



## THE STUDY OF IMPLEMENTATION OF GST AND ITS IMPACT

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### ABSTRACT

**Goods and Services Tax** is a proposed system of indirect taxation in India, merging most of the existing taxes into single system of taxation. It was introduced as the Constitution Act 2016. The chairman of GST Council is union finance minister which is currently Mr. Arun Jaitley.

GST would be a comprehensive indirect tax on manufacture, sale and consumption of goods and services throughout India, to replace taxes levied by the central and state governments. The GST is consumption based tax levied on the supply of Goods and Services which means it would be levied and collected at each stage of sale or purchase of goods or services. Taxable goods and services are not distinguished from one another and are taxed at a single rate in a supply chain till the goods or services reach the consumer. Administrative responsibility would generally rest with a single authority to levy tax on goods and services.

The introduction of GST would be a significant step in the reform of indirect taxation in India. Amalgamating several Central and State taxes into a single tax would mitigate cascading or double taxation effect, facilitating a common national market. From the consumer point of view, the biggest advantage would be in terms of a reduction in the overall tax burden on goods and services, which is currently estimated at 25% to 30%, free movement of goods from one state to another without stopping at state borders for hours for payment of state tax or entry tax and reduction in paperwork to a large extent.

**Keywords: Adaption, Conversion, Implementation, Assessment, Supply, Indirect Tax, Sale and Purchase, Goods and Services, Single Rate etc.**

### 1. Introduction:

Introduction of Goods and Services Tax (GST) will indeed be an important perfection and the next logical step towards a widespread indirect tax reforms in India. As per, First Discussion Paper released by the Empowered Committee of the State Finance Minister on 10<sup>th</sup> November 2009, it has been made clear that there would be a "Dual GST" in India i.e. taxation power lies with both by the Centre and the State to levy the taxes on the Goods and Services.

The scheme was supposed to be implemented in India from 1<sup>st</sup> April 2016, however it may get delayed since the NDA government does not have majority in Rajya Sabha.

Further Punjab and Haryana were reluctant to give up Purchase Tax, Maharashtra was unwilling to give up Octroi and all states wanted to keep Petroleum and Alcohol out of the ambit of GST. Gujarat and Maharashtra want the additional 1% levy extended beyond the proposed 2 years and rose to 2%. Punjab wants purchase tax outside GST.

### Constitutional Amendment:

While the Centre is empowered to tax goods and services up to the production stage, the States have the power to tax sale of goods. The States do not have the powers to levy a

tax on supply of services while the Centre does not have power to levy tax on the sale of goods. Thus, the Constitution does not vest express power either in the Central or State Government to levy a tax on the supply of goods and services. Moreover, the Constitution also does not empower the States to impose tax on Imports. Therefore, it is essential to have constitutional amendments for empowering the centre to levy tax on sale of goods and states for levy of service tax and tax on imports and other consequential issue.

### Worldwide GST:

**France** was the **first country** to introduce **GST in the year 1954**. Worldwide, almost 150 countries have introduced GST in one or the other form since now. Most of the countries have a unified GST system. Brazil and Canada follow a dual system vis-à-vis India is going to introduce. In China, GST applies only to goods and the provision of repairs, replacement and processing services. GST rates of some countries are given below:

Country	Australia	France	Canada	Germany	Japan	Singapore	New Zealand
Rates	10%	19.6%	5%	19%	5%	7%	15%

### Rate of GST:

There would be **two-rate structure- a lower rate for necessary items and items of basic importance and a standard rate for goods in general**. There will also be a special rate for precious metals and a list of exempted items. For goods in general, government is considering pegging the **rate of GST from 20% to 23%** that is well above the global average rate of 16.4% for similar taxes, however below the revenue neutral rate of 27%.

## 2. Research Methodology:

### A) Topic of Research:

The study of Implementation of GST and its Impact

### B) Objectives of Research:

- To study the concept of GST in India.
- To study the conversion and implementation process of GST in India
- To study the assessment model of GST with the help of cases

### C) Hypothesis of Research:

H<sub>1</sub>: The implementation GST in India will lead towards generating high revenue to government.

H<sub>0</sub>: The implementation GST in India will not lead towards generating high revenue to government.

### D) Scope of Research:

The study of implementation and its impact of Indirect Taxes into GST in India is analyzed during the last decade

### E) Research Design:

#### a) Types of Data:

Secondary data has been collected and used for the present research study.

#### b) Sources of Data:

Secondary data was collected from internet, reference books, journals, articles, publications and various printed material.

#### c) Tools for Data Analysis and Presentation:

Tables, Percentages and Proportions are used for data analysis and interpretation.



### 3. Theoretical Background:

This research paper deals with key concepts that emerge from the GST structure proposed for India based on the objectives behind introduction of GST in India, principles emerging from the amendments sought in the GST Bill, various studies commissioned by Empowered Committee, the treatment accorded to similar concepts in other jurisdictions and OECD's guidelines on International VAT/GST.

#### **Taxable Event- Supply of Goods and Services:**

Under prevailing indirect tax structure there are multiple taxable events on account of multiple levies at Central and State level. That is, taxable event occurs on 'manufacturing of goods' in case of Central Excise laws, 'sale of goods' in case of State VAT laws, 'supply/provision of services' in case of Service tax laws. In addition, taxable event in case of other state levies such as Entry Tax, Octroi etc. are on 'entry' to goods into a particular jurisdiction. Therefore, the taxable events under the existing structure depend on the levy and are defined independently without any harmonious reference to other indirect tax legislations.

GST is envisaged to be levied on all supplies of goods and services on same taxable event by both Centre and State governments. The term 'supply' is expected to be defined in the CGST, SGST and IGST laws being prepared in this regard. It is critical that the terms 'Supply' is defined in the Central and State GST legislations in an identical manner to avoid the challenge of multiple taxable events at Central and State level in GST.

#### **GST Rate:**

The Kelkar Committee recommended multiple tax structure restricting the structure to three ad valorem rates, in addition to the zero rate such as:

1. Floor Rate for goods of basic importance (with Central rate @ 6% and States @ 4%)
2. Standard Rate for supply of most goods and services (with Central rate @ 12% and States @ 8%)
3. Higher Rate for luxury or demerit goods (with Central rate @ 20% and States @ 14%)

Products such as cement, mineral products etc. subject to specific tax rates under current regime of indirect taxation was recommended to be converted to ad valorem except petroleum and tobacco products.

Based on recommendation of the Kelkar Committee, and GST structure proposed by the Empowered Committee following principles emerge:

a) GST structure to comprise of a lower rate for supply of goods and services of basic importance, a standard rate for supply of goods and services in general, a special rate for precious metals and a list of exempted items. During discussions with the Committee, Ministry of Finance noted that certain demerit goods such as tobacco or luxury goods may, if the GST Council so decides be subject to higher rate of GST. Based on a study carried out by National Institute of Public Finance (NIPF) taking into consideration revenue collection figures of 2011-2012, a Working Committee submitted a report to Empowered Committee, before introduction of GST Bill, recommending a GST rate of almost 27% under the GST regime. However, the Union Finance Minister, during his discussion on the GST Bill before Lower House, indicated that GST rate would be much lower than recommended rate of 27%. At present, Empowered Committee is working out GST rate in consultation with Chief Economic Advisor and revised study of NIPF based on revenue collection figures for 2013-14. It is essential that the rate or the rate structure arrived at should be one that will be acceptable, does not lead to spiraling costs and encourages compliance.



b) As per the report of Empowered Committee, for taxation of services, single rate has been proposed for both CGST and SGST. As per recent reports, government is considering tax rate structure to include same standard rate for goods and services, merit rate depending on nature of goods and service, special rates for only goods viz. metals and minerals and lower rate for essential goods and services. However, stakeholders have expressed their view in the deposition before Select Committee that GST rate may be kept in the range of 16-18% for both goods and services. Not discriminating among goods and services in respect of applicability of rates would also be essential to avoid disputes as to whether a particular supply is of goods or services.

c) Exports and supply outside tax jurisdiction would be zero-rated including supply to Special Economic Zones. However, such benefits will only be allowed to the processing zones of the SEZs.

d) Imports would be subject to GST based on the principle of destination tax principle with necessary Constitutional Amendments. Both CGST and SGST will be levied on import of goods and services into the country. Full and complete set-off should be made available of the GST paid on import on goods and services.

#### **4. Data Analysis and Interpretation:**

##### **Model of GST with example:**

The GST shall have **two components**: one levied by the Centre and the other levied by the States. **Rates** for Central GST and State GST would be **approved appropriately**, reflecting revenue considerations and acceptability.

The CGST and the SGST would be **applicable to all transactions of goods and services** made for a consideration **except** the exempted goods and services.

**Example: 1 Comprehensive Comparison**

<b>Comparison between Multiple Indirect tax laws and proposed law</b>		
<b>Particulars</b>	<b>Without GST in (Rs.)</b>	<b>With GST in (Rs.)</b>
<b>Manufacture to Wholesaler:</b>		
Cost of Production	5,000	5,000
Add: Profit Margin	2,000	2,000
Manufacturer Price	7,000	7,000
Add: Excise Duty @ 12%	840	–
<b>Total Value (a)</b>	<b>7,840</b>	<b>7,000</b>
Add: VAT @ 12.5%	980	–
Add: CGST @ 12%	–	840
Add: SGST @ 12%	–	840
<b>Invoice Value</b>	<b>8,820</b>	<b>8,680</b>
<b>Wholesaler to Retailer:</b>		
COG to Wholesaler (a)	7,840	7,000
Add: Profit Margin @ 10%	784	700
<b>Total Value (b)</b>	<b>8,624</b>	<b>7,700</b>
Add: VAT @ 12.5%	1,078	–
Add: CGST @ 12%	–	924
Add: SGST @ 12%	–	924
<b>Invoice Value</b>	<b>9,702</b>	<b>9,548</b>
<b>Retailer to Consumer:</b>		
COG to Retailer (b)	8,624	7,700
Add: Profit Margin	862	770
<b>Total Value (c)</b>	<b>9,486</b>	<b>8,470</b>
Add: VAT @ 12.5%	1,185	–
Add: CGST @ 12%	–	1,016
Add: SGST @ 12%	–	1,016
<b>Total Price to the Final consumer</b>	<b>10,672</b>	<b>10,502</b>
<b>Cost saving to consumer</b>	–	169
<b>% Cost Saving</b>	–	1.59
<b>Notes: Input tax credit available to wholesaler is Rs. 980 and Rs. 1,680 in case of without GST and with GST respectively.</b>		
<b>Likewise Input tax credit available to Retailer is Rs. 1,078 and Rs. 1,848 in case of without GST and with GST respectively.</b>		
<b>In case VAT rate is also considered to be 12%, the saving to consumer would be 1.15%.</b>		

**Interpretation:**

**Existing CST (Central state tax)** shall be **discontinued**. Central would levy **IGST (cumulative rate for CGST and SGST)** on all inter-State transactions of taxable goods and services with appropriate provision for consignment or stock transfer of goods and services. The **ITC of SGST, CGST** shall be **allowed** as applicable.

**Example 2: Input Tax Credit**

Mr. Shah a registered dealer had input tax credit for CGST and SGST Rs.750 and Rs. 1,050 respectively in respect of purchase of inputs and capital goods. He manufactured 1,800 liters of finished products. 200 liters was normal loss in the process. The final product was sold at uniform price of Rs. 10 per liter as follows:-

Goods sold within State – 800 liters, finished product sold in inter-State sale – 650 liters, Goods sent on stock transfer to consignment agents outside the State 350 liters, Further CGST & SGST rate on the finished product of dealer is 5% & 7% respectively. Further IGST rate is 12%.

**Output Tax Calculation:**

Particulars	Sales Within State	Stock Transfer Outside State	Inter State Sales	Total
Qty. Sold	800	350	650	
Price per unit	10	10	10	
<b>Value of Goods Sold</b>	<b>8,000</b>	<b>3,500</b>	<b>6,500</b>	<b>18,000</b>
Tax Amount:				
Tax Amount CGST (5%)	400	–	–	400
Tax Amount SGST (7%)	560	–	–	560
Tax Amount IGST (12%)	–	420	780	1,200

**Calculation of Tax Payable:**

Particulars	CGST	SGST	IGST	Total
Tax Payable Amount	400	560	1,200	
Less: Input Tax Credit				
CGST	400	–	350	<b>750</b>
SGST	–	560	490	<b>1,050</b>
<b>Balance Payable</b>	–	–	<b>360</b>	<b>360</b>

**Interpretation:**

There would be no treatment for normal loss. Input tax credit of CGST and SGST of Rs. 750 and Rs. 1,050 are paid on inputs. This input tax credit should first be utilized for payment of CGST and SGST respectively and balance is to be used for payment of IGST. Thus, balance available for payment of IGST is Rs. 350 of CGST and Rs. 490 of SGST and he is liable to pay balance amount of IGST of Rs. 360 by cash.

Since credit of SGST of Rs. 490 has been utilized for payment of IGST, **the State Government will get debit of Rs. 490 from the Central Government.**

**Example: 3 Input Tax Credit**

Now, continuing with the above example 2, suppose the dealer purchases goods interstate and have input tax credit of IGST available is Rs. 2,000.

**Calculation of Tax Payable**

Particulars	CGST	SGST	IGST	Total
Tax Payable Amount	400	560	1,200	
Less: Input Tax Credit				
CGST	–	–	–	
SGST	–	–	–	
IGST	400	400	1,200	<b>2000</b>
<b>Balance Payable</b>	–	<b>160</b>	–	<b>160</b>

**Interpretation:**

Input tax credit of Rs. 2000 IGST is available. This input tax credit should **first be utilized for payment of IGST & balance is to be used first for payment of CGST & remaining for SGST**. Likewise in this case Rs. 400 and balance Rs. 400 are utilized for CGST & SGST respectively. He is liable to pay balance amount of SGST of Rs. 160 by cash.

**Example: 4 Import**

Mr. Shah imported goods for Rs. 10,000 and incurred expenses to produce final saleable goods. BCD @ 10 % was chargeable on imported goods. These manufactured goods were sold within the state at Rs. 45,000 plus applicable GST. Rate of CGST and SGST is 5% and 7% respectively. Compute Cost, Sales value and tax payable for the transaction.

**Calculation of Net cost of imported goods:**

Particulars	Amount Rs.
Cost of Goods imported	10,000
Add: Basic Customs Duty @ 10%	1,000
Cost of imported goods (including BCD)	11,000
Add: CGST on Import @ 5%	550
Add: SGST on Import @ 7%	770
<b>Cost of imported goods (including BCD &amp; GST)</b>	<b>12,320</b>

**Calculation of Sale value after import:**

Particulars	Amount (Rs)
Sale Value (before tax)	45,000
Add: CGST on Import @ 5%	2,250
Add: SGST on Import @ 7%	3,150
<b>Sales Value</b>	<b>50,400</b>

**Tax Payable Calculation**

Particulars	CGST (Rs.)	SGST (Rs.)
Output tax	2,250	3,150
Less: Input tax credit	–	–
CGST	550	–
SGST	–	770
<b>Net tax payable</b>	<b>1,700</b>	<b>2,380</b>

**Example: 5 Export**

Now continuing with the above example 4, suppose the same good is exported after 1 year of use after adding margin and modification amounting Rs. 10,000 and use factor of 1 year for refund calculation is 0.20. Therefore the refund will be 0.80 of duty amount.

**Export Value calculation:**

Particulars	Amount (Rs)
Cost of Imported Goods (from above example)	50,400
Add: Margin and Modification Amt.	10,000
Sale Value	60,400
Add: CGST on Export @ 5%	–
Add: SGST on Export @ 7%	–
<b>Export Value</b>	<b>60,400</b>

### Refund Calculation

Particulars	Amount (Rs)
Basic Customs Duty (BCD from above example)	1,000
Refund Factor	0.80
Refund amount of BDC	800
Add: CGST (from above example)	550
Add: SGST (from above example)	770
<b>Total Refund amount</b>	<b>2,120</b>

### Indirect taxes that will be included under GST:

#### a) State taxes which will be subsumed in SGST

- VAT/Sales Tax
- Entertainment Tax (unless it is levied by local bodies)
- Luxury Tax
- Taxes on lottery, betting and gambling.
- State cess and surcharges to the extent related to supply of goods and services.
- Entry tax not on in lieu of octroi

#### b) Central Taxes which will be subsumed in CGST:

- Central Excise Duty.
- Additional Excise Duty.
- The Excise Duty levied under the medical and Toiletries Preparation Act
- Service Tax.
- Additional Customs Duty, commonly known as Countervailing Duty (CVD)
- Special Additional duty of customs (SAD)
- Education Cess
- Surcharges

#### c) Taxes that may or may not be subsumed between SGST & CGST:

- Stamp Duty
- Vehicle Tax
- Electricity Duty
- Other Entry taxes and octroi
- Entertainment Tax (levied by local bodies)
- Basic customs duty and safeguard duties on import of goods into India

### 5. Research Findings:

- a) Reduces transaction costs and unnecessary wastages.
- b) Eliminates the multiplicity of taxation One Point Single Tax.
- c) Reduces average tax burdens.
- d) Reduces the corruption.

### 6. Conclusion:

GST is proposed to be a comprehensive indirect tax to be levied on manufacture, sale and consumption of goods as well as services at the national level. It will substitute all indirect taxes levied on goods and services by the Central Governments in India as of now. It is aimed at being comprehensive for most goods and services.

Introduction of Goods and Services Tax will indeed be an important perfection and the next logical step towards a widespread indirect tax reforms in India. Initially, it was conceptualized that there would be a national level goods and services tax, however, with





the release of First Discussion Paper by the Empowered Committee of the State Finance Ministers on 10<sup>th</sup> November 2009, it has been made clear that there would be a “Dual GST” in India, i.e. taxation power lies with both by the Centre and the State to levy the taxes on the Goods and Services. Almost 150 countries have introduced GST in some form since now. While countries such as Singapore and New Zealand tax virtually everything at a single rate, Indonesia has five positive rates, a zero rate and over 30 categories of exemptions. In China, GST applies only to goods and the provision of repairs, replacement and processing services.

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