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GOODS & SERVICE TAX

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Abstract : The proposed goods and services tax (GST) is in fact the brainchild of Ex-Finance Minister Mr. P. Chidamabram. It will be a multi-stage consumption tax to be imposed on wide range of goods and services. With the implementation of GST the government will surely be able to make the indirect tax regime more transparent and widen. The consumers shall also be equally benefited by availing the goods and services at lower prices as the cascading effect will be eliminated under proposed GST. The manufacturers and intermediate sellers shall also get relief from handling hazards of multiple indirect taxes. Cost of tax collection will be reduced due to merging of existing different indirect taxes into proposed GST. The revenue of both Central Government and State Governments shall be increased in the long run. Initial loss of revenue to States will be compensated by the Centre. The only hurdles to cross over in implementation of GST at the earliest is the disagreement of some of the States to implement it from 01-04-2015 after necessary constitutional amendments. Hopefully, the Union Finance Minister along with the Chairman of the 'empowered committee' will be able to convince all other States' finance ministers, to arrive at a desirable consensus.

This paper further focuses on the key features of the GST to be implemented in India. This paper also discusses the need and benefits of such initiative in the growing and maturing Indian economy and the need of such initiatives for the growth and development.

Key Words : Goods and Service Tax(GST), Indirect Taxes, Multiple Taxes, central sales tax (CST), State Sales Tax/ Value Added Tax (VAT), Service Tax, Turnover Tax, Entry Tax

INTRODUCTION

GST or 'Goods and Services Tax' has been proposed in Union Budget for the year 2006-2007 to replace existing indirect tax regime. GST, if implemented, will replace most of the existing indirect taxes. As of now, more than 120 countries of the world have implemented GST to minimise the complexity of multiple taxes. Considering the fact of globalisation and complexity of existing multiplicity of indirect taxes, the Government of India has proposed to introduce GST. As proposed, it shall be levied or charged at the point of sale of goods and services by replacing existing indirect taxes, i.e., Central Sales Tax (CST), State Sales Tax/ Value Added Tax (VAT), Turnover Tax, Entry Tax, etc. including Service Tax. Hence, it will actually be a multi-based consumption tax imposed on wide range of goods and services, which shall have to be ultimately borne by final consumers. The seller of goods or service provider shall be able to claim input credit as is being claimed in existing VAT.

OBJECTIVES OF THE STUDY

1.The primary goal of this study is to examine how the implementation of Goods & Service Tax in India is in the interest of various stakeholders for accelerating Indian Economy.
2.The secondary objectives are
a.To study GST as a Broad-Based Comprehensive Indirect Tax.
b.To study in brief the characteristics of GST that is being observed in some countries.
c.To create awareness amongst various stakeholders regarding Implementation Of GST

LIMITATION:

This is a conceptual study. It is supported more by facts than by numerical data. The study is further limited to the discussion of the possibilities of implementation of Goods and Service Tax in India for the International Competitiveness.

HYPOTHESIS

The implementation of GST will be in favour of free flow of trade and commerce throughout the country.

METHODOLOGY

This study is based on secondary data's. The information has been collected from books, journals, magazines, newspaper and websites.

STATEMENT AND SIGNIFICANCE

GST as a Broad-Based Comprehensive Indirect Tax

MODVAT was implemented in India with effect from 01-03-1986 on elective goods and gradually it had been extended to all commodities in the name of Cenvat from April 2002. Services were also included with Cenvat from 2004-2005.

By replacing Sales Tax, Value Added Tax (VAT) was introduced in the States from 01-04-2005. At present custom duty and additional duty in lieu of excise duty and VAT are levied on import of goods, central excise is being levied on manufacturing goods, VAT is charged on sale of goods within the states, CST on inter-state sale of goods and service tax on prescribed services are being charged. Hence, the proposed GST will be a broad-based comprehensive indirect tax.

BRIEF CHARACTERISTICS OF GST PRESENTLY BEING OBSERVED IN SOME COUNTRIES

GST in France: France was the first country to introduce GST in 1954.
GST in Canada: Tax is designed and collected by the Federal Government; the Provinces are empowered to vary tax rates for the respective Provinces. Here combined Federal and Provincial rate is 13%, allocated as 5% for Federal and 8% for respective Provinces. The seller acts as an agent of the Government to collect tax on behalf of the Government. The tax revenue is shared among the participating Provinces on the basis of consumer expenditure data for the Provinces.
GST in China: Centralised GST system is observed here. However, the revenue is shared between the Federal Government and concerned Provinces.
GST in USA: Here the GST is levied only by the states and thus there is no dependence on the centre.
GST in Australia: Here both the Federal Government and States are empowered to levy tax on sale of goods or on rendering of services. Each Province is entitled to collect tax for sale in its Province only. The Federal Government does not levy tax on State property.
GST in Germany: The tax is designed and controlled by the Federal Government. However, the States are entitled to collect tax.
GST in New Zealand: Here also GST is framed by the Centre and the States are entitled to collect tax from the consumers and buyers. Initially GST was introduced @10% with a base consisting of almost all goods and services.
GST in Austria: Here tax is designed and controlled by the Centre and the States collect the tax. Hence, the basic structure of GST is more or less same in most of the implemented countries. The incidences of levy

of tax are purely on consumption basis and accordingly there is a system of availing input credit for intermediary parties.

PROPOSED OPERATING SYSTEM OF GST IN INDIA

The basic purpose of introducing GST is to eliminate the cascading effect of all indirect taxes in valuation of goods and services. The cascading effect of Cenvat and service tax would be removed with comprehensive set-off relief. If buyer is a registered dealer he/she will be allowed to avail input credit for the tax already paid by him/her to his/her seller or service provider subject to holding of proper tax invoice. The 'input tax-credit' can be set-off only against tax payable by the dealer to the Government. The registered dealer under GST shall collect tax as collection agent of government from the customers. Unregistered dealer shall not be allowed to avail input credit. All taxable goods and services shall be brought under GST umbrella.

An empowered committee has been formed under 13th Finance Commission for the purpose of smoothly implementing GST in India. The initial propositions of the committee are given below:

1) The Union and States will levy tax on sale of goods or provision of services concurrently on common and identical base.

2) It will be structured on destination principle by shifting the tax base from production to consumption. Accordingly, out of export and import transaction only import goods and services shall be within the purview of GST. In case of inter-state sale GST shall be levied in the state where the final consumption will take place.

3) GST will be levied on invoice credit method.

4) Tax shall be levied on all goods and services excluding items like unprocessed food items, education services, health care etc.

5) Organizations having turn over more than 10 lakh per annum shall have to register themselves under the concerned Act.

6) GST will replace all existing indirect taxes including service tax.

Initially the government proposes three rates namely, 20% for goods, 16% for services and 10% for essential items under GST.

INITIATIVES TOWARDS IMPLEMENTATION

The optimistic Union Finance Minister believes to double the size of India's economy within a short span of time. By the implementation of GST, India will be able to promote exports, raise employment, boost growth and thereby it will be able to gain yearly $15 billion as estimated by the experts. The revenue from GST shall be shared equally between the centre and states; implying that out of 20% tax proposed for goods, 10% would go to the Centre and balance 10% would go to the State concerned. Similarly revenue from services and essential items shall also be shared equally. The peak effective rate will be about 15%, which is quite acceptable to the trade and industry. A joint working group has been formed comprising officials of finance and other concerned ministries at the Centre and finance secretaries or commissioners of commercial taxes at the State level to decide on the framework for the constitutional amendment and model legislation on GST for the Centre and States in time bound manner. The Centre has decided to review the existing exemptions from central excise duty so that list of goods exempt from Central Goods and Services Tax (CGST) is aligned to the State Goods and Services Tax (SGST) list and the 99 items exempted from VAT are taken off from both the components of GST. Presently VAT on bulk items in different States ranges between 8% and 20% and both the service tax and excise duty attract a rate of 10%. Union Finance Minister said that the effort should be given to make the transition to GST 'smooth and painless' and thus proposed to adopt a single rate structure with a communication of rate for goods and services in a phased manner over three years.

CGST and SGST shall be treated separately. The payment of CGST shall be allowed to be taken as input credit and will only be utilised against CGST payment on that particulargoods and services. As far as SGST is concerned same rule will be followed; i.e., cross utilisation of input credit shall not be allowed between CGST and SGST. The Union and States shall have concurrent jurisdiction for entire value chain and for all tax payers based on the thresholds for goods and services prescribed for the Centre and the States.

In the second year depending upon the revenue receipts by the Centre and the States the standard rate may be reduced to 9% and in the third year, the standard rate could be further reduced to 8%, while raising the concessional rate on goods to 8% and retaining The rate on services at 8%. The Centre has also decided to fully compensate the States for their revenue losses on account of CST losses. The Centre has assured the states compensation for submitting purchase tax on food grains in GST will be considered along with VAT compensation for the next four years. The union Finance Minister urged for a consensus to uniform threshold of 10 lakh for both the goods and services under the CGST and also SGST.

The introduction of GST has already been delayed by a year and a half mainly due to differences amongst the Centre and States. The introduction of GST will need constitutional amendment, which is required to be passed with two-third majority in both the houses of parliament and ratification by a simple majority by at least Half of states assemblies. Accordingly, the support of all chief ministers is extremely crucial for such radical reform of indirect taxes.

CONCLUSION

It is encouraging that when GST was introduced in New Zealand in 1987, it resulted in 45% higher revenue than expected, mainly due to improved compliance.

Additionally, with such radical reforms of indirect taxes, tax burden due to cascading effect will be eliminated; the efficiency in tax administration will be improved; indirect tax revenue will be increased considerably due to inclusion of more goods and services; the cost of compliance will be reduced for the dealers. The implementation of GST will be in favour of free flow of trade and commerce throughout the country. This single most important tax reform initiative by the Government of India since independence will provide a significant fillip to the investment and growth of the country's economy. However, to get the desired result it should be assured that the benefit of input credit is ultimately enjoyed by final consumers. The concerned tax administering authority should look into the matter for final consumers' interest and at the same time, the authority should ensure that the intermediate sellers would not suffer from availing genuine input credit within the shortest possible time.

In conclusions, introduction of GST is a dire need for the multinational companies as most of the countries have already implemented GST. Hence, in spite of several hurdles there is hope of implementing flawless GST from 01-04-2015. As GST is transaction-based, even if the deadline is missed, it may be implemented any time in next fiscal year. The implementation of GST will be in favour of free flow of trade and commerce throughout the country.

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