept of proposed GST Bill which is going to change the indirect tax structure.

Key words: *Features, GST concept, History, Impact, taxes subsumed.*

Introduction

GST can be expanded as Goods and Service Tax, is one of the biggest revolutionary movement in India's indirect tax structure. It completely wipes out the major indirect taxes prevailing in India. The constitution bill popularly named as GST Bill came into effect with 122 amendments in order to facilitate the introduction of Goods and Service Tax in the country. Presently proposed amendment confer power on both houses and state legislature to make necessary guidelines for levying GST on the supply of goods and services. The amendment bill has been approved by the president of India after its passing in houses of parliament.GST will be a face changing reform that is going to happen in Indian economy by creating a common platform for tax determination and reducing the cascading effect of tax on goods and services. The reflection of such changes can witness in tax structure, tax incidence, tax computation, tax payment, compliance, credit utilization and reporting etc and ultimately leads to complete makeover to current indirect tax system. Before the introduction of GST, indirect tax structure in India was very complex and lacks uniformity. This multiplicity of taxes at the State and Central levels has resulted in a complex indirect tax structure in the country that is ridden with hidden costs for the trade and industry. Tax on tax is another reason that establishes the need of a common tax structure. No credit or relaxation of excise duty and service tax paid at the stage of manufacture is available to the traders while paying the State level sales tax or VAT, and vice-versa. Further, no credit of State taxes paid in one State can be availed in other States. Hence, the prices of goods and services get artificially inflated to the extent of this 'tax on tax'. GST attempt to put an full stop to this effect. The main expectation from this system is to abolish all indirect taxes and only GST would be levied. GST is a consumption based tax levy. It core theme lies on "Destination Principle". It means goods and service tax is applied on goods and services at the place where final consumption happens. Both import and export are subject to GST, where as exports would be zero rated. With GST, it is anticipated that the tax base will be comprehensive, as virtually all goods and services will be taxable, with minimum exemptions. The government of India is committed to replace all the indirect taxes levied on goods and services by the Centre and States and implement GST by April 2017.

Concept of GST

GST stands for Goods and Service Tax is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. Goods and services tax is a tax levied on goods and services imposed at each point of sale or rendering of service rather than point of origin. The main feature of GST is wider tax base, necessary for lowering tax rates and eliminating classification disputes.

Objectives

1. To understand the concept of GST and its salient features
2. To track down the history of evolution
3. To evaluate the pros and cons of GST
4. To identify the rate structure of GST

Significance of the study

GST is going to implement with effect from April 1 2017.In this context it is quite relevant to understand the concept of GST, its features, rationale behind GST, taxes to be replaced etc. The proposed system is going to impact the entire indirect tax structure. One of the reasons to go the GST way is to facilitate seamless credit across the entire supply chain and across all States under a common tax base. As the entire economy is going to face a mass shift it is necessary to have a basic awareness of GST.

History of evolution

Path of evolution of proposed goods and service tax concept dates back in 2000 when Atal Bihari Vajpayee government appoint an empowered committee to streamline the concept of GST model to be adopted and to develop the required infrastructure that would be needed for its implementation. After that step the major footprint towards the development of GST happens in the time of P.Chidambaram, the finance minister in his budget speech of 2006 announced the target date for implementation of GST to be 1 April 2010.He formed another empowered committee of state finance ministers to develop a master plan for the implementation. The appointed committee submitted its report to the government inAp.ril 2008 and put forward the first discussion paper on GST in India in 2009.But due to red tapisam and other bottle necks it not worked. Next remarkable move happens in 2014 when Finance minister ArunJaitely on 19 December 2014 introduced the constitution Bill,2014 with 122nd amendment in lokasabha. In the Rajya sabha, the bill was referred to a Select Committee on 14 May 2015. The Select Committee of the Rajya Sabha submitted its report on the bill on 22 July 2015. The bill was passed by the, Rajya Sabha on 3 August 2016, and the amended bill was passed by the Lok Sabha on 8 August 2016. The bill, after ratification by the States, received approval from President Pranab Mukherjee on 8 September 2016, and was notified in the Gazette of India on the same date. After that the bill put before various state and union territories for ratification.

Key features of GST Bill 2014

- It is a consumption based tax levy
- Implementation and administration of GST will be the responsibility of the GST Council, which will be the apex policy making body for GST. GST council constitutes the central and state ministers in charge of finance portfolio.
- The Bill necessitates the amendment of Constitution to introduce a goods and services tax (GST) which will subsumes various Central indirect taxes and state indirect taxes.
- The union government had the sole authority to create laws in respect of interstate trade and the state government had the right to levy GST on intra-state transactions in goods and services
- GST provides a common Indian market and reducing the cascading effect of tax on the cost of goods ad services.
- GST provides provision for removing imposition of entry tax/ octroi across India.
- Stamp duties, typically imposed on legal agreement by states, will continue to be levied.
- It is based on the "Destination principle." It means that GST is applied on goods and services at the place where final consumption happens instead of origin
- Compensation to the States for loss of revenue arising on account of implementation of the Goods and Services Tax for a period which may extend to five years.
- Under the proposed bill, the alcoholic liquor for human consumption is exempted from GST.It is the responsibility of GST council to decide when GST would be levied on various categories of fuel.
- The bill seeks to shift the restriction on States for taxing the sale or purchase of goods to the supply of goods or services.
- Another important feature of proposed GST bill is the existence of dual GST. It implies both central and states levy GST across the value chain. Central would levy and collect central goods and services tax and states would levy and collect state goods and services tax. Both central and state GST provide input tax credit. No cross utilization of credit would be permitted.
- Import of goods and services would be treated as inter state supplies and would be subject to IGST in addition to the respective custom duties.
- CGST, SGST and IGST would be levied at rates to be mutually agreed upon by the centre and state through goods and service tax council.

- In the initial period of implementation say two years or as further extended period as per the decision of council, a non vatable additional tax not exceeding 1% on interstate supply of goods would be levied and collected by the centre and assigned to the originating state.

Rationale behind introducing GST

The Goods and Service tax is the biggest reform in India's indirect tax structure since the economy eagerly waiting for 25 years ago, at last looks set to become reality. Current situation is that the constitution empowers the union government to levy excise duty on manufacturing and service tax on the supply of services where as it empowers the state government to levy sales tax or VAT on the sale of goods. Such a complex tax structure results in multiplicity of indirect taxes in the country. In the case of interstate sales, the centre has the power to levy tax, but the tax is collected and retained entirely by the originating states. In addition many state levy an entry tax on the entry of goods in local areas. Multiplicity of taxes at central and state levels make the tax structure complex and thereby creating hidden costs for the trade and industry. Lack of uniformity in the tax structure and cascading effect of tax result in the emergence of a uniform tax structure. Due to tax on tax the prices of goods and services are artificially inflated and in turn no credit of excise duty and service tax which is paid at the stage of manufacture is available to the traders while paying state level tax or VAT and no such relaxation available while moving across the states.

Through the introduction of proposed system of indirect tax there is a clear departure from the scheme of distribution of fiscal powers envisaged in the constitution. The proposed system envisages taxation of the same item simultaneously by both the central and state. Because of that both the centre and state will be empowered to levy GST across the value chain from the stage of manufacturer to the final consumption. The main attraction of GST is the elimination of cascading effect. It is expected that the introduction of GST will result a uniform Indian market and Contribute significantly to the growth of the country. IT make the Indian trade and industry internationally competitive It is attempted to introduce in order to crub inflation rate of the country. The proposed indirect tax structure will widen the tax base and reduce the tax burden and results in better tax administration. The presence of input tax credit in the system makes the GST attractive to traders. The main reason behind this revolutionary movement is to compile the various indirect taxes to provide a uniform one to the entire country without sacrificing the federal character.

Objectives of introducing GST:

1. To introduce one country one tax
2. To eliminate tax evasion and corruption
3. To substitute all indirect taxes at the centre and state level
4. To increase productivity and transparency.
5. To eliminate the cascading effect.
6. To replace origin based tax with destination based tax.

Taxes going to be replaced

Central Taxes:

1. Central excise duty under Central Excise Act, 1944
2. Service tax under Finance Act 1994
3. Additional excise duty(goods of special importance)
4. Additional duties of excise(Textiles and textiles product)
5. Excise duty levied under the medicinal and toiletries preparation act
6. Countervailing duty(additional excise duty)
7. Special additional duty of customs
8. Central sales Tax(levied by centre and collected by the states)
9. Central surcharge and cesses(relating to supply of goods and services like cess on rubber tea etc)

State Taxes:

1. VAT(Value Added Tax)
2. Octroi and entry tax
3. Purchase Tax
4. Luxury Tax
5. Taxes on causal incomes like lottery, betting and gambling
6. State cesses and surcharges
7. Entertainment tax(other than tax levied by the local bodies)
8. Central Sales tax(levied by the centre and collected by states)
9. Tax on advertisements

GST Council

The key responsible authority of GST implementation is GST council which examines the issues relating to the implementation of proposed system and make recommendations to the central and state government on various aspects relating to GST like rates, exemption list etc. The GST council will be a joint forum which has representation of both centre and state. The council shall function under the chairmanship of the union finance minister and will have the union minister of state in charge of revenue or finance as a member, along with the Minister in-charge of Finance or Taxation or any other Minister nominated by each State Government. The council functions as an advisory body to the centre and state government.The recommendations made by the council will act as a route map to the government. . One-half of the total number of Members of the Council will constitute the quorum of GST council. Every decision of the Council shall be taken by a majority of not less than three-fourths of the weighted votes of the members present. The voting principle in GST council is that the vote of the central government shall have a weightage of one-third of the total vote cast where as in the case of state government the votes of all the state government taken together shall have a weightage two-thirds of the total votes cast in that meeting. Such a voting power is given in order to protect the interest of centre and states and thereby safeguarding the spirit of federalism.

GST rates

- Minimum three rates:
- Standard rate which covers most items
- Merit rate higher than standard rate for essential goods
- Special rate higher than standard rate for jewellery and p recious metals.

Pros and Cons of GST implementation

Pros

- GST is a single tax model. It implies a common tax base for the entire economy. As a result of this many indirect taxes will be merged and there will be single market.
- It helps in reducing the cascading effect of taxes on the final price of the product
- After the implementation of GST all the products and services will be provided at same price throughout the country.
- As a result of implementation of GST, tax will not be dumped on manufacturer. That means tax is charged at consumption point. So it provides ample opportunities for the manufacturer to grow and develop.
- GST will help to reduce tax evasion and helps in efficient tax administration.
- GST implementation curtails inflation rate. Moderate prices and increase consumption is another result of GST implementation.
- It results in simplification of tax structure.
- It increases production, consumption and thereby increasing gross domestic product.
- Small and medium enterprises are the real beneficiaries from GST. Tax liability is expected to come down from the regular rate of 27-31% to somewhere around 20%
- As a result of GST implementation entrepreneurs will only have to apply for one license for registering their business, and will be eligible to function all over India.
- GST removes the concept of state entry taxes and levies. It will provides a back support to smaller organisations who earlier faced many hurdles to supply goods to multiple states and still maintain a healthy profit margin..
- With GST, tax liabilities will be greatly reduced for businesses with turnover of 10 – 50 lacs. Those businesses with a turnover of less than 10 lacs are exempt from paying GST.
- As GST will be levied only at the final destination of consumption not at various points. It will help in removing economic mismatch and introducing a common national market.
- In the proposed GST system, when all the taxes are uniform, it would make possible the taxation burden to be split equitably between manufacturing and services.
- Through the implementation of GST It is possible to develop a transparent and corruption free tax administration. As per prevailing system tax is paid at multiple point like manufacturing point and again levied at the retail outlet

Cons

- GST implementation will make all the services costlier because at present service tax in India is 15% but the proposed GST is about 18-20%
- As per proposed system business wants to face control from both central and state government. It will be complex for businessman

- In the prevailing system some retail products where tax rate 4%.In case of GST garments and cloths will be costlier.
- Proposed GST will be threatening for small businessman who is now free from taxes.
- GST implementation might slower the rate at which the aviation industry is expecting growth as flying will become expensive. Service tax on fares currently range between 6% and 9% will surpass 15%, if not 18%, effectively doubling the tax rate
- Under proposed GST, effective tax rate on feed based transactions is expected to increase to18 to 20%.As a result of this a moderate increase in the cost of financial services such as insurance premium, loan processing fees

IMPACT OF GST ON VARIOUS SECTORS

Telecom sector

Introduction of GST is beneficial to the mobile manufacturers in the sense that it will bring in ease of doing business as they need not want to setup state specific centres and can reduce the logistic cost. On the part of consumers handset prices will come down. The negative side of GST implementation is that it will results in hike of call charges and data rate if the tax rate in the GST regime exceeds 15%.

FMCG

The major benefit to consumer goods manufacturers is the substantial savings they can gain in logistics and distribution cost. As per present system FMCG companies pay nearly 24-25% in the form of excise duty, VAT and entry tax but the proposed GST provides significant tax reduction to 17-19%.negative side is that Food companies: many see increase in effective tax as many companies enjoy concessional rate of excise. Negative side is that many food companies see increase in effective tax as many companies enjoy concessional rate of excise.

Automobiles

After implementing the proposed GST, on road price of vehicles could drop by 8% it will result in increased consumption of automobiles. . Margin benefits to accrue for tractors, as these can claim set-off against taxes paid on input. Organised battery and other spares would become more cost competitive and gain market share. GST will replace all local taxes and reduce formalities of interstate transactions.

Media

As per present system the film producers and studios pay service tax on most of their cost, but cannot avail any input tax credit on creative services .Under GST, they will be able to claim credit of these services also, which will help in lowering the overall cost. In addition to this film producers and multiplex players will get benefit as they don't want to pay high rate of entertainment tax levied by different states. It may reduce the ticket price.

E commerce

One of the major advantage of GST is that it will help to create a single unified market in India and allow free movement and supply of goods all over the country. In the opposite side The tax collection at source guidelines in the GST regime will increase administration, documentation workload for ecommerce firms and push up costs.

Airlines

GST will make flying expensive when service tax is replaced by GST. Service tax on fares currently range between 6% and 9 %.In case of GST, the rate will surpass 15%,if not 18%. It means the actual effect will be doubling the tax rate.

Insurance

Under proposed system of GST cost of life, health and motor insurance policies will go up. Insurance premium is likely to increase after the implementation of GST, if the final tax rate is fixed at 18%. However, since a number of levies, which are currently part of insurance premium, will be subsumed into one tax, it is expected to bring down the operational cost significantly.

Cement

At present tax rate for cement companies is 25%.In proposed GST rates are fixed at 18-20% as a result of this overall tax liability will be lower. Introduction of single market will reduce the warehousing and transportation cost.

Consumer durables

This sector is going to get direct benefits up to 200-300bps in cost savings may accrue. A major portion of these benefits will be passed onto end consumers to withstand competition.

Oil & Gas

Key petroleum products like crude, natural gas, high speed diesel and ATF have been kept out of the preview of GST. More clarification is required. Compliance costs are likely to rise because of dual indirect tax mechanism.

Wind power

GST going to impact wind, turbine generator manufacturers negatively as pressure on developer margins and internal rates of return could eventually force reduction in prices and realisations, up to 10-13 per cent.

Conclusion

GST is an attempt to consolidate various indirect taxes into one which will be followed throughout the country. As it is going to implement from April 1 2017 onwards, there must be a clear cut understanding about the concept and its practical utilities. This study attempted to had an overview about the proposed system of GST as a substitute to indirect taxes in India. GST is going to impact a number of sectors in positive sense and negative sense. Of course GST had some drawbacks but its benefits cover the handicaps.

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