

GOODS AND SERVICE TAX - A CURE TO ILLS OF EARLIER INDIRECT TAX REGIME

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Abstract

The earliest system of indirect taxation had a multiplicity of taxes levied by the Centre and States. This had led to complex and conflicting principles in the indirect tax structure, adding to the multiple compliances and administrative costs. There was no uniformity in tax rates and structure across states. There was a cascading effect of taxes due to this there is 'tax on tax'. There were too many restrictions on the seamless flow of credit available e.g., the credit of excise duty and service tax paid at the stage of manufacture is not available to the traders while paying the state-level sales tax or VAT.

So, to overcome such difficulties, the concept of 'goods and services tax' came into effect. Goods and services tax, which subsumes many central and state taxes into a single tax is meant to mitigate the cascading effect of taxes providing a seamless flow of credit and making way for a common market.

Keywords

Compliances, administrative costs, excise duty, seamless.

Reference to this paper should be made as follows:

Received:

Approved:

**Dr. Sunil Kumar Gupta,
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TO ILLS OF EARLIER INDIRECT TAX
REGIME*

Article No.13

*RJPSS Oct.-Mar. 2022,
Vol. XLVII No. 1,
pp. 117-128*

Online available at:

<https://anubooks.com/rjpss-2022-vol-xlvii-no-1/>
<https://doi.org/10.31995/rjpss.2022.v47i01.013>

GST - A Cure for Ills of Earlier Indirect Tax Regime

A comprehensive tax structure covering both goods and services viz. Goods and services tax (GST) addresses these problems simultaneously. The introduction of GST at both Centre and State levels has integrated taxes on goods and services for the purpose of set-off relief and ensure that both the cascading effect of CENVAT and service tax are removed and a continuous chain of set-off from the original producer's point/service provider's point up to the retailer's level /consumer's level is established .

In earlier indirect system input tax credit was not available across goods and services at every stage of supply it resulting in cascading effect. Now due to the introduction of GST, credit of central GST, state GST or integrated GST paid on Interstate supply weather-related to goods or services. Input tax credit is available.

Concept of GST (Goods and Services Tax)

- GST is a value-added tax levied on supply i.e., manufacture and sale of goods and services.
- GST provides a comprehensive and continuous cycle of tax credits from the producer's/service provider's point up to the retailer's/ consumer's level.
- Only the final consumers who bear the GST charged by the last supplier in the supply chain, will set off benefits at all previous stages.
- Since only the value-added at each stage is taxed under GST, there is no tax on tax or cascading of taxes under the GST system.

Constitutional Amendment

- Now there are more than 10years since the idea of national goods and services tax (GST) was given by the Kelkar task force in 2004. The task force strongly recommended fully integrated 'GST' on a national basis.
- Subsequently, the union finance minister, Shri P. Chidambaram, while presenting the central budget (2007-08), announced that GST would be introduced from April 1, 2010. Since then, GST missed several deadlines and continued to be shrouded by the clouds of uncertainty.
- GST however gained momentum in the year 2014 when the government tabled the constitution (122nd Amendment) Bill, 2014 on GST in the parliament on 19th December 2014. the Lok Sabha passed the bill on 6th May 2015 and Rajya Sabha on 3rd August 2016. Subsequently, the rectification is made, end the constitution (122nd amendment) bill 2014 got the assent of the president on its September 2016 and become the constitution (101 amendments) Act, 2016, which give the way for the introduction of GST in India. By 30th June 2017, all States and union territory heads passed their respective SGST&UTGST acts to accept Jammu and Kashmir

with effect from 1st July 2017-the historic indirect tax reform GST was introduced. GST laws were extended to Jammu and Kashmir on 8th July 2017.

- The constitution has been amended to introduce the goods and service tax for the configuring concurrent taxing power on the union as well as the state including union territories to make laws for living goods and service tax on every transaction of supply of goods or services or both.

- GST has subsumed multiple indirect taxes like excise duty, service tax, VAT, CST, luxury tax, entertainment tax, entry tax, etc.

- VAT and GST are often used interchangeably as the latter denotes the comprehensiveness of VAT by coverage of goods and services. France was the first country to implement VAT/ GST in 1954. Presently more than 160 countries have implemented VAT/GST in some form of the other because this tax has the capacity to raise revenue in the most transparent and neutral manner.

Constitutional Provisions

Article 265 of our constitution requires that levy and collection of tax shall be by legislation only. India being a three-tier federal structure the power to levy is distributed among the union, state, and local government.

Article - 246A: Power to Make Laws with Respect to Goods and Service Tax

A) Article 246A of our constitution empowers the center and state governments to make laws with respect to GST imposed by them respectively.

B) In the case of inter-state supply of goods and/or services, the center has the exclusive power to make laws with respect to GST.

C) While petroleum crude, High-speed diesel, motor spirit (commonly known as petrol), natural gas, aviation turbine fuel and alcoholic liquor are outside the ambit of GST. Tobacco is subject to GST as well as central excise duty. these shall be brought under GST as and when recommended by the GST council.

Article - 269A: Levy and Collection of GST on Inter-State Supply

a) Goods and services tax on supplies in the course of inter-state trade or commerce shall be levied and collected by the government of India and such tax shall be apportioned between the union and the states in the manner as may be provided by Parliament by law on the recommendations of the Goods and Services tax council.

b) Import of goods and/or services into India will be deemed to be considered as “Inter-State supply of goods and/or services.”

c) this empowers the central government to levy IGST on the import transactions which were subject to a countervailing duty under the Customs Tariff Act, 1975.

d) IGST used for the payment of SGST or vice-versa shall not form part of the consolidated fund of India. It facilitates the transfer of funds between the center and the states.

Article - 279A: GST Council

a) Article 279A of the constitution empowers the president to constitute a council to be called as Goods and services tax council (GST COUNCIL). By virtue of this, the president has constituted the GST council on 15th September, 2016.

b) The function of the council is to make a recommendation to central and state on important issues like tax rate, exemption, threshold limit, etc.

c) GST council shall consist of:

1. Chairperson (union finance minister); and

2. Members:

(i) Union minister of state in charge of revenue or finance;

(ii) Minister in charge of finance/taxation or any other minister nominated by each state and UTs with legislatures.

3. Vote of the center has a weightage of ½ of total votes cast and votes of all the state governments taken together has a weightage of 2/3rd of the total votes cast, in the meeting.

4. Decision is taken by a majority of not less than 3/4th of weighted votes of member present and voting.

Advantages of GST

GST is a win-win situation for the entire country. It brings benefits to all the stakeholders of industry, government and the customers. Due to the introduction of GST, the cost of goods and services gets lowered, which gives a boom to the economy and made the products and services globally competitive. The significant benefits of GST are discussed hereunder-

1. Unified National Market:

GST aims to make India a common market with common tax rates and procedures and remove the economic barriers.

2. Boost to 'Make in India' Initiative:

'Make-in-India' initiative of the government of India is enhanced by making goods and services produced in India competitive in the national as well as international market.

3. Neutrality:

As it is neutral to businesses processes, business models, organizational structure, geographical locations and product substitutes, it promotes economic efficiencies and sustainable long-term economic growth.

4. Export from India are Zero-Rated:

More efficient neutralization of under GST especially for exports, thereby making products more competitive in the global market and thus boosting exports from India.

5. Eradicate Corruption:

Under GST all interactions are to be through a common GSTN portal. It will ensure the least manual interface between the taxpayer and the administration. It will definitely affect the corruption.

6. No manual Interface:

GST is based on IT, which will improve the compliances as all returns are to be filed online, input credit to be verified online encouraging more paper trail of the transaction.

7. Tax Payer's Friendly:

GST is an attempt in this regard, as simplified and automated procedures for various processes to remove complexities. such as registration, returns, refunds, tax payments, etc.

8. Reduced Evasion:

Uniform SGST and IGST rates will reduce the incentive for evasion by eliminating rate arbitrage between neighboring states and that between intra and inter-state supplies.

9. Boost to Economic Growth:

GST will boost exports and manufacturing activities, generation of more employment, direct cost reduction, increase in GDP with gainful employment and poverty eradication.

10. Global Taxation Mechanism:

With the utilization of modern information and communication techniques, the Indian GST system has taken a global format. Simplicity and certainty in taxation rules have generated a hope of improvement in the investment environment.

Disadvantages of GST

Following are the drawback of Goods and Services Tax in India:

1. Increased in the Cost of Purchasing of Software-

Under GST businesses have to either update their adjusting accounting or ERP software to GST compliant one or by our GST software so that they can keep their businesses going but both the official lead to increase the cost.

2. The Transition Proved Complex-

Adoption and migration into the new GST system is a complex task for which the GST council has made various relaxations over the period.

3. Multiple Tax Rates-

Under GST are multiple tax rates. Presently there are 5 slabs in India- 0%, 5%, 12%, 18% and 28%.

4. Increase in Operational Costs-

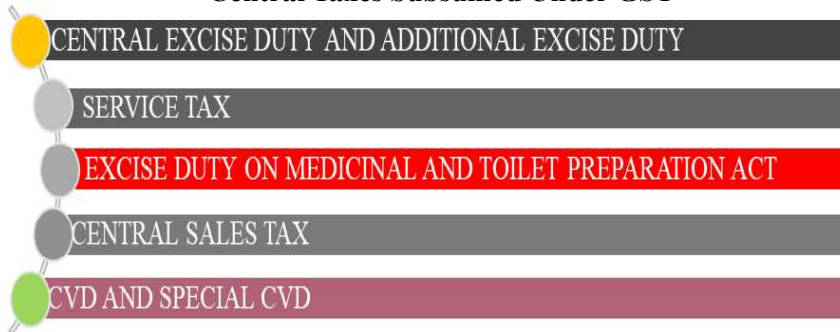
GST will increase the operational costs due to employing of tax professionals to be GST compliant. Further, businesses will need to train their employees in GST compliances.

5. Dual Control-

GST laws are dual controlled by both center and state governments both. This has given rise to complexity for many businessmen across the nation.

Tax Subsumed Under GST

Central Taxes Subsumed Under GST -



State Taxes Subsumed Under GST –



Framework of GST

1. In India, the concept of dual GST has been adopted wherein both center and state governments levy taxes on goods and services.
2. GST extends to the whole of India including the state of Jammu and Kashmir.

3. GST is a destination-based tax applicable on all the transactions involving the supply of goods and services for a consideration subject to exceptions thereof.

4. For eliminating the cascading effect, the GST system has enabled a seamless flow by allowing an unbreakable chain of credit to set off in case of Interstate sales which was absent in the older regime.

5. Under GST the goods are classified using HSN codes (harmonized system of nomenclature). A new system of classification for services has been introduced. Services are classified using a new system of classification consisting of various service codes (tariff).

6. In GST regime for providing relief to a small businesses primarily manufacturers, suppliers of food articles, traders, etc. making interest rate supplies a simpler method of paying taxes prescribed known as composition levy further for a small service provider also prescribing concessional rate of taxes has been formulated. A person whose aggregate turnover is less than 1.5 CR can opt for a composition levy.

7. GST required every dealer whose aggregate turnover during a financial year is more than the threshold limit to get registered in every state where he provides the taxable supply.

States with threshold limit of 10 lakhs for both goods and services	States with threshold limit of 20 lakh for both goods and services	States with threshold limit of 20 lakh for services and 40 lakhs for goods
<ul style="list-style-type: none"> • Mizoram • Manipur • Nagaland • Tirpura 	<ul style="list-style-type: none"> • Meghalaya • Arunachal Pradesh • Sikkim • Uttarakhand • Puducherry • Telangana 	<ul style="list-style-type: none"> • Jammu and Kashmir • Assam • Himachal Pradesh • all other states

8. Other than above the law also provides for exemption from payment of tax on essential goods and services in special cases.

9. GST in India comprises of-

S. No.	Tax Type	Type of Transaction	Levying & Collection Powers
1.	Central Goods and Service Tax (CGST)	Intra-state supply of goods and/or services	Central government
2.	State GST (SGST)	Intra-state supply of goods and/or services	State govt. with union territories with state legislatures
3.	Union Territory GST (UTGST)	Intra-state supply of goods and/or services	Union territories without state legislatures
4.	Integrated GST (IGST)	Inter-state supply of goods and/or services	Central govt. However, distributed among states as per GST (compensation to states) act, 2017

GST Common Portal

1. Managed by whom?

Common GST electronic portal- (www.gst.gov.in)- a website managed by Goods and Services Network (GSTN)(a company incorporated under the provisions of Section 8 of the Companies Act 2013) is set up by the government to establish the uniform interface for the taxpayer and a common and shared IT infrastructure between the center and the states.

2. Accessible by whom?

- By taxpayers and their CA's/Tax advocates etc. over the Internet.
- By tax officials etc. Over the intranet.
- The portal is one single common portal for all GST-related services.
- A common GST system links all the stakeholders/UT commercial tax departments, central tax authorities, taxpayers and banks.

3. Services provided?

GSTN provides three front end services to the taxpayers through the GST common portal namely-

- a) Registration
- b) Payment and
- c) Return

4. Functions of GSTN?

- Facilitating registration.
- Providing analysis of taxpayer's profile.
- Providing various MIS reports to the central and state governments based on the taxpayer return information.
- Computation and settlement of IGST.
- Forwarding the returns to central and state authorities.
- Matching of the payment details with banking network.

E-Way Bill

An electronic waybill (e-way bill) is an electronic mechanism wherein by way of a digital interface the person causing the movements of goods uploads the relevant information prior to the commencement of movements of goods and generates e waybill on the GST portal.

E-way bill is an electronic document generated from the GST portal which indicates the movement of goods.

A GST registered person cannot transport goods in a vehicle whose value exceeds Rs. 50000(single invoice/bill/delivery challan) without an e-way bill.

GSPs/ASPs

GST Suvidha Providers (GSPs) develop application/software to facilitate taxpayers in uploading invoices and also filing of returns with ease. GSP's are selected by GSTN based on some criteria like IT expertise, experience, subject knowledge, etc. Application Service Providers (ASP's) assist the GSP's to link them with taxpayers. These GSP's even provide for customized applications/software based on the pre-requisite of different sections of taxpayers.

Compensation Cess

Goods and Services Tax (Compensation to States) Cess Act, 2017 imposes GST compensation cess at a specific rate on the specified luxury items or demerits goods, like pan masala, tobacco, aerated waters, motor cars, etc. It is levied with a view to compensate the loss of revenue arising to the states on account of the implementation of GST.

Impact of GST on Various Sectors

1. Impact on Traders –

- No dispute between goods and services.
- Limit for composition scheme is increased due to which small taxpayer can opt quarterly tax paid.
- Traders can take ITC (input tax credit) on excise duty and service tax.
- Availability of ITC for input services// business expenses

- Providing full and immediate ITC on purchase of capital goods.

2. Impact on Manufacture –

• Due to the introduction of GST, all taxes are subsumed. It becomes ‘one tax, one nation’. This is a measure of relief for the manufacturers.

• In GST, goods become cheaper as in earlier tax regimes, there is double taxation. So many taxes are to be paid by manufacturers. But now, due to GST, manufacturers started to manufacture at low cost.

• In the GST regime, there shall be minimization of classification issues due to uniform rates and less expected exemptions.

• The transaction costs of compliance would reduce due to widespread computerization and online filing of forms and returns and payment of taxes.

3. Impact on Service Providers –

• Destination based to consumption-based levy

• Service tax- SGST levied by states

• Taxes received by consuming states

• Increased set off than VAT

4. Impact on the Consumers –

• the purchase price would reduce as the tax content of most products would come down.

• The tax paid would be clearly mentioned in the tax invoice given to the customer or recipient of supply to avail input tax credit.

• There would be free trade and commerce between states and throughout the country which would provide more options to the consumer.

5. Impact on Central Government –

• Due to the introduction of GST, there is increment in collection in CGST and IGST tax as more and more assesses register and pay the tax due to simplified tax laws.

• Refund under GST.

• Reduced corruption.

• Compensation for loss of revenues to states.

6. Impact on State Government –

• Due to the online system collection cost tend to fall.

• It is a destination-based tax. So, states which are net consumers would benefit from this.

7. Impact on the Country –

• Due to the implementation of GST, FDI will increase.

• Growth in overall revenue.

- Simplified and convenient tax laws for the assesses.
- Increase in the degree of employment as due to this, there is a significant boost in economic growth and factors of production, land, labor and capital.

8. Overall Impact –

• Due to the introduction of GST, bundle of indirect taxes such as VAT, central sales tax, service tax, excise duty, etc. is removed and subsumed under GST.

- Simplified and convenient tax structure.
- No longer cascading effect of tax
- Control over black money circulation as in earlier tax regime many of traders and shopkeepers started evasion of tax. But due to the introduction of GST, mandatory checking is done.

• Boost to the Indian economy in the long run

• The central excise tariff-based classification would no longer be applicable. It would reduce interpretational issues in respect of class of commodities. Now, the HSN code is given to each product.

- Less burden on the common man, i.e., the public will have to spend less money to buy the same costly products earlier.
- Comprehensive training would be required for the staff members of the business community, both at the senior level and also at a junior level across the purchase, sales and finance functions in order to enhance the skills.
- Under GST, only a single consultant may be required who can handle all GST matters. Compliance for the SME may necessitate competent tax preparers.

Challenges for the Government After Implementation of GST

Following the challenges which government faced after implementation of GST: -

- ❖ For implementing GST, the GST bill is required to pass by the respective state governments in state assemblies so as to bring a majority. This is a very critical task.
- ❖ GSTN is the backbone of GST. The government will have to ensure that it runs smoothly to ensure hassle-free compliance by businesses and at the same time to manage the settlement of revenues between the states.
- ❖ In order to avoid enormous delays in road traffic and reduce delivery times for goods, the concept of check posts should not be brought again in any form.
- ❖ For GST to be effective there should be identical GST laws across states as well as the center.
- ❖ With a new law with such a widespread ramifications, the tax administration will have to be responsive to the needs of the taxpayers and come out with necessary clarifications.

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