

GOODS AND SERVICES TAX (GST): A BASIC CONCEPT

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ABSTRACT

GST would carry in important revolution in doing business in India. Support for best practices, gearing up for alterations in processes, training teams and emerging IT systems for being GST accommodating are the key areas to be evaluated. In order to prepare for the implementation of GST, companies need to understand GST policy development and its consequences for scenario planning and changeover roadmap groundwork.

KEYWORDS: GST, IT Systems, Scenario Planning, Entertainment Tax, Excise Duties.

Introduction

The current arrangement of Indirect Taxes is very multifaceted in India. There are so many types of taxes that are imposed by the Central and State Governments on Goods & Services. We must to compensate 'Entertainment Tax' for watching a movie. We must pay Value Added Tax (VAT) on purchasing goods & services. And there are Excise duties, Import Duties and Service Tax. Today some of these taxes are charged by the Central Government and some are by the State governments. How enjoyable will it be if there is only one combined tax rate as a replacement for of all these taxes?

What is GST?

- The GST is fundamentally an indirect tax that takes most of the taxes levied on most goods and services, on production, sale and utilization of goods and services, under a single territory at the national level. In the contemporary scheme taxes are charged individually on goods and services. The GST is a combined tax based on an identical rate of tax stable for both goods and services and it is payable at the final point of feasting. At each stage of sale or purchase in the resource chain, this tax is composed on value-added goods and services through a tax credit instrument.
- It has been long undecided matter to update all the different types of indirect taxes and implement a "single taxation" system. This structure is called as GST (GST is the abbreviated form of Goods & Services Tax). The main anticipation from this system is to eliminate all indirect taxes and only GST would be imposed. As the name suggests, the GST will be collected from both on Goods and Services.

GST at First Time

GST was first presented during 2007-08 budget session. On 17th December 2014, the current Union Cabinet ministry accepted the scheme for introduction GST Constitutional Amendment Bill. On 19th of December 2014, the bill was accessible on GST in Loksabha. The Bill will be nominated and taken up for conversation during the coming Budget session. The current central government is very firm to implement GST Constitutional Amendment Bill. GST is a tax that we essential to pay on supply of goods & services. Any person, who is given that or supplying goods and services are accountable to charge GST.

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What is the Applicable GST Rate?

- It is broadly supposed that there will be 2 or 3 rates based on the significance of goods. Like the rates can be lesser for vital goods and could be high for precious/luxury items.

Goods			
S. No.	Items	New Rate	Old rate
1	Rakhi (other than that of precious or semi-precious material)	Nil	18%
2	Sanitary Napkins	Nil	12%
3	Circulation and commemorative coins	Nil	5%
4	Raw material for broom	Nil	12%
5	Stone/Marble/Wood Deities	Nil	5%
6	Sal leaves and its products	Nil	18%
7	Khali dona	Nil	18%
8	Coir pith Compost	Nil	5%
9	Chenille fabrics and other fabrics under 5801	5%	12%
10	Handloom dari	5%	12%
11	Phosphoric Acid (fertilizer grade only)	5%	12%
12	Handmade Carpets, Textile Floor, Coverings	5%	12%
13	Knitted cap/topi having retails sale value exceeding Rs. 1000	5%	12%
14	Kota Stones and Similar Stones (other than polished)	5%	18%
15	Ethanol for sale to oil marketing companies for blending with fuel	5%	18%
16	Solid Bio fuel pellets	5%	18%
17	Marine Engine	5%	28%
18	Bamboo Flooring	12%	18%
19	Hand Operated Rubber Roller	12%	18%
20	Brass Kerosene Pressure Stove	12%	18%

Recent Rate Changes on Services

Services		
Rate Change	New Rates	Old Rates
Services		
Supply of e-books	5%	18%
Supply of Multimodal Transportation	12%	Nil

Working of the GST

For Intra-State Transactions

- Central GST (CGST) - charged by the Centre
- State GST (SGST) - charged by the State

The seller will accumulate both CGST & SGST from the buyer and CGST will be set down with Central Government and SGST with the State Government.

For Inter-State Transactions

- Integrated GST (IGST) – destination based, charged by Central Government
- Additional GST (AGST) – origin based, charged by the Central Government

IGST will be based on the target principle. Tax gets moved to the importing state. This shall open the doors for the introducing state to allow input tax credit for the subsequent sale of those goods. This is because of the following:

The essential rule followed by the states while permitting or canceling input tax credit is—if the said state received the tax on the sale of the good at one stage, only then will it permit input tax credit on the tax payable in the next stage.

Salient Features of the Proposed Indian GST System

- The power to make laws in respect of purchases in the course of inter-state trade or business will be allotted only in the Union Government. States will have the right to charge GST on intra-state transactions including on services.

- The Centre will charge IGST on inter-state supply of goods and services. Import of goods will be matter to basic customs obligation and IGST.
- GST is distinct as any tax on supply of goods and services other than on alcohol for human consumption.
- Central taxes such as Central Excise duty, Additional Excise duty, Service tax, Additional Custom duty and Special Additional duty as well as state-level taxes such as VAT or sales tax, Central Sales tax and Octroi will incorporate in GST.
- Petroleum and petroleum products, i.e., crude, high speed diesel, motor spirit, aviation turbine fuel and natural gas, shall be subject to GST - date to be notified by the GST Council.
- Provision will be prepared for eliminating obligation of entry tax /Octroi across India.
- Entertainment tax levied by states on movie, theatre, etc. It will be incorporated in GST, but taxes on entertainment at panchayat, municipality or district level will continue.
- GST may be charged on the sale of newspapers and advertisements. This would cruel significant incremental incomes for the Government.
- Stamp duties classically compulsory on legal agreements by states will continue to be charged.
- Management of GST will be the responsibility of the GST Council, which will be the peak policy making body for GST. Members of GST Council involve Central and State ministers in charge of the finance portfolio.

Why is it Needed?

- It is foreseeable that GST can improvement India's GDP by 1-2%.
- GST will transform the country into incorporated market, replacing most indirect taxes with one tax.
- GST is predictable to provide the benefits of popularization of tax command, expansion of tax base, removal of tax flows, improving export competitiveness, ensuring greater regional equity and improvement in clearness.
- GST is a Value added tax i.e. the final customer will tolerate only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages.
- GST has developed a preferred global standard.

Pros of GST

- Consistency in computing taxes for goods and service and removal of multiple excise, CST, VAT, service tax calculations
- Fixed rate of tax system for both goods and services. The exact percentage is yet to be decided.
- Suitable allocation to Central and State funds.
- Accounting will be easy and consideration for input tax from raw materials will also become easy.

Cons of GST

- VAT and service tax on some merchandise may become higher than the present levels.
- Most advanced economies use a sole GST instead of a dual GST. Hence, it will still be a very complex billing and settlement IT machinery.
- Since the mechanism is still complex, it cannot completely eradicate black money and tax evasion.

Benefits of GST

- **Easier Tax Compliance:** Instead of having to deal with many different taxation laws and expenses a lot of time in legal advice and agreement, businesses will now requirement to pay GST only. This is a big release and it creates simplicity and predictableness in business.
- The GST is being introduced to generate a common market across states not only to evade enervated effect of indirect tax but also to advance tax obedience.
- GST will lead a more crystal clear and unbiased manner to increase income.
- Price decrease as credit of input tax is obtainable against output tax.
- Simplified and cost saving system as technical cost reduces due to uniform accounting for all types of taxes. Only three accounts; CGST, SGST, IGST have to be retained.

- GST is organized to make simpler the current indirect system. It is a long term policy leading to a higher production, more employment opportunities, and economic prosperous.
- GST is beneficial for both economy and companies. The reduced tax burden on companies will reduce manufacture cost making exporters more competitive.
- The entire Indian market will be a combined market which may translate into lower business costs. It can simplify whole movement of goods across states and decrease the transaction costs of businesses.
- It is good for export concerned with businesses.

Challenges in Implementing the GST

- **GST Rate**
 - Although a GST council is predictable to work towards fixative a GST rate, it will be quite challenging to scope a compromise on the uniform rate of taxation. The challenge is further compounded by the lack of model on this front earlier.
- **Compensation to States**
 - The income inevitable by the states as a result of changeover to GST will be rewarded by the Union government. However, there is no fixed formulation or method on reaching a precise figure.
 - The discussions may have political implications and could be a challenging task for the union government.
- **Accounting Systems**
 - The squad of Chartered accountants, Tax consultants, Tax administration and the like need to be trained on a new accounting system. This will require a lot of technological and institutional dimensions building
 - The retailers, wholesaler merchants, small general store owners and the various stakeholders also need to transport towards a new system of accounting. This system may bearing important challenges specifically to small traders as they generally are not used to a strong account keeping system.

Conclusion

- **Are You Ready for GST?**

The Government is dedicated to present GST by April 2017. Tax payers need to be GST obedient to be able to test system changes in time. Conditional on the operating geographies, size and sector, the changes would be substantial and may need active planning with a time-bound action plan.

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