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THE GOODS AND SERVICES TAX (GST) IN INDIA:
CONCEPTUAL FRAMEWORK AND CHALLENGES

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ABSTRACT

Indirect tax is considered to be a major source of income for both state and central Govt.in India and all over the world. With time it was felt that there are taxes on every stage or multiple stage taxes which have been removed by introducing the VAT but again it felt by many countries that there are problems with VAT due to separate functioning of state and central govt. hence many countries adopted Goods and Service Tax (GST) as a single indirect tax which too without difference at state to state level. Another benefit of GST is that it summed up a number of types of indirect taxes which solves the administrative difficulties of various tax handling. The GST is successfully adopted by many countries of the world has been adopted by India with the same mindset. This paper discusses the conceptual framework of GST in India and its implications.

KEYWORDS*: Goods and Services Tax (GST), Goods, Services, VAT, Tax Rate, Input Tax Credit.*

Introduction

"Goods and Services Tax" would be a comprehensive indirect tax on production sale and consumption of goods and services all over India, to **replace** taxes levied by the Central and State governments separately. Goods and services tax which is levied and collected at every stage of sale or purchase of goods or services and followed by input tax credit scheme. This method allows GST-registered businesses to claim tax credit to the value of GST that they already had paid while purchasing of goods or services as part of their raw materials or products or services in their normal trade activity. Taxable goods and services are not separable from one another and in this; tax is levied at single time in supply chin till the product finally reaches to customers. The responsibility to levy taxes and collection of taxes is confined to single authority Exports would be taken on account of zero-rated and imports would be levied on the same principle as in the case of taxes as domestic goods and services.

Present System of Indirect Taxes

Table1: Present System of Indirect Taxes

Central Indirect Taxes & Levies	Central Excise Duty
	Additional Excise Duties
	Excise Duty levied under the Medicinal Preparations (Excise Duties) Act, 1955
	Service Tax
	Additional Customs Duty (CVD) Special Additional Duty of Customs
	Central Surcharge and Cess
State Indirect Taxes & Levies	VAT / Sales Tax
	Entertainment tax (other than the tax levied by local bodies)
	Central Sales Tax
	Octroi and Entry Tax
	Purchase Tax
	Luxury Tax
	Taxes on Lottery
	Betting and Gambling
	State Cesses and Surcharges

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Drawbacks of Current Indirect Tax System

- The input credit mechanism for vat is available to set off against vat only ,it cannot be applied to take set off against excise/ service tax and vice versa
- VAT is calculated on a value which already includes taxes like excise duty and no cenvat credit is available so tax on tax is there.
- Excise duty and service tax are levied by the Central Government, but VAT was levied and collected by State Govt and there was a conflict between the state and central Govt. utilisation of tax revenues.
- VAT was levied by the State Government, which is one of the reasons why such a cross-utilisation of credits was not allowed.
- The earlier system of indirect taxes was complicated because it includes multiple taxes like CENVAT, State Level VAT, Octroi, Entertainment Tax, Various surcharges etc) and at multiple rates.
- Due to this national market is not stable as prices of goods and services differentiates in all states Besides specific exemptions, rates, cesses, etc make it more complicated
- Several of these taxes are not based on advalorem basis due to which prices of goods and services increases. Since the cost of goods is higher, it affects the economy of nation
- Due to heavy taxes exports get a high impact on it

Literature Review

Girish Garg, (2014) Studied "Basic Concepts and Features of Good and Service Tax in India", and found that GST is very appropriate step in Indian taxation system after independence. GST will create a single, unified Indian market to make the economy stronger. Many of tax experts are of the view point that GST will boost the Indian economy and more taxes will be collected as barriers between States and integrating India through a uniform tax rate will be established. Under GST, the taxation burden will be reduced to some extent by increasing the tax base and minimizing exemptions.

Dr. R. Vasanthagopal, (2011) Studied "GST in India: A Big Leap in the Indirect Taxation System", and found that where the economy is free from interests of stakeholders and the good effects and positive results are based on the system of national political commitment. GST is a good step towards the growth of Indian economy as it is already proven as success in 140 countries and it has been first choice of Asia Pacific region.

Objectives of the Study

The study has the following objectives:

- To know the concept of Goods and Services Tax in India;
- To know the relative advantages of GST
- To discuss the salient features of GST
- To discuss the relative issues and challenges of GST.

Research Methodology

The research paper is of exploratory nature and the main source of the data and information used are of secondary nature which has been collected through various reliable sources like referred journals, Govt. of India Publications as well as authentic websites.

The Goods and Service Tax (GST) in India

- **Significance of GST**
  - As India is a country where indirect tax system is shared by both central and state govt so GST will be shared by both central and state govts.
  - Merger of central and state taxes into one taxation will eliminate the double tax
  - It is simplified system so it will be easier for administration to enforce and implement GST
  - The reduction in terms of overall tax which is approximately reduction of 25% - 30% will give benefit to customers.

Table 2: GST: A Chronology

2006-07	Proposal for GST in the Budget Speech and negotiation with various states started
2008	Constitution of the Empowered committee of state finance ministers (EC)
2009	Empowered committee of state finance ministers (EC) released its First Discussion Paper
2011	Constitution of Amendment Bill on GST
August 2013	Parliamentary Standing Committee submits its report; recommendations of Standing Committee incorporated in the bill
Sept. 2013	Revised bill sent to EC for consideration
March 2014	Incorporating recommendations of EC another revised bill sent to EC
Dec. 2014	Constitution Amendment Bill introduced in the Lok Sabha
May 2015	LS passes Constitution Amendment Bill for GST
August 2015	Congress insists on capping GST rate at 18% and specified in the Constitution Amendment Bill
July 2016	Centre and states agree against capping GST rate in the Constitution Amendment Bill
August 2016	Bill passed in Rajya Sabha.

Difference Between GST and VAT

Earlier we had Value-Added Tax (VAT) systems both at the central and state levels. But the central VAT or CENVAT gives the set offs only against central excise duty and service tax paid up to the level of production even manufacturers cannot claim set-off against other central taxes such as additional excise duty and surcharge.

VAT is levied on state sales. Sellers can claim credit only against VAT paid on previous purchases. The VAT also does not include set off against luxury and entertainment tax, octroi, etc.

After the implementation of GST, all taxes will be categorised into two taxes a central GST and a state GST therefore it is ensured that this new tax system is complete, comprehensive and continuous mechanism of tax credits. Under GST, there will be tax only on value addition at each stage, with the producer/seller at every stage able to set off his taxes against the central/state GST paid on his purchases. The end-consumer will bear only the GST charged by the last dealer in the supply chain.

Scope of GST

õ GST is levied on the supply of goods or services in India

õ Alcoholic liquor is exempted from GST.

õ Initially, GST will not be applied to: (a) petroleum crude, (b) high speed diesel, (c) motor spirit (petrol), (d) natural gas, and (e) aviation turbine fuel.

õ Tobacco and tobacco products will be included under GST.

Dual GST Model

- **For Intra State Transactions:** In case of Intra State transactions, Seller takes away both CGST & SGST taxes and it is the responsibility of seller to deposit CGST to Central Govt. and SGST with State Govt.
- **For Inter State Transactions:** Integrated Goods and Service Tax (IGST) is levied on transactions of goods and services on the basis of **destination principle.** Tax will get transferred to Importing state. It is also proposed to levy an additional tax on **supply of goods** but not exceeding one percent, in the course of inter-state trade or commerce and it will be collected by the Central Govt. for a period of **two years**, and will distribute to the States where the supply originates. Exports and Supplies to SEZ units will be charged as zero rated sales.

Table 3: New Indirect Tax V/s Old Indirect Tax

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

Salient Features of the GST Bill

- A new **Article 246A** is introduced which deals with the powers of Union and State legislatures to legislate on GST.
- A new **Article 279A** is also proposed for the establishment of Goods & Services Tax Council (**GST Council**) which will work as joint forum of the Centre and the States.
- The Centre will levy and collect the Integrated Goods and Services Tax (**IGST**) on all inter-State transactions and collected tax will be distributed among Centre and State Govt. on the recommendations of the GST Council.
- There is a provision for the **states that if there is** any loss of revenue to any state due to implementation of GST will be compensated up to a period of five years.
- The bill proposes an **additional tax** not exceeding 1% on all inter-state trade in goods, to be levied and collected by the Centre so that it can compensate the states for two years, or at the rate as recommended by the GST Council.
- The GST Council shall make recommendations on:
  - Taxes to be subsumed
  - Exemptions
  - Model GST laws, Principles of Levy, etc.
  - Threshold for exemption
  - Rates, including floor and bands
  - Special rate/rates for specified period
  - Date from which GST to be levied on crude, high speed diesel, natural gas, aviation turbine fuel and petrol
  - Special provisions for the Northeast, J&K, etc.

Salient Features of GST in India

- The GST consists of two components of taxes: One is levied by the Central Govt and known as Central GST, and the other is levied by the States known as State GST.
- The basic principles of GST law will be same in whole of nation.
- The Central GST and the State GST will be applicable to all transactions of goods and services made for a consideration except the exempted goods and services, and the goods and services which are kept outside the scope of GST and the transactions which are below the prescribed limits.
- The Central GST and State GST are to be paid to the accounts of the Centre and the States separately.
- As the Central GST and State GST are to be treated separately so taxes paid against the Central GST will be allowed to be taken as input tax credit (ITC) for the Central GST and can be set off only against the payment of Central GST.
- Cross utilization of ITC between the Central GST and the State GST is restricted only to inter-State supply of goods and services under the IGST model.
- The administration of the Central GST to the Centre and for State GST to the States will work separately but for control over the threshold limits both centre and state will wort jointly.
- A uniform State GST limit of gross annual turnover of Rs.10 lakh both for goods and services for all the States and Union Territories has been adopted with adequate compensation for the States where lower threshold already had been prevailed in the VAT regime.
- There will be a compounding cut-off at Rs. 50 lakh of gross annual turnover and a floor rate of 0.5% across the States.
- The taxpayer has to submit periodical returns, in common format as far as possible, to both the Central GST authority and to the concerned State GST authorities.
- Each taxpayer would be allotted a PAN-linked taxpayer identification number with a total of 13/15 digits.
- GST is applicable on supply of goods or services as against the present concept of tax on the manufacture or on sale of goods or on provision of services.
- GST is a destination based tax as against the present concept of origin based tax. i.e, tax is imposed at the point of consumption.

Central taxes now	Central taxes after GST
Central excise duty	
Additional excise duty	
Additional customs duty	
Special additional customs duty	Central GST
Countervailing duty	
Service tax	
Cesses and surcharges	

State taxes now	State taxes after GST
VAT/sales tax	
Tax on interstate sales	
Local taxes	
Entertainment tax	
Purchase tax	State GST
Mandi tax/other state-specific local levies	
Luxury tax	
Tax on lottery and betting	
Octroi/entry tax	

What About Tax Rates

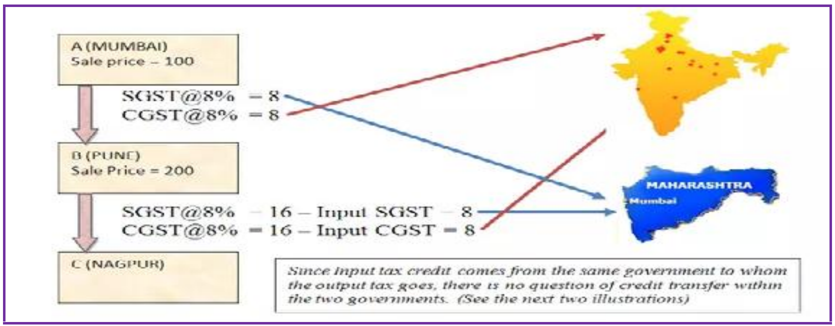
- It will be about 12-18%.
- It is also recommended that there should be three categories of some essential goods at 12% and goods at higher rate at 40% and others remaining at 17-18%
- The panel also suggested a GST rate of 18-19% in case of a single GST rate—that is all goods are taxed at the same rate.

How GST Operates

- **Case 1: Sale in one state, resale in the same state**

Suppose goods are moving from Mumbai to Pune. Since it is a sale within a state, CGST and SGST will be levied. Further the same goods are resold from Pune to Nagpur. This is again a sale within a state, so CGST and SGST will be levied. As the sale price increase due to GST the further GST increases. Table-4 explains the mechanism of the SGST input and CGST input.

Table 4: Sale in One State, Resale in the Same State

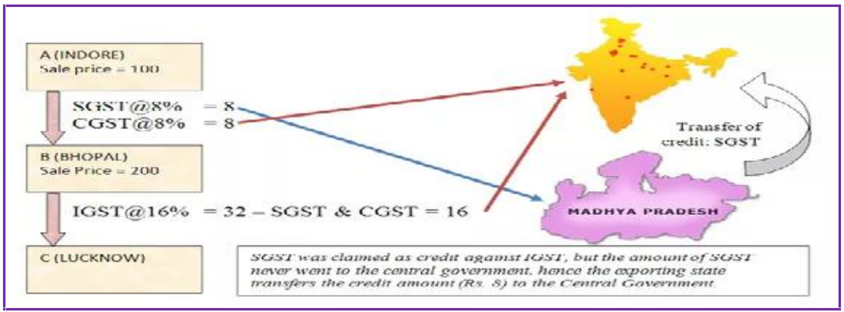


- **Case 2: Sale in one state, resale in another state**

Suppose goods are moving from Indore to Bhopal. Since it is a sale within a state, CGST and SGST will be levied. Later the goods are resold from Bhopal to Lucknow (outside the state). Therefore, IGST will be levied. Whole IGST will go to the central government.

Though the SGST don't go to the central Govt. but still credit will be claimed by the tax payer and in this case the loss to the central Govt. will be compensated by the State Govt. to the Central Govt.

Table 5: Sale in One State, Resale in another State

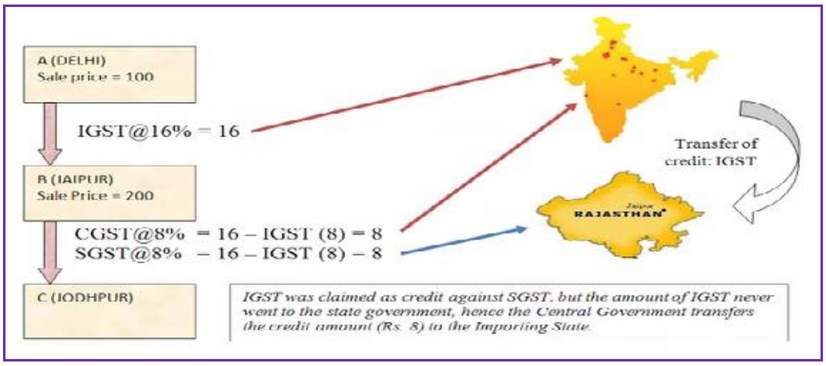


- **Case 3: Sale outside the state, resale in that state**

Now suppose goods are sold from Delhi to Jaipur. Since it is an interstate sale, IGST will be levied. Later the goods are resold from Jaipur to Jodhpur (within the state). Therefore, CGST and SGST will be levied.

The state Govt. will provide the tax credit against the IGST though the fact that IGST don't go to the State Govt.

Table 6: Sale Outside the State, Resale in that State



How to Adjust the Credit

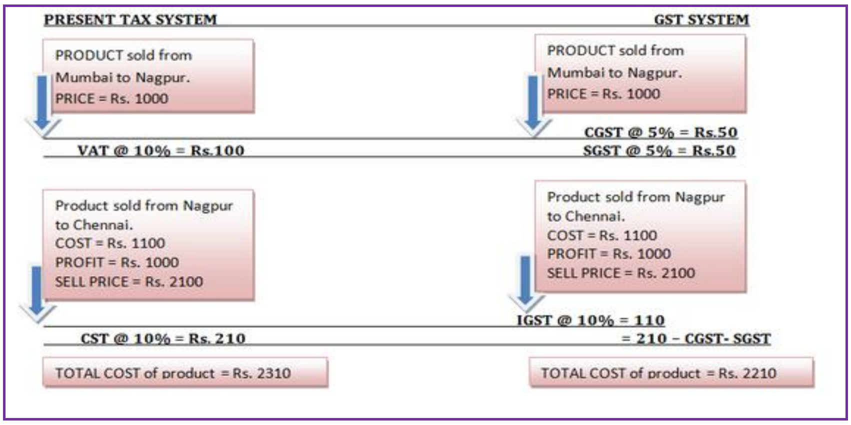
Setoff of IGST, CGST & SGST will be as follows in the below mentioned chronological order only.

Table 7: Adjustment of Tax Credit

Credit of	To be Adjusted with
IGST	1) IGST
	2) CGST
	3) SGST
CGST	1) CGST
	2) IGST
SGST	1) SGST
	2) IGST

Impact of GST Over Current Tax System

Table 8: Impact of GST over Current Tax System



In the above example, you can note that the tax paid on sale within state can be claim against tax paid on sale outside state in GST system, which is not in present tax system.

The credit of CGST cannot be taken against SGST and credit of SGST cannot be taken against CGST but both credits can be taken against IGST.

Advantages of GST

- Reduction in Prices as the cascading effect is eliminated and full credit is given to traders and manufactures.
- Increase in Government Revenues as it will reduce tax avoidance or evasion
- Less Compliance and Procedural Cost: The assesses are, not required to keep record of CGST, SGST and IGST separately so it will be less complicated.
- Move towards a Unified GST: Internationally, the GST is always preferred in a unified form. But India has adopted Dual GST looking into the federal structure; it is considered to be a good move towards a Unified GST in later times.
- GST would introduce uniform taxation laws across states and different sectors.
- It is easier to supply goods and services uniformly across the country, as no additional taxes would have to be paid across different states.
- It removed multiple taxation.
- If taxes goods and services at the same rates so many disputes are eliminated on tax matter.
- It reduces taxes on manufactures which will make them more competitive.
- Accounting will be simplified and consideration for input tax from raw materials will also become easy.
- It will boost to GDP by 1 to 1.5% annually.
- Automated and easy mechanism of tax credit.
- Statutory Forms like C-Form, F-Form etc will be eliminated.
- Easy movement of goods and services across state borders.
- Composite contracts for goods and services has become simpler.
- Local manufacturing would become cost competitive against the imported products

Disadvantages of GST

- Service sector businesses need to take state-wise registration for increased compliance
- Any supply (Ex: stock transfer, job-work) would be taxable (although fully creditable) leading to cash flows getting blocked
- Businesses operating in multiple states need to re-align their branch network / warehouse / logistics strategy
- Input credit is subject to matching of invoices
- A number of exemptions would be removed
- Sometimes it may be difficult to determine the 'Point of Supply'
- VAT and service tax on some products may become higher than the current levels of taxes on the same goods and services.
- Most developed economies use a single GST instead of a dual GST. Hence, it will be a very complicated billing for reconciliation
- The Tax on services gone up substantially from 14% to 20%
- Tax on retails has almost doubled.
- Tax rate on imported goods are increasing by 6%.
- There will be dual control on every business by Central and State Government. So compliance cost has been increased.
- All credit will be available through online connectivity with GST Network. Hence, small businesses may find it difficult to use the system

Challenges of GST

- For smooth functioning, it is important that the GST clearly sets out the **taxable event.**
- The GST is a ***destination based tax*,** not the origin one. Particularly it shall be difficult in case of services, because it is not easy to identify where a service is provided
- More awareness about GST and its softwares have to be made, and professionals really need to take the initiative to assume this responsibility.
- The additional 1% tax (non creditable) for sales to certain identified producing states for limited period should be withdrawn as it is against the basic premises of GST.
- It is difficult to decide the minimum threshold value beyond which the GST will be applicable

Conclusion

GST helped to eliminate various indirect taxes like excise duty, octroi, central sales tax (CST) and value added tax (VAT) etc. GST will facilitate to bring more efficiency and transparency in the indirect tax mechanism in India. GST has helped to achieve the unbiased tax structure which is neutral to business processes and geographical locations. There are certain difficulty facing by the small vendors and service providers which will be improved with pace of time and by becoming techno savvy. It can be expected that GST show its actual results within two to three years of time period.

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