

Goods and Service Tax (GST) – A Welcome Step to Tax Reform

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Abstract

As Goods and Service Tax is likely to be imposed from 1st April, 2016, in this article an attempt has been made for the change. GST is the requirement of current economy of India. By GST application there will be a single indirect tax rate, single authority, uniform structure. In this article I have tried the compilations of pros and cons of GST. There will be a dual GST structure and Credit of each is available with certain conditions. So as per analysis, GST will improve efficiency, uniformity and administration of Indirect taxation of India.

Introduction

We come across many who praise tax laws of foreign nations and find them flawless. That is far from truth. There is no country on the globe where are no revenue leakages or tax evasions or tax frauds. No taxation system in the entire world is perfect. There is always a scope for improvement and amendment. In India, the Indirect tax is being imposed by the Centre as well as by the states. Both have multiple kinds of taxes. Indirect taxes like Central Excise and Salt Act, 1944, almost 71 years. Sales tax is being levied by some states also prior independence. The Bombay Province and Madras State Government were the first States, which imposed the sales tax in India in the year 1938-39 vide the Bombay Tobacco Act, 1938 and Madras General Sales Tax Act, 1939 respectively. Most of the taxation systems have been there since decades. The youngest among the lot is fastest growing – the service tax.

India has not seen a Major tax reform since independence. There is an urgent need for a Major Tax Reform. The Indirect tax system prevalent globally is the Goods and Service Tax, popularly known as GST. More than 160 countries have adopted this system in one form or the other. India needs to follow the suit. We need a taxation system which is as per our requirements, as Indianized GST. Shri Arun Jaitely, the present Union Finance Minister announced that GST will be a reality and will be implemented from 1st April, 2016 is expected to play a transformative role in the way of our economy functions.

Taxes which will be subsumed in GST :

Central Excise duty

Service Tax

Central sales Tax

Value Added Tax

Entertainment Tax

Taxes on lotteries, Betting and Gambling in India

Entry Tax

Additional Duties of Customs (CVD)

Special Additional Duty of Customs (SAD)

Duties of Excise (Medicinal and Toilet preparations)

Additional Duties of Excise (Textiles and Textile Articles)

Additional Duties of Excise (Goods of Special Importance)

Purchase tax

Luxury tax

State cess and surcharge

Education cess and Secondary and Higher Education cess

Framework

There are three possible framework for levying GST :

1. CGST – Governed by Centre
2. SGST – Governed by State
3. Dual GST – Governed by both

CGST – Central Goods and Service Tax

National CGST levied by Centre. It has the following possible benefits:

- It will promote a common market across nation.
- It will replace all State's taxing statutes.
- It will Ideal structure from business perspective.
- Goods will move freely across nation without any

hindrance.

- If it will be levied on a comprehensive base at a single rate, it would clear the system of virtually all economic distortions.
- Businesses will have to deal with only one tax authority.
- The compliance costs would reduce to great extent.
- Excellent from consumer perspective.

SGST – State Goods and Service Tax

In this framework States alone levy the tax. The centre does not play any role in levy of Indirect taxes except customs. SGST is for increase the revenue capacity of the States and significantly reduce their dependence on the Centre.

GOODS & SERVICES TAX (GST)	
TRANSACTIONS WITHIN STATE	
State GST (SGST)	Central GST (CGST)
Levied by State	Levied by Centre
Implemented through multiple statutes of respective states	Implemented through single statutes
Paid to account of State Government	Paid to account of Central Government
INTER-STATE TRANSACTIONS	
Integrated GST (IGST)	Levied by Centre
Implemented through single statutes	Paid to account of Central Government
IGST = SGST + CGST	
Separate Provision for Consignment Transactions	Separate Provision for Stock Transfers

Credit under GST

Output tax	Input credit	Whether credit will available
IGST	SGST	Yes
IGST	CGST	Yes
IGST	IGST	Yes
SGST	SGST	Yes
CGST	CGST	Yes
CGST	SGST	No
CGST	IGST	No
SGST	CGST	No
SGST	IGST	No

Composition Scheme

The States are also of the view that Composition/Compounding Scheme for the purpose of GST should have an upper ceiling on gross annual turnover and a floor tax rate with respect to gross annual turnover. In particular, there would be a compounding cut-off at Rs. 50 lakh of gross annual turnover and a floor rate of 0.5% across the States. The scheme would also allow option for GST registration for dealers with turnover below the compounding cut-off.

Returns of GST

The taxpayer would need to submit periodical returns, in common format as far as possible, to both the Central GST authority and to the concerned State GST authorities.

PAN Based GST number.

Each taxpayer would be allotted a PAN-linked taxpayer identification number with a total of 13/15 digits. This would bring the GST PAN-linked system in line with the prevailing PAN based system for Income tax, facilitating data exchange and taxpayer compliance.

GST on Imports & Exports.

Exports

Exports would be zero-rated. Similar benefits may be given to Special Economic Zones (SEZs). However, such benefits will only be allowed to the processing zones of the SEZs. No benefit to the sales from an SEZ to Domestic Tariff Area (DTA) will be allowed.

Imports

The GST will be levied on imports with necessary Constitutional Amendments. Both CGST and SGST will be levied on import of goods and services into the country. The incidence of tax will follow the destination principle and the tax revenue in case of SGST will accrue to the State where the imported goods and services are consumed. Full and complete set-off will be available on the GST paid on import on goods and services.

Disappointing Issues :

- Rates of GST is nowhere even discussed, than how could industry analyze the paper & provide suggestions.
- Much has been talked about Goods, however there were very few sections for Services, which is major source of revenue to central govt. it seems paper are issued only to make states more comfortable for adopting GST.
- State governments will still tax certain items, & some taxes still levied by state governments, so basic idea of uniform GST across India is diluted.
- No transitional provisions were discussed in this white papers. Many questions, like how stock as on date of transition would be treated? What will happen to VAT/CENVAT credit lying as on date of transition? How state & central departments would merge? What will be the fate of employees of State & central offices of related departments? etc remained untouched.
- Key sectors such as real estate, power, insurance etc. were not discussed at all. Though composition schemes have been discussed, however no reference been made to works contract, stamp duty. Etc., which is directly related with real estate sector.
- Service which were earlier taxed under central act only seems to be taxed at dual rate now, Also it will now be governed by multiples statutes, though dealers will get credit of tax on input however it will make services costlier for the consumers.

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