

Overview of Goods And Services Tax (GST)

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The Biggest Indirect Tax Reform



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Introduction

Introduction of GST would be a very significant step in the field of indirect tax reforms in India. By amalgamating a large number of Central and State taxes into a single tax and allowing set-off of prior-stage taxes, it would mitigate the ill effects of cascading and pave the way for a common national market. For the consumers, the biggest gain would be in terms of a reduction in the overall tax burden on goods, which is currently estimated at 25%-30%. Introduction of GST would also make our products competitive in the domestic and international markets. Studies show that this would instantly spur economic growth. There may also be revenue gain for the Centre and the States due to widening of the tax base, increase in trade volumes and improved tax compliance. Last but not the least, this tax, because of its transparent character, would be easier to administer.

Destination Principle

It is a destination based tax on consumption of goods and services. It is proposed to be levied at all stages right from manufacture up to final consumption with credit of taxes paid at previous stages available as setoff. In a nutshell, only value addition will be taxed and burden of tax is to be borne by the final consumer. The tax would accrue to the taxing authority which has jurisdiction over the place of consumption

Abolishment of Existing Taxes

The GST would replace the following taxes:

(i) taxes currently levied and collected by the Centre:

- a. Central Excise duty
- b. Duties of Excise (Medicinal and Toilet Preparations)
- c. Additional Duties of Excise (Goods of Special Importance)
- d. Additional Duties of Excise (Textiles and Textile Products)
- e. Additional Duties of Customs (commonly known as CVD)
- f. Special Additional Duty of Customs (SAD)
- g. Service Tax
- h. Central Surcharges and Cesses so far as they relate to supply of goods and services

(ii) State taxes that would be subsumed under the GST are:

- a. State VAT
- b. Central Sales Tax
- c. Luxury Tax
- d. Entry Tax (all forms)
- e. Entertainment and Amusement Tax (except when levied by the local bodies)
- f. Taxes on advertisements
- g. Purchase Tax



- h. Taxes on lotteries, betting and gambling
- i. State Surcharges and Cesses so far as they relate to supply of goods and services

Commodities proposed to be kept outside the purview of GST



Alcohol for human consumption, Petroleum Products viz. petroleum crude, motor spirit (petrol), high speed diesel, natural gas and aviation turbine fuel & Electricity are the commodities proposed to be kept outside the purview of GST. The existing taxation system (VAT & Central Excise) will continue in respect of the above commodities.

What about Tobacco?

Tobacco and tobacco products would be subject to GST. In addition, the Centre would have the power to levy Central Excise duty on these products.

Dual GST

India is a federal country where both the Centre and the States have been assigned the powers to levy and collect taxes through appropriate legislation. A dual GST will, therefore, be in keeping with the Constitutional requirement of fiscal federalism.

Proposed GST

As mentioned above, it would be a dual GST with the Centre and States simultaneously levying it on a common tax base. The GST to be levied by the Centre on intra-State supply of goods and / or services would be called the Central GST (CGST) and that to be levied by the States would be called the State GST (SGST). Similarly Integrated GST (IGST) will be levied and administered by Centre on every inter-state supply of goods and services. Centre will levy and administer CGST & IGST while respective states will levy and administer SGST.

Goods and Services would be taxed simultaneously under CGST and SGST

The Central GST and the State GST would be levied simultaneously on every transaction of supply of goods and services both would be levied on the same price or value unlike State VAT which is levied on the value of the goods inclusive of CENVAT. While the location of the supplier and the recipient within the country is immaterial for the purpose of CGST, SGST would be chargeable only when the supplier and the recipient are both located within the State.

Illustration: Suppose that the rate of CGST is 10% and that of SGST is 10%. When a wholesale dealer of steel in Uttar Pradesh supplies steel bars and rods to a construction company which is also located within the same State for, say Rs. 100, the dealer would charge

CGST of Rs. 10 and SGST of Rs. 10 in addition to the basic price of the goods. He would be required to deposit the CGST component into a Central Government account while the SGST portion into the account of the concerned State Government. Of course, he need not actually pay Rs. 20 (Rs. 10 + Rs. 10) in cash as he would be entitled to set-off this liability against the CGST or SGST paid on his purchases (say, inputs). But for paying CGST he would be allowed to use only the credit of CGST paid on his purchases while for SGST he can utilize the credit of SGST alone. In other words, CGST credit cannot, in general, be used for payment of SGST. Nor can SGST credit be used for payment of CGST.

Rates of GST

The CGST and SGST would be levied at rates to be jointly decided by the Centre and States. The rates would be notified on the recommendations of the GST Council.

Threshold limit under GST



Under the GST regime, tax is payable by the taxable person on the supply of goods and/or services. Liability to pay tax arises when the taxable person crosses the threshold exemption, i.e. Rs.10 lakhs (Rs. 5 lakhs for NE States) except in certain specified cases where the taxable person is liable to pay GST even though he has not crossed the threshold limit. The CGST / SGST is payable on all intra-State supply of goods and/or services and IGST is payable on all inter- State supply of goods and/or services. The CGST /SGST andIGST are payable at the rates specified in the Schedules to the respective Acts.



Import and Export of Goods under GST

Imports of Goods and Services will be treated as inter-state supplies and IGST 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.

Exports of Goods and Services will be treated as zero rated supplies. No tax will be payable on exports of goods or services, however credit of input tax credit will be available and same will be available as refund to the exporters.