



# REVOLUTION IN INDIAN TAX SYSTEM GOODS AND SERVICE TAX

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## ABSTRACT

The Goods and Service Tax (GST) is expected to change the whole scenario of current in Indian Indirect Tax system. GST will merge all Indirect Taxes under an umbrella and will help in creation of smooth market. GST will help in economic growth of the country. Goods and Service tax will assist in better conformity and revenue resilience. It will reduce tax burden on consumers. There is no doubt that GST is aimed at increasing the taxpayer base by bringing SMEs and the unorganized sector under its purview. This will make the Indian market more competitive than before and create a level playing field between large & small enterprises. It is estimated that GST will help in creation of single, uniform market that will benefit both corporate sector and the Indian economy. Both the State and the Central Government will levy GST on almost all goods and services produced in India or imported into the country.

**KEY WORDS:** Goods and Service Tax (GST), VAT, Tax reform.

## I. INTRODUCTION:

Value Added Tax (VAT) was introduced in India in the year 2005. Goods and Service Tax (GST) is the logical conclusion of the successful introduction and implementation of Value added Tax in India. First it was referred in 2006 in the Budget speech of the Finance Minister that GST will be introduced in India from 1<sup>st</sup> April 2010 but later for one or other reasons it was postponed from year to year and it is evident from this delay that it is not easy for the lawmakers to introduce GST in our country and now since 2016 is declared as GST introduction year, but finally 2017 deadline is met.

The GST Constitutional (122<sup>nd</sup> Amendment) Bill 2014 became GST Constitutional (101<sup>st</sup> Amendment) Act 2016 when the president assented the provisions of bill on 8<sup>th</sup> September 2016. GST Constitutional (101<sup>st</sup> Amendment) Act 2016 contains the provisions which are necessary for the implementation of GST Regime. The present amendments would subsume a number of indirect taxes presently being levied by Central and State Governments into GST thereby doing away the cascading of taxes and providing a common national market for Goods and Services. The aim to bring about these amendments in the Constitution is to confer simultaneous power on Parliament and State legislatures to make laws for levying GST simultaneously on every transaction of supply and Goods and Services.

The GST is a Value Added Tax (VAT) and is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. It will replace all indirect taxes levied on goods and services by the IGST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage.

## II. NEED FOR GST IN INDIA

Presently Central Government is charging Central Excise Duty at the point of removable of goods from the place of manufacture. Service Tax is charged on the services on the date of the services provided. The State Value Added Tax is chargeable at the time of sale of goods irrespective of receipts of payment against such sale. The introduction of GST will bring in uniformity in the introduction of taxes. GST will be chargeable for each transaction like sale of goods, incorporation of goods in individual contract, hiring a taxi, lease of premises, consultation charges, import and export of goods, rendering of services or transfer of immovable property. Since the GST is chargeable in each transaction, it may be called as transaction tax. It would be levied at every production and distribution with the eligibility to claim set-off on procurement of goods and services.

Under present VAT system, an input tax set-off is given for purchases made only within the State. For example under Goa VAT Act, the dealer can claim the Input Tax Credits towards Out Put tax if the goods are purchased only from Goa. If the goods purchased from outside Goa the dealer cannot claim the Input Tax Credit. Under the State level VAT scheme, CENVAT load on goods has not been removed and cascading effect of that part of tax burden still remains. Further the burden of CST on purchase of inter-state goods which has been reduced from four percent to two percent has not been fully phased out. If the GST introduced, it will abolish the interpretational problems such as whether a particular transaction is a transaction of transfer of goods or services, applicability of State or Central levy or applicability of particular rate and other issues.

GST is a comprehensive Value Added Tax for almost all goods and services which will subsume most of the indirect taxes existing at the level of state and federal governments. Central Taxes to be subsumed under the Goods and Services Tax are Central Excise Duty, other Excise Duties, Service Tax, Customs Duties and Surcharges. Apart from this, some State taxes to be subsumed under GST are VAT / Sales Tax, Entertainment tax, Luxury tax, Taxes on Lottery, Betting & Gambling, State Cesses and Surcharges and Entry Tax. Some of the goods like crude oil, natural gas, turbine fuel, high speed diesel, and alcohol for human consumption are not included in the list due to import dependence, environmental and social reasons.

GST is a Valued Added Tax on goods and services that is paid by the final consumer while the retailer will be taking credit of the tax he has paid while buying goods for retailing. So in this all the services of retailer or the chain behind him is taxed apart from the actual value of production.

Under the present VAT system Centre and States tax rates and exemptions offered are not related to each other. States also try to compete with each other to attract investments and collection of taxes and also offer reduced rate of tax on select goods, which leads to tax rate war between States and ultimately hurts them. The affected State today has no forum to go to get its grievance redressed. Centre and States will be expected to follow the recommendations of the GST Council and State and Centre will have a forum in the form of GST Dispute Settlement Authority for seeking redressal of grievances related to loss of revenue. (Seventy Third Report of Standing Committee on Finance, 2012-13).

### Advantages of GST:

1. Under GST there will be input credit set-off at every stage and this can be used to payment of service tax.
2. CST will be abolished and in the absence of it there is no need to collect it.
3. Many Central and State indirect taxes will be subsumed in GST.
4. There will be uniformity of tax rates in all the states.
5. It may ensure better compliance due to aggregate tax rate reduction.
6. By reducing the tax burden the competitiveness of Indian products in international market is expected to increase. There is a possibility of lower prices due to lower tax burden that can be passed on to the consumers.

### GST is set to replace various taxes as mentioned below:

| Taxes currently levied and collected by the Centre:            | State taxes that would be subsumed under the GST |
|--|--|
| a. Central Excise duty   | a. State VAT                                     |
| b. Duties of Excise (Medicinal and Toilet Preparations)        | b. Central Sales Tax                             |
| c. Additional Duties of Excise (Goods of Special Importance)   | c. Luxury Tax                                    |
| d. Additional Duties of Excise (Textiles and Textile Products) | d. Entry Tax (all forms)                         |

| Taxes currently levied and collected by the Centre:                                    | State taxes that would be subsumed under the GST                                     |
|--|--|
| e. Additional Duties of Customs (commonly known as CVD)                                | e. Entertainment and Amusement Tax (except when levied by the local bodies)          |
| f. Special Additional Duty of Customs (SAD)  | f. Taxes on advertisements   |
| g. Service Tax   | g. Purchase Tax  |
| h. Central Surcharges and Cesses so far as they relate to supply of goods and services | h. Taxes on lotteries, betting and gambling  |
|  | i. State Surcharges and Cesses so far as they relate to supply of goods and services |

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%.

**III. TAX SLABS UNDER GOODS AND SERVICE TAX**

GST Rates in India are finalized and all the GST Rates on Goods & Services are applicable from 1st July 2017. The finalized, GST Rate Slabs are 5%, 12%, 18% & 28%. Combined GST rate is being discussed by the Government. The Revenue neutral rate is expected around 18%. After the total GST rate is arrived the centre and state will decide on the CGST and SGST rate.

**GST Rates and its impact on Services:**

- All services have been fitted into four different rates, which are 5%, 12%, the standard 18% and the luxury rate of 28%.
- Travelling on metro, local train, religious travel, Haj yatra will all be exempt from GST
- AC train travel to get cheaper under GST.
- Transport services (Railways, air transport) will be under the 5% category because their main input is petroleum, which is outside GST ambit.
- Service tax on non-AC hotels will 12%, on AC hotels that serve liquor will be 18%. Higher tax rate for luxury hotels.
- Hotels and lodges with tariff below Rs 1,000 will be exempt. Those with Rs 2,500-5,000 will be 18%. Luxury hotels will face tax of 28%.
- 28% tax slab on 5-star hotels, race club betting, cinema.
- 18% tax slab for telecom, financial services
- Healthcare and education have been exempted from the service list.
- Restaurants with an annual turnover of less than Rs 50 lakhs will fall under the 5 percent tax slab, while non-ACs food joints will be taxed at 12 percent. Air-conditioned restaurants with liquor licences will be taxed at 18 percent.
- Cinema halls were currently paying a service tax of 15 percent plus a state entertainment tax that ranged from 28 percent to about 100 percent. All these will be subsumed under the 28 percent GST rate, bringing out the costs of service significantly, and Casinos will also come under the 28 percent tax bracket.
- Work contract services such as those paid by civil contractors for infrastructure construction currently pay a central tax of 6 percent, state taxes ranging from one to five percent, but without any input credit.
- E-commerce players to deduct tax at source before paying suppliers.
- Mobile phones, fountain pen ink, tooth powder, incense sticks, feeding bottles, Braille paper, children's colouring books, umbrellas, pencil sharpeners, tractors, bicycles, contact lenses, spectacle lenses, utensils, sports goods, fishing rods, combs, pencils and hand paintings have been placed under the 12% tax rate under GST.
- Cheaper Services after GST – Radio taxi, Movies, Entertainment services , AC train travel, Air travel, Restaurants.

**IV. TRANSFORMATIONAL REFORM TO GST**

The date for introduction of GST is 1st July 2017. Introduction of this transformational tax reform is expected to broaden the tax base, increase tax compliance and reduce economic distortions caused by inter-State variations in

taxes. GST will boost economic activity and will benefit everyone. It will streamline the tax administration, avoid harassment of the business and result in higher revenue collection for the Centre and States. Compliance costs for the industry will go down. Last but not the least, it will create more jobs. In sum, it would be a win-win situation for everyone i.e. taxpayers, governments, consumers, etc.

Goods and Service Tax Enrolment: The long journey to rolling out India's biggest tax reform, the Goods and Services Tax (GST), is seemingly nearing an end, and gearing up for implementation. All States started enrollment under Goods and Service Tax.

**Enrolment Status of Goods and Service Tax as on 30<sup>th</sup> April 2017.**

| Sr. No. | State  | Start Date | Number of Taxpayers (VAT) with validated PAN | User activated till date | Percentage of User Activated |
|---------|--|------------|--|--------------------------|------------------------------|
| 1       | Andhra Pradesh   | 01/01/2017 | 229,493                                      | 203,330                  | 88.60%                       |
| 2       | Arunachal Pradesh  | 30/11/206  | 5,476  | 1,539                    | 28.10%                       |
| 3       | Assam  | 30/11/206  | 206,034                                      | 57,532                   | 27.92%                       |
| 4       | Bihar  | 30/11/206  | 194,495                                      | 115,338                  | 59.30%                       |
| 5       | Chandigarh   | 16/12/2016 | 16,305                                       | 14,844                   | 91.04%                       |
| 6       | Chhattisgarh   | 14/11/2016 | 109,055                                      | 91,010                   | 83.45%                       |
| 7       | Dadra and Nagar Haveli   | 14/11/2016 | 4,389  | 3,031                    | 69.06%                       |
| 8       | Daman and Diu  | 14/11/2016 | 4,803  | 3,349                    | 69.73%                       |
| 9       | Delhi  | 16/12/2016 | 393,200                                      | 268,761                  | 68.35%                       |
| 10      | Goa  | 14/11/2016 | 25,016                                       | 15,742                   | 62.93%                       |
| 11      | Gujarat  | 15/11/2016 | 499,823                                      | 450,729                  | 90.18%                       |
| 12      | Haryana  | 16/11/2016 | 242,527                                      | 172,709                  | 71.21%                       |
| 13      | Himachal Pradesh   | 16/12/2016 | 66,165                                       | 34,056                   | 51.47%                       |
| 14      | Jammu & Kashmir  | 16/12/2016 | 58,208                                       | 2,866                    | 4.92%                        |
| 15      | Jharkhand  | 30/11/2016 | 92,627                                       | 57,344                   | 61.91%                       |
| 16      | Karnataka  | 01/01/2017 | 550,489                                      | 513,426                  | 93.27%                       |
| 17      | Kerala   | 01/01/2017 | 263,424                                      | 183,014                  | 69.48%                       |
| 18      | Madhya Pradesh   | 30/11/2016 | 301,997                                      | 251,988                  | 83.44%                       |
| 19      | Maharashtra  | 14/11/2016 | 803,261                                      | 705,235                  | 87.80%                       |
| 20      | Manipur  | 30/11/2016 | 3,940  | 1,789                    | 45.41%                       |
| 21      | Meghalaya  | 30/11/2016 | 24,296                                       | 4,711                    | 19.39%                       |
| 22      | Mizoram  | 30/11/2016 | 2,313  | 868                      | 37.53%                       |
| 23      | Nagaland   | 30/11/2016 | 4,847  | 2,829                    | 58.37%                       |
| 24      | Odisha   | 30/11/2016 | 175,463                                      | 89,870                   | 51.22%                       |
| 25      | Puducherry   | 08/11/2016 | 16,450                                       | 12,841                   | 78.06%                       |
| 26      | Punjab   | 16/12/2016 | 229,541                                      | 187,113                  | 81.52%                       |
| 27      | Rajasthan  | 16/12/2016 | 564,625                                      | 435,382                  | 77.11%                       |
| 28      | Sikkim   | 08/11/2016 | 3,119  | 1,952                    | 62.58%                       |
| 29      | Tamilnadu  | 01/01/2017 | 630,251                                      | 550,148                  | 87.29%                       |
| 30      | Telangana  | 01/01/2017 | 209,863                                      | 163,978                  | 78.14%                       |
| 31      | Tripura  | 30/11/2016 | 16,630                                       | 7,785                    | 46.81%                       |
| 32      | Uttar Pradesh  | 16/12/2016 | 812,129                                      | 596,283                  | 73.42%                       |
| 33      | Uttarakhand  | 16/12/2016 | 104,255                                      | 77,491                   | 74.33%                       |
| 34      | West Bengal  | 30/11/2016 | 273,823                                      | 210,228                  | 76.78%                       |
|         | Total for State VAT Users  |            | 7,138,332                                    | 5,489,111                | 76.90%                       |
| 35      | Taxpayers registered under Central Excise Act but not registered under State VAT | 07/01/2017 | 55,830                                       | 14,486                   | 25.95%                       |
| 36      | Taxpayers registered under Service Tax Act but not registered under State VAT    | 20/01/2017 | 1,156,337                                    | 546,580                  | 47.27%                       |
|         | Total for CBEC Users   |            | 1,212,167                                    | 561,066                  | 46.29%                       |
|         | Grand Total  |            | 8,350,499                                    | 6,050,177                | 72.45%                       |

Source: Commercial Tax Department Goa

The key imperatives for Dealers are:

- Understand key areas of impact in their business.

- Prepare different scenarios for the design and application of GST.
- Continually track policy development regarding GST and update prepared scenarios.
- Identify any areas of adverse impact and prepare contingency measures.
- Identify issues and concerns needing representations to the authorities and develop a strategy for effective advocacy.
- Continuous Upgradation of software is a big challenge for the software companies as well. Dealers and service providers will have to upgrade their respective accounting and tax software.
- Not only staff of the business world, but marketing personnel and common man need to be made aware of the basic working of GST for successful implementation.

#### V. CONCLUSION

Goods and Service tax will assist in better conformity and revenue resilience. It will reduce tax burden on consumers. There is no doubt that GST is aimed at increasing the taxpayer base by bringing SMEs and the unorganized sector under its purview. This will make the Indian market more competitive than before and create a level playing field between large & small enterprises. Presently certain industries in India like construction and textile are largely unregulated and unorganized. GST has provisions for online compliances and payments, and availing of input credit only when the supplier has accepted the amount, thereby bringing accountability and regulation to these industries. Further, Indian businesses will be able to better compete with foreign countries such as China, Philippines, and Bangladesh.

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