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GOODS AND SERVICE TAX: A CHANGING OUTLOOK FOR INDIRECT TAXATION

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ABSTRACT

Goods and service tax is India's most efficient indirect tax reform. The central idea behind levying up of this kind of taxation is to replacing VAT, central excise, sales tax by levying a comprehensive tax on goods and services. GST will be a game changing reform for Indian economy by developing a common Indian market and reducing the cascading effect of tax on the cost of goods and services. It will impact the Tax Structure, Tax Incidence, Tax Computation, Tax Payment, Compliance, Credit Utilization and Reporting leading to a complete overhaul of the current indirect tax system. GST will have a far reaching impact on almost all the aspects of the business operations in the country, for instance, pricing of products and services; supply chain optimization; IT, accounting and tax compliance systems. GST is expected to create a business friendly environment, as price levels and hence inflation rates would come down overtime as a uniform tax rate is applied. It will also improve government's fiscal health as the tax collection system would become more transparent, making tax evasion difficult. An attempt is made in this paper to study the concept of goods and service tax and its impact on Indian economy. The study also aims to know the advantages and challenges of GST in Indian scenario.

KEYWORDS

GST, VAT, sales tax, excise.

INTRODUCTION

The GST is likely to change the whole scenario of current indirect tax system. This is the biggest tax reform in India since 1947. Currently, there is a complicated indirect tax system prevailing by dual system, by Central and state Govt., in India. GST will unify all the indirect taxes under an umbrella and will create a smooth national market. Experts say that GST will help the economy to grow in more efficient manner by improving the tax collection as it will disrupt all the tax barriers between states and integrate country via single tax rate. GST was first introduced by France in 1954 and now it is followed by 140 countries. Most of the countries followed unified GST while some countries like Brazil, Canada follow a dual GST system where tax is imposed by central and state both. In India also dual system of GST is proposed including CGST and SGST.

OBJECTIVES OF THE STUDY

1. To study the concept of Goods and Services Tax (GST) and its impact on Indian Economy.
2. To understand how GST will work in India.
3. To know the advantages and challenges of GST in Indian context.
4. To find out how it's changing outlook of our age old INDIRECT TAXES.

RESEARCH METHODOLOGY

The study focuses on extensive study of Secondary data collected from various books, National & international Journals, government reports, publications from various websites which focused on various aspects of Goods and Service tax.

PRESENT STRUCTURE OF INDIRECT TAX

Indian taxation by far is considered to be one of the toughest and multiple layer taxation. Government currently is trying harder for implementing a single taxation method, then following such a tedious procedure of collecting revenue. But before we implement a new regime, we need to have a fair enough look at problem with current taxation.

TABLE 1

Ref.	Tax	Levy by	Nature (Levied on) -	Can be Set-off against	Covered by GST
1	Central Excise	Centre	Manufacture	1,2	Yes
2	Service Tax	Centre	Providing services	1,2	Yes
3	Customs	Centre	Import	-	No
4	CVD* under Customs	Centre	Additional Import duty (compensating Excise)	1,2	Yes
5	SAD* under Customs	Centre	Additional Import duty (compensating Sales Tax)	1,2	Yes
6	CST	Centre	Inter-State sales	-	Yes
7	VAT	State	Sales within a state	7	Yes

(*CVD – Countervailing Duty; SAD – Special Additional Duty)

- The GST shall subsume all the above taxes, except the Basic Customs Duty that will continue to be charged even after the introduction of GST.
- India shall adopt a Dual GST model, meaning that the GST would be administered both by the Central and the State Governments.

WEAKNESS OF CURRENT STRUCTURE OF TAXATION

- TAX CASCADING: The Most Crucial Contributing Factor to It Is the Partial Coverage by Central and State Taxes.
- Levy of Excise Duty On Manufacturing Points: The CENVAT Is Applicable On Goods Manufactured or Produced in India. Which Limits Its Implementation Whereas Tax Structure Must Be Applicable Uniformly.
- Complexity in Determining the Nature of Transaction.
- Inability of States to Levy Tax On Services
- Lack of Uniformity in Provisions and Rates
- Fixation of Situs
- Interpretation Issues
- Narrow Base
- Complexities in Administration

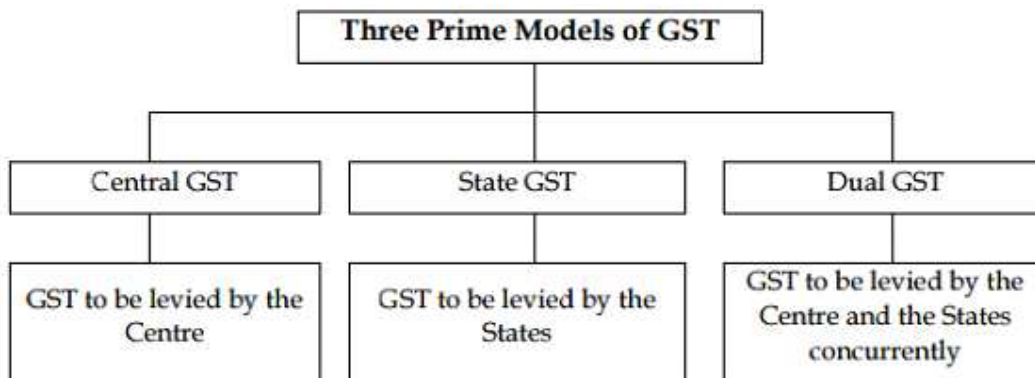
GST IN INDIA

GST is a consolidated tax system where there is a single tax in the economy for goods and services. Everyone says that if GST takes place of indirect tax then cost of goods and services will be increase but in reality GST make easy tax structure in India. Now in India taxes are collected by government through direct tax and indirect tax, GST belongs to only indirect tax. Direct tax structure will be same.

Presenting in India, indirect tax is collected through octroi, central sales tax, state sales tax, entry tax, license fees, service tax, turnover tax etc.

The GST system is based on the same concept as VAT. Here, set-off is available in respect of taxes paid in the previous level against the GST charged at the time of sale. The GST model has some aspects which are as follows:

FIG. 1



- CGST: applicable for interstate sale of goods and provision of service.
- SGST: applicable on intra state sale of goods and services.
- IGST/DUAL GST: it will be levied by central which will be clubbed by central and state both.

NEW SYSTEM

TABLE 2

Transaction	NEW system	OLD System	Comments
Sale within the state	SGST and CGST	VAT & Excise / ST*	Under the new system, a transaction of sale within the state shall have two taxes, SGST – which goes to the State; and CGST which goes to the Centre
Sale outside the state	IGST	CST & Excise / ST*	Under the new system, a transaction of sale from one state to another shall have only one type of tax, the IGST – which goes to the Centre

NEED OF GST IN INDIA

India need GST because of many flaws lying in our current taxation structure, some of them are highlighted below:

1. Cascading effect: central and state in India are not transparent towards there tax regime, nor are the state following transparency within state, leading to tax on tax and affecting the poorer section being more poorer.
2. Double taxation and litigation: as business processes have gone too complex the taxation lines between central and state have started depleting or getting blurred which is increasing litigation and affecting some classes.
3. The current tax regime is an origin based taxation system, as opposed to the destination based system prevailing in whole world, leading to significant disparities in revenue distribution to various states.
4. Although VAT system has been transformed and many efforts have been made for its smooth functioning by respective governments. Each state law now is implemented individually with lots of amendment’s making tax regime cumbersome.

ADVANTAGES OF GST

1. Customer will know exactly how much tax they are paying on the product they bought or services they consumed.
2. GST will reduce numbers of indirect tax in India.
3. Tax calculation will be easy rather than present.
4. In GST, cost control will be effectively managed.
5. Increase in Government Revenues.
6. Compliance cost will be reduced.

WHAT WILL NOT BE PART OF GST?

1. Petroleum products
2. Alcoholic products
3. Taxes on lottery and betting
4. Basic customs duty and safeguard duties on import of goods into India
5. Entry taxes levied by municipalities or panchayats
6. Entertainment and Luxury taxes
7. Electricity duties/ taxes
8. Stamp duties on immovable properties
9. Taxes on vehicles

DIFFERENCE BETWEEN PRESENT TAX STRUCTURE AND GST

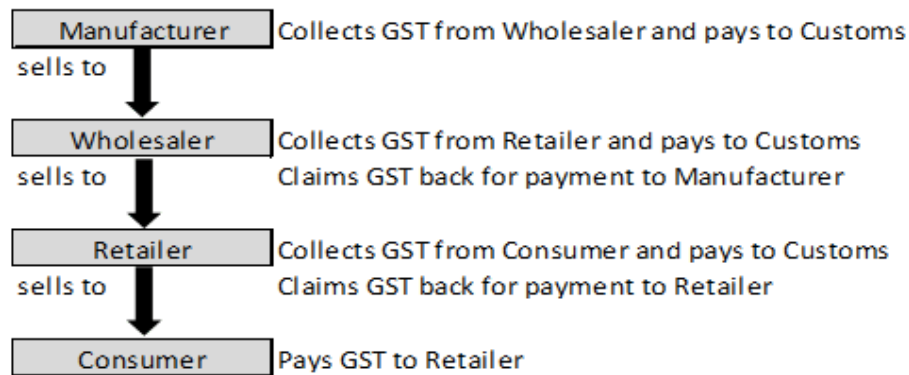
TABLE 3

Issues	Present Tax	GST
1. Broad Scheme	There are separate laws applicable at separate places. Eg: Central Excise Act, 1944, respective State VAT laws.	It will just be GST as all other taxes will be merged in it ambit.
2. Tax Rates	There are separate rates applicable under current system eg: service tax @15 %, excise 12.36% etc.	There will be one CGST rate and one common SGST rate for all states.
3. Cascading effect	This problem arise due to CST.	CST is deleted, therefore no chances of cascading.
4. Tax Burden	Tax burden on tax payer is generally higher.	Tax burden is expected to reduce since all taxes are integrated which make it possible the burden to be split equitably between manufacturing & services.
5. Burden of cost on consumer	Due to cascading, burden of taxation is merged in cost of product.	As GST reduced such cost, hence burden is reduced.
6. Concurrent power	At present on same subject matter both central and state don’t have power, to mutually resolve issue.	Both central and state have power to make laws regarding GST as per sec 276A of constitution.
7. Compliance	Due to multiplicity of taxes, tax structure is highly complicated.	Tax compliance is easiest due to single tax.
8. Transparency	Presently a product is taxed twice <ul style="list-style-type: none"> • Firstly when product moves out of factory. • Secondly at retail outlet. 	GST is destination based tax and hence is levied at final product only, which makes system more transparent.

HOW WILL GST BE APPLICABLE?

GST is a consumption based taxation system, which is applicable on final product. It is collected at the value added goods and service at each stage of sale and purchase in the supply chain.

FIG. 2



The GST is an indirect tax which means that the tax is passed on till the last stage wherein it is the customer of the goods and services who bears the tax. This is the case even today for all indirect taxes but the difference under the GST is that with streamlining of the multiple taxes the final cost to the customer will come out to be lower on the elimination of double charging in the system.

WHAT WILL GST CHANGE IN CURRENT INDIRECT TAX SCENARIO?

1. Introduction of GST as a single indirect tax will impact the tax credit mechanism positively. This would definitely benefit the ultimate consumer. This is because most of the prevailing indirect taxes pose tax on tax incidence, thus resulting in superficially increased price. By allowing the dealer or manufacturer or retailer to claim input tax credit, GST will be bringing down the unnecessary tax addition to the value addition.
2. GST is expected to bring in more tax revenue, being disincentive tax structure. Bringing in tax credit mechanism means that the dealer/ manufacturer or retailer would be able to claim input tax credit, only if he pays or assumes to pay the GST liability. This would curb tax evasion to a great extent.
3. GST is introduced to bring in all those black market transactions, because now the sellers will only deal with those who are registered under GST (to avail input tax credit).
4. Currently, we have very complex and multifaceted indirect tax structure. GST being a single tax regime, will result in much lower tax rate (considering currently we are paying higher indirect taxes due to tax on tax scenario, even if each tax has lower rate). This will benefit the seller (by way of availing tax credit at each value addition) and the ultimate consumer (by way of reduced incidence of tax).

CONCLUSION

There have been lot of speculation about GST and its working, by far its one of the most logical initiative towards the cumbersome Indirect tax structure prevailing in India. GST will be applicable on all sort of goods and services and combinations thereof. All economy sectors and industries, government departments etc., have to bear the burden of GST. This tax structure will be applicable irrespective of size of your business or service you render. GST truly is going to be one of the biggest tax reform in history of Indian Taxation which will integrate state economies and boost overall efficiency and growth of Indian economy. Undoubtedly GST is one best thing happening to us, but it requires a proper layout in a planned way to be implemented. Some of the points must be taken care of in its implementation:

1. It is of prime importance than all states must implement GST at same time and rates.
2. More awareness about GST and its advantages is to be made, not only to business houses but to each and every individual by beginning with some talk shows and seminars.
3. The GST is a destination based tax, not the origin one. In such circumstances, it should be clearly identifiable as to where the goods are going. This shall be difficult in case of services, because it is not easy to identify where a service is provided, thus this should be properly dealt with.
4. For streamline working, it is advisable that GST clearly sets out taxable events.

Sooner or later this change will be knocking our doors, for its success and our betterment and growth we need to be well rehearsed with our knowledge for its better implementation. Looking forward for its success and many more challenges coming ahead. Hoping for India to move slowly towards the worldwide taxation and corporate management practices.

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