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Goods and services tax: An analysis

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Abstract

India's biggest indirect tax reform since 1947 – the Goods and Service Tax.

From its first official mention in 2009 when a discussion paper was introduced by the previous United Progressive Alliance government to the point when the current Modi government tabled the Constitution Amendment Bill in Parliament, building consensus on the GST hasn't been easy.

The most prominent hurdle in introducing this new tax structure has been the struggle between the states and the Centre on the loss of revenue. It's taken years to resolve, but even now it is an issue that isn't completely fixed.

Nonetheless, the introduction of the Constitution Amendment Bill in Parliament seems like the first key step towards bringing in the belated GST reform.

Keywords: indirect tax, services tax, goods

Introduction

GST or the Goods and Services Tax is an indirect tax that brings together most of the taxes that are imposed on all goods and services (except a few) under a single banner. This is in contrast to the current system, where taxes are levied separately on goods and services.

Salient Features of GST

The salient features of GST are as under

(i) GST would be applicable on supply of goods or services as against the present concept of tax on the manufacture of goods or on sale of goods or on provision of services.

(ii) GST would be a destination based tax as against the present concept of origin based tax.

(iii) It would be a dual GST with the Centre and the States simultaneously levying it on a common base. The GST to be levied by the Centre would be called Central GST (CGST) and that to be levied by the States would be called State GST (SGST).

(iv) An Integrated GST (IGST) would be levied on inter-State supply (including stock transfers) of goods or services. This would be collected by the Centre so that the credit chain is not disrupted.

(v) Import of goods or services would be treated as inter-State supplies and would be subject to IGST in addition to the applicable customs duties.

(vi) For an initial period of two years or as further extended on the recommendation of the GST Council, a non-vatable Additional Tax not exceeding 1% on inter-State supply of goods would be levied and collected by the Centre and assigned to the originating State. The Select Committee of the Rajya Sabha has recommended that this tax should be levied only when the supply is made for a consideration.

(vii) CGST, SGST & IGST would be levied at rates to be mutually agreed upon by the Centre and the States under the aegis of the GST Council.

(viii) GST would replace the following taxes currently levied and collected by the Centre

a) Central Excise duty
b) Duties of Excise (Medicinal and Toilet Preparations)
c) Additional Duties of Excise (Goods of Special Importance)
d) Additional Duties of Excise (Textiles and Textile Products)
e) Additional Duties of Customs (commonly known as CVD)
f) Special Additional Duty of Customs (SAD)
g) Service Tax
h) Cesses and surcharges insofar as far as they relate to supply of goods or services

(ix) State taxes that would be subsumed within the GST are

a) State VAT
b) Central Sales Tax
c) Purchase Tax
d) Luxury Tax
e) Entry Tax (All forms)
f) Entertainment Tax (not levied by the local bodies)
g) Taxes on advertisements
h) Taxes on lotteries, betting and gambling
i) State cesses and surcharges insofar as far as they relate to supply of goods or services

(x) GST would apply to all goods and services except Alcohol for human consumption, Electricity and Real Estate.

(xi) GST on petroleum products would be applicable from a date to be recommended by the Goods & Services Tax Council.

(xii) Tobacco and tobacco products would be subject to GST. In addition, the Centre would continue to levy Central Excise duty.

(xiii) A common threshold exemption would apply to both CGST and SGST. Taxpayers with a turnover below it would be exempt from GST. A compounding option (i.e.to pay tax at a flat rate without credits) would be available to small taxpayers below a certain threshold. The threshold exemption and compounding scheme would be optional.

(xiv) The list of exempted goods and services would be kept to a minimum and it would be harmonized for the Centre and the States as far as possible.

(xv) Exports would be zero-rated.

(xvi) Credit of CGST paid on inputs may be used only for paying CGST on the output and the credit of SGST paid on inputs may be used only for paying SGST. In other words, the two streams of input tax credit (ITC) cannot be cross utilised, except in specified circumstances of inter-State supplies, for payment of IGST. The credit would be permitted to be utilised in the following manner:

a) ITC of CGST allowed for payment of CGST;
b) ITC of SGST allowed for payment of SGST;
c) ITC of CGST allowed for payment of CGST & IGST in that order;
d) ITC of SGST allowed for payment of SGST & IGST in that order;
e) ITC of IGST allowed for payment of IGST, CGST & SGST in that order.

(xvii) ITC of Additional Tax would not be permitted.

(xviii)Accounts would be settled periodically between the Centre and the State to ensure that the credit of SGST used for payment of IGST is transferred by the Exporting State to the Centre.
Similarly the IGST used for payment of SGST would be transferred by the Centre to the Importing State.

(xix) The laws, regulations and procedures for levy and collection of CGST and SGST would be harmonized to the extent possible.

A GST Council (GSTC) would be constituted comprising the Union Finance Minister, the Minister of State (Revenue) and the State Finance Ministers to recommend on the GST rate, exemption and thresholds, taxes to be subsumed and other features. This mechanism would ensure some degree of harmonization on different aspects of GST between the Centre and the States as well as across States. One half of the total number of members of GSTC would form quorum in meetings of GSTC. Decision in GSTC would be taken by a majority of not less than three-fourth of weighted votes cast. Centre would have one-third weightage of the total votes cast and all the States taken together would have two-third of weightage of the total votes cast.

Why does India need the GST?

The GST is being introduced not only to get rid of the current patchwork of indirect taxes that are partial and suffer from infirmities, mainly exemptions and multiple rates, but also to improve tax compliances.
The spread of GST in different countries has been one of the most important developments in taxation over the last six decades.
Owing to its capacity to raise revenue in the most transparent and neutral manner, more than 150 countries have adopted the GST.
With the increase of international trade in services, the GST has become a preferred global standard. All OECD countries, except the US, follow this taxation structure.

Conclusion

GST is presently the need of the hour. However looking into the present economic scenario it is difficult to say as to when it will be implemented.

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