G S T

"GOING FORWARD OR BACKWARD, TIME WILL TELL"

MADHU SAITYA

EX ASSISTANT PROFESSOR

D.N.COLLEGE FOR WOMEN

FARIDABAD, HARYANA

ABSTRACT

The Goods and Service Tax (GST) is a value added tax levied on most of the goods and services sold for domestic consumption. The GST is paid by consumers , but it is remitted to the government by the business houses selling those goods and services. It is also referred to as Value Added Tax(VAT) in some countries.

France was the first country to implement GST in 1954 , since then an estimated 160 countries adopted this system in one form or the other. Some of the countries with GST include Canada, Vietnam, Monaco, UK , Australia, Singapore, Brazil, Italy, South Korea, Nigeria, Spain etc. India also joined GST group on July 1, 2017.

Most of the countries with a GST have a single unified GST system, which means a single tax rate is applied throughout the country. A country with a unified GST platform merges central taxes (e.g. sales tax , excise duty, and service tax) with state level taxes (entertainment tax , entry tax, transfer tax and luxury tax etc.) and collects them as one single tax. These countries tax virtually everything at a single rate.

Only a small number such as Canada and Brazil have a dual GST structure. If we compare a unified GST economy where tax is collected by the Federal or Central government and then distributed to the states, in a dual system, the Federal GST is applied in addition to the state sales tax. E.g. in Canada , the Federal government levies a 5 % tax and some provinces/ states also levy a provincial sales tax (PST) which varies from 7% to 10 % . In this situation a consumer's receipt will clearly have the GST and PST rate that was applied to his purchase value.

India has now dual GST set up from July 1, 2017. Which is the biggest reform in the country's tax structure in decades. The main objective of incorporating GST is to eliminate tax on tax that is double taxation which cascades from manufacturing level to the consumption level.

INTRODUCTION

Goods and Service Tax (GST) is an indirect tax was introduced in India on July 1,2017 and is applicable throughout India which replaced multiple cascading taxes levied by the centre or state government. It is introduced as the Constitution(one hundred and first amendment) Act 2017 following the passage of constitution 122nd Amendment Bill . Goods and Service Tax (GST) is governed by GST council and its chairman is the Finance Minister of India. Under GST goods and taxes are taxed at different rates like 0% , 5%, 12% , 18%, 28% . There is a special rate of 0.25% on rough precious , semi precious stones and 3% on gold. In addition to this a cess of 15% or other rates on top of 28% GST applies on few items like aerated drinks , luxury cars and tobacco products. It is India's biggest reform in 70 years of independence. It was launched on the mid night of 30 th June 2017 though the process of forming the bill took 17 years (since 2000 when it was first proposed).

Key Words : Goods and Service Tax (GST), Cascading , Value Addition

SOME IMPORTANT ELEMENTS OF GST

Goods and Service Tax law in India is a comprehensive , multistage, destination based tax that will be applied to every value addition. To understand this , we need to understand all the terms one by one.

Comprehensive:

The taxes collected by Indian government previously can broadly be divided into two categories – Direct tax and Indirect tax.Direct taxes are directly levied on income of an individual e.g. income tax , gift tax etc. The previous indirect tax structure comprised of so many different taxes collected by Centre and State government.

Central Level:

- Central Excise Duty
- Additional Excise Duty
- Service Tax
- Additional Custom Duty / Countervailing Duty
- Special Additional Duty of Customs

State Level :

- State Value Added Tax / Sales Tax
- Entertainment Tax
- Octroi and Entry Tax
- Purchase Tax
- Luxury Tax
- Taxes on Lottery , Betting and Gambling

GST has subsumed all of the previous indirect taxes. Plus , by bringing in a unified taxation system, across the country , it has also ensured that there is no arbitrariness in tax rates.

Multistage :

There are multiple steps from manufacture or production to the final sale. First buying of raw material , then comes production or manufacture of the product , after that warehousing of material and at the last sale of production to the final consumer.

PICTORIAL PRESENTATION

- Buying Raw Material
  - Manufacture
    - Sale to Whole Saler or warehousing
      - Sale to Retailer
        - Final Sale to Final Consumer

Goods and Service tax is levied on each of these stages , which makes it multiple stage tax.

Value Addition :

GST is charged on every value addition. It can be proved with an example. Let us assume a situation in which a manufacturer wants to make a shirt. For making it , he buys yarn, this converts into a shirt after manufacture. So the value of the yarn is increased when it is woven into a shirt. Then the manufacturer sells it to the warehousing agent who attaches label to each shirt . It is another addition of value after which the whole saler sells it to the retailer who does packaging of each shirt separately. And invests in marketing of the shirt and increases its value. GST will be levied on each value addition.

Destination Based :

Before GST , when a product was manufactured , the centre used to levy an excise duty on the manufacture, and then the state used to add a VAT when the item is sold to the next stage in the cycle. Then there was a VAT at the next point of sale. So earlier the pattern of tax levy was as follows :

Buying Raw Material (VAT) Manufacture (VAT+EXCISE DUTY)Sale To Whole Saler /

Ware housing (VAT)Sale To Retailer (VAT) Final Sale to Consumer

Unlike previous system, GST is collected at the time of consumption. The taxation authority, with appropriate jurisdiction in the place where goods/ services are finally consumed , collect the tax.

GST VS PREVIOUS INDIRECT TAX STRUCTURE

A taxable event such as manufacture, sales and provision of a good has to incur for tax to be collected. Under the previous system, each taxable event is subject to multiple taxes such as excise, vat/cst, and service tax . But under GST, products are no longer have multiple taxes, and will not incur excise duty, vat at different points of time. There will no longer be any difference between goods and services in terms of taxation.

The previous indirect tax had one more major problem – the casacading effect which means when you buy something , you pay tax on tax itself. Lets understand this with a hypothetical example –

STAGE 1

For example, a shirt manufacturer pays INR 200 to buy raw materials . If the rate of taxes is set at the rate of 10%, and there is no profit no loss involved , then he has to pay INR20 as tax. So the final cost of the shirt becomes INR (200 +20) 220.

STAGE 2

At the next stage , the whole saler buys the shirt from the manufacturer at INR 220, and labels to it . When he is adding labels , he is adding values. Therefore his cost increases by say INR 40. On the top of this, he has to pay a 10 % tax, and the final cost therefore becomes INR(220+40) 260+10% tax=INR286.

STAGE 3

Now the retailer pays INR286 to buy the shirt from the whole saler because the tax liability had passed on to him. He has to package the shirt, and when he does that, he is adding again. This time , let's say, his value add is INR 30. Now when he sells the shirt, he adds this value plus the vat , he has to pay the government to the final cost. So the cost of the shirt becomes, INR 347.6

Let's see a breakup for this: Cost 286+ value add INR30 + 10%tax = INR316+ INR31.6=INR347.6 . So the customer pays INR 347.6 to buy the shirt, the cost price of which was basically only INR270. Along the way the tax liability was passed on at every stage of transaction and the final liability comes to rest with the customer. This is called the Casacading effect of taxes where a tax is paid on tax and the value of the item keeps increasing every time.

This happens :

ACTION	COST	10% TAX	TOTAL
Buys Raw Material	200	20	220
Manufactures @40	260	26	286
Adds Value @30	316	31.6	347.6
Total	270	77.6	347.6

GST aims to solve this problem by introducing seamless Input Tax Credit (ITC). Previously the tax that you paid on material purchases couldnot be claimed from output tax. This is set to change with **ITC.**

In our example , when the wholesaler buys from the manufacturer , he pays a 10 % tax on his cost price because the liability has been passed on (to him. Then he adds value of INR 40 on his cost price of INR 200. And this brings up his cost to INR 240. Now he has to pay 10 % of this price to the government as tax. But he has already paid one tax to the manufacturer. So this time, what he does is, instead of paying INR(10% of 240=) INR24 to the government as tax , he subtracts the amount he has already paid. So he deducts INR 20 he paid on his purchase from his new liability of INR 24, and pays only INR 4 to the government. So the INR20 becomes his Input Credit.

When he pays INR 4 to the government, he can pass on its liability to the retailer. So, the retailer pays (INR240 + INR24) INR 264 to him to buy the shirt. At the next stage, the retailer adds the value of INR30 to his cost price and has to pay a 10% tax on it to the government. When he adds value, his price becomes INR 270. Now, if he had to pay a 10 % tax on it, he would pass on the liability to the customer. But he already has Input Credit because he has paid INR 24 to the wholesaler, as the latter's tax.So , now he reduces INR 14 from his tax liability of INR (10 % of 270 =) 27 and has to pay only INR 3 to the government. And , therefore he can now sell the shirt for INR (240 +30+27)297 to the customer.

ACTION	COST	10% TAX	ACTUAL LIABILITY	TOTAL
Buys Raw Material	200	20	20	220
Manufactures @40	240	24	4	264
Adds Value @30	270	27	3	297
Total	270		27	297

In the end, every time an individual was able to claim input tax credit, the sales price for him reduced and the cost price for the person buying his product reduced because of a lower tax liability. The final value of the shirt also reduced from INR 347.6 to INR 297, thus reducing the tax burden on the final customer.

So essentially, GST is going to have a two pronged benefits. One ,it will reduce the Cascading effect of taxes , and second , by allowing input tax credit , it will reduce the burden of taxes and, hopefully, prices.

CONCLUSION

The idea behind having one consolidated indirect tax to subsume a large number of previously existing indirect taxes is to benefit the Indian economy in a number of ways.

- First it will help the country's business houses gain a level playing field.
- It will also put us on par with foreign nations who have a more structured tax system.
- It will also translate into gains for end consumers , who not have to pay cascading taxes any more.

- There will now be a single tax on Goods and Services.

So even after little bit difficulties which we are facing to file monthly returns and registration formalities , GST is more than a tax change. It is a behaviour change also.
And its successful implementation will depend on how we as a nation adopt to the new requirements of doing a business. Post the initial teething troubles , it is expected that GST will bring in much good for all the sectors of society.

REFERENCES

a. http://www.investopedia.com/terms/h/harmonized-sales-tax.asp

b. www.pradhanmantriyojna.in>gst.bill-e

c. www.financialexpress.com>economy

d. http://en.wikipedia.org/wiki/Goods-and-Service-Tax-(India)

e. http://cleartax.in/s/gst-law-goods-and-services-tax

f. blogs.timesofindia.indiatimes.com>gst

g. www.cleartax.com/gst-E-Book