

Goods and Services Tax and Its Overview

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INTRODUCTION

The later half of the twentieth century has been witness to the transformation of the turnover and sales taxes to value added taxes (VAT). This trend which began in France in 1954 has been emulated with success in both the developed and developing countries¹ and also at supra-national levels such as the EC-VAT. The assistance offered by IMF to a number of developing countries in designing and set-up their indirect tax structures on a VAT model² has only reinvigorated this shift.

Indias tryst with VAT is no different story. The shift to VAT from sales tax has so far done well, both for the States and industry on the counts of rising collections³ and smoothening of interface respectively. The positive feedback from this successful transition has not only aggravated the strength of the factors fuelling the reform drive but also accentuated the movement towards redefining of the indirect tax landscape on a broader scale in its quest for simplification and harmonization.

The carvings for a comprehensive tax on goods and service are, however, not new. With the introduction of ‘ Service Tax’ in 1994, cross-linking of the credit mechanism between taxes on goods and services became inevitable to avoid the fallouts of cascading effect and double taxation thereon. Though there has been a partial alignment on that front under the ‘ CENVAT Credit Rules’ , the existing rules are limited in scope as they cover only the duties of excise. The taxes on sale of goods being beyond their coverage and in the absence of a mechanism for availability of credit across different State taxes, the citizens not only end up paying tax on tax but also have to bear its inflationary ramifications.

Leaving behind that, India on 1st july 2017 merged the major indirect taxes (State level VAT, excise duty and service tax) into a generic ‘ Goods and Service Tax’ (GST). GST is a comprehensive value-added tax on goods and services. France was the first country to introduce this system in 1954. Today, it has spread to over 150 countries. It is an efficient tax system which harmonized consumption tax system in the country. Earlier, there were parallel systems of indirect taxation at the central and state levels. Each of the systems needs to be reformed to eventually harmonize them. Through a tax credit mechanism, GST is collected on value-added goods and services at each stage of sale or purchase in the supply chain.

WHAT IS GST ?

Goods and Service Tax is a tax on goods and services, which is leviable at each point of sale or provision of service, in which at the time of sale of goods or providing the services the seller or service provider can claim the input credit of tax which he has paid while purchasing the goods or procuring the service. On most of the goods and services the rate of tax remains the same but as per the necessity of the nation some goods or services are declared as “ exempted” or 0% rate to benefit the masses such cereals, fresh fruits and vegetables (other than frozen and processed) etc. The whole system is developed in such a way that it avoids the cascading effect and the final consumer bears the burden of all the tax. In Goods and service tax the government will allow the exports without payment of ssintegrated goods and services tax provided exporters furnish letter of undertaking in lieu of a bond. In such a system exports are zero rated and all the taxes paid while purchasing and manufacturing the goods including the taxes paid on raw material and services are returned to the exporter to make the exports competitive. The sellers or service providers collect the tax from their customer, who may or may not be the ultimate customer, and before depositing the same to the exchequer, they deduct the tax they have already paid. This

¹ Cnossen, Sibbren *Global Trends and Issues in Value Added Taxation*, International Tax and Public Finance, Vol. 5, pp. 399-428 (1998) and OECD, *Consumption Tax Trends*, (Paris: OECD, 1999).

² Such as (i) the Draft Tax Codes for use as reference material in preparation of legislative acts and application of laws (<http://www.imf.org/external/np/leg/tlaw/2000/eng/preface.htm>), and (ii) Program for Technical Assistance on Drafting of Legislation on Fiscal Issues (<http://www.imf.org/external/np/leg/ta/eng/index.htm>).

³ *Economic Survey of India 2007-08*, paragraphs 3.50 – 3.51, 3.60 and Table 3.12. (Available at <http://indiabudget.nic.in/es2007-08/chapt2008/chap34.pdf>).

is simply very similar to VAT which was applicable in most of the states and can be termed as National level VAT on Goods and Services with only one difference that in this system not only goods but also services are involved and the rate of tax on goods and services are generally the same⁴.

HOW IT WORKS ?

All the dealers registered under GST (Manufacturers, Wholesalers and retailers and service providers) charge GST on the price of goods and services from their customers and claim credits for the GST included in the price of their own purchases of goods and services used by them. While GST is paid at each step in the supply chain of goods and services, the paying dealers don't actually bear the burden of the tax because GST is an indirect tax and ultimate burden of the GST has to be taken by the last customer.

This is because they include GST in the price of the goods and services they sell and can claim credits for the most GST included in the price of goods and services they buy. The cost of GST is borne by the final consumer, who can't claim GST credits, i.e. input credit of the tax paid. The GST can be divided into following sections to understand it better:

1. Charging Tax: The dealers registered under GST (Manufacturers, Wholesalers and Retailers and Service Providers) are required to charge GST at the specified rate of tax on goods and services that they supply to customers. The GST payable is included in the price paid by the recipient of the goods and services. The supplier must deposit this amount of GST with the Government.

2. Getting Credit of GST: If the recipient of goods or services is a registered dealer (Manufacturers, Wholesalers and Retailers and Service Providers), he can normally be able to claim a credit for the amount of GST he has paid, provided he holds a proper tax invoice. This "input tax credit" is set off against any GST (output), which the dealer charged on goods and services, which he supplies, to his customers.

3. Ultimate Burden of Tax on Last Customer: The net effect is that dealers charge GST but do not keep it, and pay GST but get a credit for it. This means that they act essentially as collecting agents for the Government. The ultimate burden of the tax falls on the last and final consumer of the goods and services, as this person gets no credit for the GST paid by him to his sellers or service providers.

4. Registration: Dealers have to register for GST. These dealers include the suppliers, manufacturers, service providers, wholesalers and retailers and their first step is to register for a GST identification number. If a dealer is not registered, he cannot charge GST and cannot claim credit for the GST he pays and further can not issue a tax invoice.

5. Tax Period: The tax period under Goods and services tax is monthly and quarterly depends upon the annual turnover of the business and six months for special cases. On a particular tax period, which is applicable to the dealer concerned, the dealer has to deposit the tax if his output credit is more than the input credit after considering the opening balance, if any, of the input credit.

6. Refunds: For a tax period the input credit of a dealer is more than the output credit then he is eligible for refund. Refund will be made to the claimant within 14 working days if the claim is submitted online or 28 days if claim submitted manually.

7. Exempted Goods and Services: Certain goods and services are declared as exempted goods and services and in that case the input credit cannot be claimed on the GST paid for purchasing the raw material in this respect or GST paid on services used for providing such goods and services.

8. Zero rated supplies under GST: Export supplies of a taxpayer registered under GST are classified as zero rated supply. Zero rated supply under GST is eligible to refund. Taxpayer are required to furnish details of all zero rated supply in GSTR 3B return and GSTR 1 return.

9. Tax Invoice: Tax invoice is the basic and important document in the GST and a dealer registered under GST can issue a tax invoice and on the basis of this invoice the credit (Input) can be claimed. A tax invoice must bear the name of supplying

⁴ Halakhandi, Sudhir, *Goods and Services Tax: An Introductory Study*, The Chartered Accountant, April 2007, p. 1595

dealer, his tax identification nos., address and tax invoice nos. coupled with the name and address of the purchasing dealer, his tax identification numbers, address and description of goods sold or service provided⁵.

SALIENT FEATURES

Some of the salient features of the GST are:

Levy of Tax:

There are 3 taxes applicable under GST – one at the central level (CGST) collected by the central government on an intra-state sale and another at the state level (SGST) collected by the state government on an intra-state sale which shall be levied concurrently and third one IGST collected by the central government for inter- state sale.

Utilisation of Levy:

There will be separate tax administrations at the centre and in the states. Input tax paid on CGST will be credited against the output tax on CGST and those on SGST will be credited against the SGST. Cross-utilisation of input tax credit (ITC) between CGST and SGST will not be allowed. Thus, there will be some cascading in the tax system⁶.

Threshold Limit:

The CGST will have a threshold of Rs 1.5 crore. The threshold for the SGST is proposed at Rs 10 lakh, which would be uniform for all states and union territories. A simplified tax at 0.5% of the turnover will be levied for dealers with a turnover up to Rs 50 lakh. In the case of CGST, however, the threshold is proposed to be kept at Rs 1.5 crore in the interest of small traders and small-scale industries⁷.

Subsume Taxes:

The CGST will subsume central excise duty, additional excise duty, excise duty on medicinal and toilet preparations, service tax, additional customs duty (countervailing excise duty), special additional duty on customs, surcharge cesses and surcharges.

The SGST would subsume VAT/sales tax, entertainment tax, luxury tax, taxes on lottery, betting and Gaming, state cesses and surcharges and entry tax not in lieu of octroi. A majority of the states would like to have the purchase tax also subsumed under the SGST, whereas some states which receive substantial revenue from such taxes do not want it to be subsumed. The decision of the Empowered Committee is that in case it is subsumed, the centre should give “adequate and continuing” compensation⁸.

The important feature of the GST scheme is the mechanism to ensure a common market. To ensure seamless trade across the country, the discussion paper puts forth the IGST model. In this model, the inter-state seller of goods and services will pay the IGST, which will be equal to the total of CGST and SGST after taking credit of the input taxes to the central agency, to be created specially to administer the IGST. The exporting state credits the input tax revenue to the account of the importing state. The central agency will credit the SGST collected by it to the account of the importing State and the importing dealer will collect the SGST on his sales after taking credit of the tax already paid and the chain will continue. The process not only ensures seamless trade and uninterrupted ITC chain but also enables the levy to be destination-based. Although the discussion paper goes to a considerable distance to provide conceptual clarity on a number of issues the available information on the proposed GST system brings out some inadequacies. It is well known that in all federal fiscal systems, tax assignment has to strike a compromise between fiscal autonomy and tax harmony

⁵ *Ibid.*

⁶ http://www.caclubindia.com/mobile/articles/display_article_list_mobile.asp?article_id=3649

⁷ http://www.taxmann.com/TaxmannFlashes/flashart22-3-10_5.htm

⁸ <http://www.thehindubusinessline.com/mentor/2009/12/28/stories/2009122850580700.htm>

and some inefficiency may have to be accepted. However, there are others which hopefully, after due consideration will be ironed out⁹.

GSTIN or GST Identification Number:

Every registrants or dealers shall be given a PAN based TIN number which shall be a common to both the state GST and Central GST.

The GST Council:

The Council is a quasi-judicial body of States and Centre, represented by the state finance ministers or Taxation Ministers and the Finance Minister of India. The key role of this Council is to make recommendations on various provisions of GST Laws to the State and the Centre.

⁹ Rao, M. Govinda, *Goods and Services Tax: Some Progress Towards Clarity*, Economic & Political Weekly, Vol. XLIV No. 51, December 19, 2009, p. 8.