

Goods and Service Tax (GST) – A Big Taxation Reform

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ABSTRACT

The Indian economy is one of the fastest growing economy witnessed another reform in the field of indirect taxation. The present structure of indirect tax lacks behind in various terms such as double taxation effects, lack of uniformity in rates and administration. Hence, by removing cascading effects of taxes and it will provide a common area for goods and services all over the world. India is going to introduce Goods and Services Tax (GST). Central and the State Government is going to propose an Indirect Tax reform, both having simultaneous taxation power to impose tax on supply of goods and services. This paper analyses the forms of taxes in India, the need for GST, historical background of GST, GST model GST also known as the Goods and Services Tax is defined as the huge indirect tax structure that is designed to support the economy and will improve the overall growth of the economy. It will apply on whole of the India which had replaced different types of taxes imposed by the Central and State governments. Introduction of the GST is The Constitution's (One hundred and first Amendments) Act 2017, after the Constitution 122nd Amendment Bill. GST council governed the GST and Finance Minister of India is the chairman of this Council. The process of legislation formation took 17 years. GST was introduced in the year 2000. Tax rates under GST are: - 0% is the Lowest and 28% is the Highest rate. GST is implemented by more than 150 countries.

Introduction

After having a long discussion on Goods and Service Tax (GST), on 30th June, 2017 at midnight in a ceremony held at Central hall of parliament this initiative was launched. Finance Minister of India, Mr. Arun Jaitley, the Prime Minister of India Mr Narendra Modi and the President of India Shri Pranab Mukherjee Shared their views on the various provisions, merits and demerits of GST in their speeches. On 30th June at Parliament's historic Central Hall, one of the biggest Tax reforms of India was launched by President Pranab Mukherjee and Prime Minister Narendra Modi.

From 1st July, 2017 GST came into effect. GST had replaced all the existing taxes from 1st July, 2017. Since Independence it is the fourth time that an event was held at Central Hall of the Parliament at midnight. The last three celebrated India's Independence. GST replaced group of indirect taxes into a common tax structure that changed the shape of the country's 2 trillion dollar economy. The Goods and Services Tax (GST) simplified the massive tax structure of the country by supporting and enhancing the country's **economic growth**. GST is a vast and comprehensive tax that can be levied on selling, manufacturing, consumption of goods and services at a national level. The Goods and Services Tax Bill or GST Bill, also referred to as The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014, initiates a Value added Tax to be implemented on a national level in India. GST brings uniformity in the system. It will be applied on all stages of production as an indirect tax.

Under the system of GST, the consumers have to pay the final tax but an efficient input tax credit system ensured that there will be no cascading of taxes- Surcharge paid on inputs that go into manufacturing of goods. Different types of taxes at Central level and State level, such as excise duty, service tax, VAT, are merged into one tax and named as GST. GST unified all these taxes into one common tax and created a single

unified market all over the country. Inclusion of various taxes into one tax is GST and this system will be helpful in bringing an effective cross-utilization of **credits**. The present system of taxes aimed at production of taxes, on the other hand, the GST will aim to the consumption of taxes.

What is the GST--?

Goods and Services Tax (GST) is an indirect tax that is applicable in all over India which had replaced different types of taxes imposed by the Central and State governments. Introduction of GST is The Constitution's (One hundred and first Amendments) Act 2017 after the Constitution's 122nd Amendment Bill. The GST council governed the GST and the Finance Minister of India is the Chairman of this council. This process of legislation formation took 17 years. First time it was introduced in the year 2000. Under GST, 0 % is the lowest rate and 28% is the highest tax rate.

Key Facts

- Goods and services tax rate are as follows: 0%, 5%, 12%, 18%, 28%.
- On rough precious and semi-precious stones special rate is imposed that is 0.25 % and on gold 3 % tax rate is applied. Additionally, 15 % of Cess and 28 % other rates are also applied. GST will be applied on the following items such as aerated drinks, luxury cars, and tobacco products.
- Existing taxes on Central and State level such as central excise duty, services tax, additional customs duty, surcharges, value added tax and Octroi are merged into single tax known as GST.
- And different types of other taxes that were previously applied on inter-state transportation of goods had also been wiped out with the introduction of GST regime.

Activities Covered Under GST:

- GST is imposed almost all of the transactions such as selling, transfer, purchasing, barter, leasing, or import and export of goods and/or services. Administration of GST is done by both Central and the State Government of India, also known as dual GST model.
- When the transactions are made within the state, two types of taxes will be imposed by the Central Government (CGST) and by State Government (SGST) . An Integrated GST (IGST) is also imposed by the Central Government on Inter State transaction and import of goods or services.
- Aim of the GST is to tax consumption and its impact will be at the disembarkation. Hence taxes are paid to those states where the goods and services are consumed and not to those states where goods and services are produced.
- IGST complicated the process of collecting the tax by incapacitate the State Government for collecting tax owing to them from the Central Government directly. Previously, before the introduction of GST, in order to collect the tax revenue, States had to deal with a single government only.

GST: Different tax rates

- Essential items having lowest rates and luxury and de-merits goods having highest rates.
- Service Tax will rise by 15% to 18%. The services like train tickets are to be kept in lower level tax rates and will be considered in the lower slabs.
- No rate or zero tax rates for essential items like food and eatables. The main motive is to curb the situation of inflation because the essential items basically food and eatables abruptly half of the consumer’s inflation basket.
- Common use items bearing lowest rate that is 5 %. 12 % and 18 % these two standard rates are fixed for the

bulk of goods and services falling under the category of Fast Moving Consumer Goods.

- Items which were previously charged 30-31 % tax rate would be charged highest tax rate, excise duty and VAT.
- A cess is charged against Ultra luxury, demerit and sin goods like tobacco and aerated drinks not less than five years on or above the 28 per cent of GST. The revenue generated from these cess and also from clean energy cess, will be utilized for compensating any types of revenue loss, for the first five years. After the implementation of GST.
- The system adopted by States like Kerala, is just an agreement to satisfy the demand for highest rate of 40 %.
- The concept for ascertaining the rate on every item would be to impose and collect the GST at that slab rate which is immediate to the current tax incidence on it.

The Goods and Services Tax Network (GSTN)

GSTN a non-profit organization is created by the Goods and Service Tax Network (GSTN) Government. According to the website of Government on GST, "Goods and Services Tax" Network (GSTN) is a nonprofit organisation suggested to devise for establishing a website / platform for all of the distressed parties who belongs to GST, stakeholders, government and taxpayers would integrate on a common portal. Functioning of the portal is assumed to be approachable to the central government which is helpful in keeping record of each and every transaction on its end, whereas taxpayers are advertised to have the ability of connecting this to their tax returns. Although its efficiency and potency is yet to be checked.

The Cheaper and costlier after GST launch-At the Introduction Stage

GST (Goods & Services tax)					
COSTLIER ▲			CHEAPER ▼		
	Pre-GST	After-GST		Pre-GST	After-GST
Shoes > ₹ 500	14.4%	18%	Fertiliser	12%	5%
Cornflakes	10%	18%	Tractor Parts	28%	18%
Jam	5%	18%	Shoes < ₹ 500	14.4%	5%
Leather Bags	6%	22%	Garments > ₹ 1000	18.5%	12%
Mobile Bills/Salon Visits	15%	18%	Cellphones	13-24%	12%
Credit Card/NEFT	15%	18%	Soap, Hair Oil	24-28%	18%
Telephone Bills	15%	18%	Pressure Cooker	19.5%	12%
Business Air Tickets	9%	12%	Economy Air Tickets	6%	5%
Small Cars < 1500cc	25-27%	28+1%	Large Cars > 1500cc	41.5-44.5%	28+15%
Watch	20%	28%	Plastic Kitchenware	17.5-27%	18%
Life Insurance	15%	18%	Biscuits	12-18%	18%
Hotels > ₹ 7500	18-25%	28%			
DSLR Camera	25%	28%			
Shampoo	26%	28%			
Perfume	26%	28%			
TVs & ACS	26%	28%			
UNCHANGED ◀▶					
	Pre-GST	After-GST		Pre-GST	After-GST
Garments < ₹ 1000	5-6%	5%			
Movie Tickets > ₹ 1000	25-30%	28%			
Gold	2-5%	3%			

Source: NDTV

Impact:

The GST is supposed to curb the inflation in the short term. The GST rate starts at 5% and goes upto 28%. The 18% taxation on utilities such as restaurants; movies are gallop for increase in the prices. Under the purview of GST, liquor and petroleum are not included; this is yet another problem because these two are major source of revenue for the government.

However, costs of food items falls under the category of essential items may not increase after the introduction of the GST, but the other consumer goods and services in India including food, hotel charges, insurance and cinema tickets will be more costly. GST is protested by various business communities because introduction of GST leads to increase in the overall prices of goods and taxes. And due to this, many cinema theatres refused to accept it, because the GST rates charged on them were too high.

However, with the introduction of GST, the check posts across the country are abolished ensuring free and fast movement of goods. For any type of revenue loss incurred by States, compensation is assured by the Central Government for 5 Years. But no rigid laws were devised to support such type of action.

Taxes replaced by GST-The following taxes have been replaced by the GST:

- Central Excise Duty
- Commercial Tax
- Value Added Tax (VAT)
- Food Tax
- Central Sales Tax (CST)
- Introit
- Octroi
- Entertainment Tax
- Entry Tax
- Purchase Tax
- Luxury Tax
- Advertisement tax
- Service Tax
- Customs Duty
- Surcharges

GST Calculation:

Suppose, The rate of GST is 18 % . Cost of manufacturing a Product is A is 100 the total amount will be reached at Rs. 118. At each and every stages of purchase and sale of goods and services, tax will be imposed and collected.

Benefits of GST- According to view point of Experts benefits of GST are:

- GST is of two tiered structure, is One Country One Tax regime.
- GST is helpful in moving the vision of Make in India in a right direction.
- Multi layered and multi taxation system is relieved with the introduction of GST.

- Businesses registered under the GST will proficient in claiming the tax credit on the GST values they had paid as normal commercial activities on the purchase of goods and services.
- GST is simply a point of disembarkation, whereas existing concept is just the inception phase. Structure of GST is much more easy and simple to understand.
- National Council of Applied Economic Research reported that, it is supposed that with the introduction of GST there will be an increase in the economic growth from 0.9 per cent and 1.7 per cent.
- Goods and services are not taxed separately; the tax imposed on these taxable goods will be on a single rate in the supply chain until these goods and services reached to the ultimate consumers.
- By reduction in cost of production exporters will become more competitive than before. Reduction in the cost of goods and services manufactured locally, will increase the competitive position of Indian goods and services in the international market more stronger.
- Various complexities in existing tax structure are eliminated by GST that results into preventing the loss of near about 50 % that India had over western nations on the lower cost of manufacturing.
- The administrative responsibility of imposing taxes on goods and services lies within the single authority.
- Due to the implementation of GST, existing tax structure has been converted into single tax structure that makes the tax conformity easy and effective.

Adverse Effects:

- Growth of small scale industries may be hindered by GST. Rs 1.5 crores exemption limit in excise, which may affect the small scale industries has been wiped out. One and the only reason for the survival of large number of industries in India is that, there is no need to pay excise if their turnover is upto 1.5 crores.
- The services will be charged on accrual basis that were previously charged on receipt basis.
- Once the invoice is raised, the GST must be paid, although there will be no chance of receiving the payment for rendering the services.
- After the introduction of GST, various goods and services became more costly. As a result, economy had to face the increasing rate of inflation which was previously under the impact of demonetization.

Latest Revisions in the GST Rates-

Various revisions were made in the 25th GST council meet that was conducted on 18th January 2018 in New Delhi at Vigyan Bhawan . The intention behind these revisions was to protect the interest of the economy of the country.

(A) GST Rate Changes for Goods:**Nil Rated Goods:**

- Vibhuti
- Parts and supplements for the manufacturing of hearing aids.
- De-oiled rice bran

Rates reduced by 28% to 18%: -

- Old and used motor vehicles [medium and large cars and SUVs] having a condition that No ITC would be assisted
- Public transport Buses that run on Biofuel

Rates reduced by 28% to 12%: -

For Old and used motor vehicles [other than medium and large cars and SUVs] having a condition that No ITC would be assisted

Rates reduced by 18% to 12%: -

- Sugar boiled Confectionery
- Drinking water packed in 20 litres bottles
- Biodiesel
- Drip irrigation system including laterals, sprinklers
- Mechanical Sprayer
- Certain listed Bio-pesticides (12 in nos)
- Fertilizer grade Phosphoric acid
- Bamboo wood building joinery

Rate reduced by 18% to 5%

- LPG supplied to Household Domestic Consumers
- Raw materials and Consumables needed for Launch vehicles, Satellites and Payloads (Both CGST and IGST Rates)
- Tamarind Kernel Powder
- Mehendi paste in cones

Rates reduced by 12% to 5%

1. Articles of straw, of esparto or of other plaiting materials
2. Velvet fabric [having a condition that no ITC can't claim any refund]

Rates reduced by 3% to 0.25%

GST rates of Diamonds and precious stones have been

Increased by 12% to 18%

Cigarette filter rods

Rate increased by 0% to 5%

Rice bran (other than de-oiled rice bran)

For some motor vehicles compensation cess has been reduced to 0%: -

1. Old and used motor vehicles [medium and large cars and SUVs] having a condition that No ITC would be assisted
2. Old and used motor vehicles [other than medium and large cars and SUVs] having a condition that No ITC would be assisted
3. Vehicle that is cleared as an ambulance (having all accessories necessary in ambulance)
4. 10-13 seater Buses and ambulances subject to specified conditions

(B) Rate Changes for Services: New GST rates that will be applied on the followings: -

- 5 % GST rate on small housekeeping service providers, notified under section 9 (5) of GST Act, that are providing housekeeping service through ECO, without getting advantage of ITC
- GST Rate at 28% on actionable claim in the form of chance to win in betting and gambling including horse racing

Rate reduced by 28% to 18%

Services by way of admission to theme parks, water parks, joy rides, merry-go-rounds, go-karting and ballet

Rate reduced by 18% to 12%

1. Transportation of petroleum products and petroleum coarse having ITC Credit.
2. Metro and monorail projects (construction, erection, commissioning or installation of original works)
3. Works Contract Services to the Main contractor by the sub-contractor under the following framework:

Where the WCS is provided to the Central Government, State Government, Union territory, a local authority, a Governmental Authority or a Government Entity at 12% rate by main contractor.

Note: Likewise, rate of GST will be 5% for providing sub-contract services to the main contractor, although the main contractor provides 5 % rate to the Central Government, State Government, Union Territory, local authority and Government Authority.

4. Common Effluent Treatment Plants services for treatment of effluents
5. Mining or investigation services of natural gas and coarse of petroleum and for drilling services in respect of the aforesaid goods

Rate were reduced by 18% to 5%

1. Tailoring Services
2. Transportation of petroleum products and petroleum coarse without ITC Credit.
3. Job-work services for manufacture of leather goods (42nd Chapter) and footwear (64th Chapter)

Services Exemption List & related changes-Following Services are exempted:

- Providing information under RTI Act, 2005 from GST.
- Legal services provided to Government, Local Authority, Governmental Authority and Government Entity.
- Transportation of goods via air or sea till September 30th, 2018 from India to a place outside India:
- Life Insurance of Coast Guard to personnel (under the Scheme of the Central Government, Group Insurance Scheme) by the Naval Insurance Group Fund, ex-post facto w.e.f. 1.7.2017
- Dollar-denominated services provided by financial intermediaries located in IFSC SEZ, that has been deemed to be outside India under the various regulations by RBI, IRDAI, SEBI or any financial regulatory authority, to a person residing outside India

- Exemplary favor has been provided by a Panchayat/ Municipality to Government. Combined supplies primarily involving supply of services (i.e. up to 25% of the supply of goods) are also exempted.
- Lease of land:
 1. By government or local authority to governmental authority or government entity
 2. Supply as a part of specified composite supply of construction of flats, etc
- Admission to, or conduct of examination provided to all educational institutions including any service of conducting entrance examinations on collection of entrance fees
- Insurance schemes regarding Reinsurance services:
 1. General insurance business provided under schemes such as Pradhan Mantri Suraksha Bima Yojna and others listed in Notification 12/2017-CGST Rate
 2. Life insurance business provided under schemes such as Pradhan Mantri Jan Dhan Yojana and others listed in Notification 12/2017-CGST Rate
- Services by way of fumigation in a warehouse of agricultural produce
- Services of admission to planetarium where consideration charged is below Rs.500
- Subscription of online educational journals/periodicals by educational institutions who provide degree recognized by any law
- Renting of transport vehicles to a person providing services of transportation to an educational institution (students, faculty, and staff) providing education upto higher secondary or equivalent.
- Services rendered by and to Fédération Internationale de Football Association (FIFA) and its subsidiaries directly or indirectly related to any of the events under FIFA U-20 World Cup in case the said event is hosted by India.

Clarifications made:

GST Rate Clarifications are given for the following goods:

1. 18 % of GST will be charged on the total quantity of "Poly Butylene Feed Stock & Liquefied Petroleum Gas" kept for

the manufacturing of "Poly Isobutylene or Propylene or di-butyl para cresol" subject to specified conditions.

2. With Respect to Coal Rejects falling under HSN Code 2701:

- 5 % of GST
- Compensation Cess at Rs 400 Per Metric Ton

Changes in Valuation of Lottery, Betting and gambling Services:

1. To enclose a distribution the value of lottery shall be 100/112 or 100/128 of the price of lottery ticket earlier notified.
2. To enclose a distribution that the Value of supply of Betting & Gambling shall be 100 % of the face value of the bet or the amount paid into the totalizator.

Recommendations made regarding Reverse Charge Mechanism

3. Renting of Immovable property to a registered person by government or local authority is considered as reverse Charge on the other hand, renting of immovable property to unregistered person by government or local authority will be considered as forward charge.
4. To define insurance agent in the reverse charge notification to have the same meaning as assigned to it in clause (10) of section 2 of the Insurance Act, 1938, thus corporate agents are eliminated from the reverse charge.

Conclusion:

After years of long discussion, finally the proposed GST bill was passed .The present system suffers from lots of defects in its structure. It will eliminate the cascading effects of taxation, facilitate and promote increase in revenue for both the Centre and the States and will result in provision of goods and services to consumers at much lower rates. The GST model which gives scope for centre and state in tax collection. The uniform tax rate eventually results in less tax burden and resulting in lower consumer prices. Therefore if the proposed GST is properly implemented, it could be one of the greatest reforms in the scope of Indirect tax in India. Thus GST with a slogan of "One nation, one market and one tax" will see leaps in Indian Economy

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