

## Goods and services tax in India

\*<sup>1</sup> Dr. G Gabriel Prabhu, <sup>2</sup> GR Dinesh Kumar

<sup>1</sup> Assistant Professor in PG Commerce, AJK College of Arts and Science, Navakkarai, Coimbatore, Tamil Nadu, India

<sup>2</sup> Assistant Professor, Department of Commerce, AJK College of Arts and Science, Navakkarai, Coimbatore, Tamil Nadu, India

### Abstract

Goods and Services Tax (GST) is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level. One of the biggest taxation reforms in India the (GST) is all set to integrate State economies and boost overall growth. Currently, companies and businesses pay lot of indirect taxes such as VAT, service tax, sales tax, entertainment tax, octroi and luxury tax. Once GST is implemented, all these taxes would cease to exist. There would be only one tax, that too at the national level, monitored by the central government. GST is also different in the way it is levied — at the final point of consumption and not at the manufacturing stage. At present, separate tax rates are applied to goods and services. Under GST, there would be only one tax rate for both goods and services. The goods and services Tax will indeed be a further significant improvement towards a comprehensive indirect tax reforms in the country. Integration of goods and services taxation would give India a world class tax system and improve tax collections. It would end distortions of differential treatments of manufacturing and service sector. GST is expected to create a business friendly environment, as price levels and hence inflation rates would come down overtime as a uniform tax rate is applied. It will also improve government's fiscal health as the tax collection system would become more transparent, making tax evasion difficult. An attempt is made in this paper to study the concept of goods and service tax and its impact on Indian economy. The study also aims to know the advantages and challenges of GST in Indian scenario.

**Keywords:** GST, business, tax

### Introduction

The Goods and Services Tax (GST), India's biggest tax reform since Independence, was rolled out past midnight on Friday at a gala event organised in the Parliament's Central Hall. A minute after the stroke of midnight, President Pranab Mukherjee and Prime Minister Narendra Modi pressed the button to launch the new indirect tax regime on a digital screen with 'GST' emblazoned on it in a golden hue.

Conceived on the principle of 'one nation, one tax, one market', the tax that subsumes 17 central and state levies was launched in the presence of Vice President Hamid Ansari, former Prime Minister HD Deve Gowda, Lok Sabha Speaker Sumitra Mahajan, Finance Minister Arun Jaitley, MPs, chief ministers, state finance ministers, officials of the Centre and states.

The movement of goods will now become much simpler across the country and cheaper as the new regime replaces the old system, where a product was taxed multiple times and at different rates.

Here India TV brings to you the answers of some natural queries that will help you better understand what GST is, GST rates, what the new tax means for individuals, businesses as well as the economy.

### Meaning of GST

Full form of GST is Goods and Services Tax. It is a single indirect tax for the whole nation, one which will make India a unified common market. It is a single tax on the supply of goods and services, right from the manufacturer to the

consumer. The GST Bill was introduced in Lok Saba in 2009 by erstwhile UPA government but they failed to get it passed. The NDA government introduced a 'slightly modified' version of the GST Bill in the Parliament and both the Houses passed it. Through GST, the government aims to create a single comprehensive tax structure that will subsume all the other smaller indirect taxes on consumption like service tax, etc. Touted to be a major game changer, in the words of Union Finance Minister Arun Jaitley 'it will lead to the financial integration of India'.

Currently, tax rates differ from state to state. GST will ensure a comprehensive tax base with minimum exemptions, will help industry, which will be able to reap benefits of common procedures and claim credit for taxes paid. GST, as per government estimates, will boost India's GDP by around 2 per cent.

### Need for GST

GST will break the complicated structure of separate central and state taxes which often overlap with each other to create a uniform taxation system which will be applicable across the country. Taxes will be implemented more effectively since a network of indirect taxes like excise duty, service tax, central sales tax, value added tax (VAT) and octroi will be replaced by one single tax. The state will still have a say in taxation, as the number of taxes will be reduced to three with Central GST, State GST and Integrated GST for inter-state dealings.

### **Rates under GST**

The GST Council, headed by Jaitley and of which all states Finance Ministers are members, has approved four main tax slabs -- 5 per cent, 12 per cent, 18 per cent and 28 per cent that aims to lower tax incidence on essential items and to keep the highest rate for luxury and demerits goods. The lowest rate of 5 per cent will be on items of mass consumption which are used particularly by common people. The second and third category of standard rates of 12 and 18 per cent will accommodate most of the goods and services. The fourth slab of 28 per cent is levied mainly on white goods such as refrigerators, washing machines etc.

### **Exemptions under GST**

Under GST, the government has fixed GST rates on 1,211 goods and 500 services in the range of five to 28 per cent. Certain items such as alcohol, petrol, diesel and natural gas will be exempt under the GST. In addition to these, the GST Council has also classified certain items under the 0 per cent tax rate, implying that GST will not be levied on them. This list includes items of daily use such as wheat, rice, milk, eggs, fresh vegetables, meat, fish, sindoor, bindi, stamps, judicial papers, printed books, newspapers, bangles, handloom, bones and horn cores, bone grist, bone meal, kajaal, children's' picture, drawing or colouring books, human hair.

### **Importance of GST**

The GST will reshape the indirect tax structure by subsuming majority of indirect taxes like excise, sales and services levies. This will remove the complex indirect tax structure of the country, thus improving the ease of doing business in the country.

Exports will become competitive as the GST regime will eliminate the cascading impact of taxes. A National Council of Applied Economic Research study suggested that GST could boost India's GDP growth by 0.9-1.7 per cent.

GST will lead to the creation of a unified market, which would facilitate seamless movement of goods across states and reduce the transaction cost of businesses. A UBS Securities study found that truck drivers in India spend 60 per cent of their time off roads negotiating check posts and toll plazas. The foreign brokerage said that 11 categories of taxes are levied on the road transport sector. The GST will help bring down logistical costs.

Under the GST, manufacturers will get credits for all taxes paid earlier in the goods/services chain, thus incentivising firms to source inputs from other registered dealers. This could bring in additional revenues to the government as the unorganised sector, which is not a part of the value chain, would be drawn into the tax net.

The new tax regime is seen as less intrusive, more self-policing, and hence a more effective way of reducing corruption.

The supplier, because of the paper trail left by the GST, knows that his evasion will be more likely to be detected once his client is audited. GST will improve tax compliance.

The clean-up of the Indian taxation system will reduce the number of excise duty exemptions. According to the government's estimates, excise tax exemptions result in foregone revenues of Rs.1.8 lakh crore. The comparable figure

for the states is about Rs.1.5 lakh crore. Together, India loses about 2.7 per cent of GDP because of exemptions.

Implementation of GST is expected to lead a temporary rise in inflation, which will typically last for a year.

### **Consequences of GST**

GST promises to make the taxation process more transparent as it would eliminate of multiplicity of taxes and their cascading effects.

Harmonization of center and State tax administrations, which would reduce duplication and compliance costs.

With lower tax rate it is expected that the dealers would lower down the prices of goods which would benefit the customers.

On-road price for entry level cars would come down.

Paints, furniture, Ply, Courier services, Electronic goods (Stabilizers, LED bulbs, tube lights) would cost less.

E-commerce industries like Flipkart, Snap deal etc., are expected to be hugely benefited as no interstate tax would mean cheaper products and fast delivery.

The prices of Tobacco products, Cigarette are expected to hike.

### **Impact on GST**

#### **On salaried employees, self-employed professionals**

GST is applicable mainly for businesses and hence won't directly affect the salaried class and self-employed professionals such as doctors, lawyers etc. However, it will impact their expenses due to the change in rates of goods and services they avail. Other than that, they will continue to pay their income tax like before. The medical sector has been exempted from GST.

#### **On businesses**

The GST is all set to change the way businesses have operated until now. The elimination of multiple levies and creation of a single market with fewer tax rates and fewer tax exemptions will improve the ease of doing business and reduce avoidable litigation. It also untangles a complex web of taxes that businesses have been subjected to under the existing system. However, these advantages are only going to be visible in the long run. At the moment, businesses are clearly unsure about what the immediate impact will be. Other than the unpredictability over the increase in the headline tax rate on many items being offset by the extra tax credits on raw materials and services, as claimed by the government, adopting to a whole new online system is a task in itself.

Every household has one or many electronic devices without which life becomes difficult. Washing machines, LED, Air conditioners, Refrigerators etc. are important for any home now a days.

The average VAT on electronics item is charged around 11-12.5% in most of the state, while the excise duty of 12.5% is imposed on the household electronic household items. If combined together, then the final rate of tax born is 25-26% on electronic goods.

With the application of GST, the rate of taxes on household electronic items is also going to change. Since there are four-tier structure of GST which is 5%, 12%, 18% and 28%, therefore rate of tax on household electronics or electrical items would also vary accordingly.

#### **Electronic items on which 5% GST will be applicable**

- Solar water heater, solar power generating system
- Biogas plant
- Windmill and electricity generator operated by windmill
- Hand pumps and its accessories

#### **Electronic items on which 12% GST will be applicable**

- Sewing Machines
- Composite machines
- Nuclear fuel
- Power driven pumps and Bicycle pumps

#### **Electronic items on which 18% GST will be applicable**

- Steam boilers and generators
- Nuclear reactors
- Central heating boilers
- Machinery used in industries for food and drinks. Also, machinery used for the extraction of animal and plants fat

#### **Electronic items on which 28% GST will be applicable**

- Air or vacuum pumps
- Refrigerators
- Dish washing machines and other household items
- Road rollers, bull-dozers
- Spark ignition piston

#### **GST effect on car prices**

Small Petrol cars (length < 4m)

Pre-GST Rate: 31.40%,

Base Rate: 28%

Cess: 1.00%

Cumulative Tax: 29.00%

Small Diesel cars (length < 4m)

Pre-GST Rate: 33.40%,

Base Rate: 28%

Cess: 3.00%

Cumulative Tax: 31.00%

Mid-size cars (length > 4m with engine < 1, 500cc) Pre-GST

Rate: 46.60%,

Base Rate: 28%

Cess: 15.00%

Cumulative Tax: 43.00%

Biggest Cars (length > 4m with engine > 1, 500cc):

Pre-GST Rate: 51.80%,

Base Rate: 28%

Cess: 15.00%

Cumulative Tax: 43.00%

Sports Utility Vehicles Pre-GST Rate: 55.30%,

Base Rate: 28%

Cess: 15.00%

Cumulative Tax: 43.00%

Hybrid Vehicles Pre-GST Rate: 30.30%,

Base Rate: 28%

Cess: 15.00%

Cumulative Tax: 43.00%

#### **The taxes GST will subsume**

Industries and commercial enterprises were paying various taxes at various stages of a product or service, such as manufacture, transport, wholesale, logistics and retail. The

administration of these taxes were often tangled in paperwork, resulting in slow inter-state movement of products and increased costs for consumers. GST now replaces at least 17 existing indirect taxes being levied by the Centre and states.

This includes Central Excise Duty, Duties of Excise (medicinal and toilet preparations), Additional Duties of Excise (goods of special importance), Additional Duties of Excise (textiles and textile products), Additional Duties of Customs (commonly known as CVD), Special Additional Duty of Customs (SAD), Service Tax, Cesses and surcharges in so far as they relate to supply of goods or services, State taxes that the GST will subsume (all Central taxes); State VAT, Central Sales Tax, Purchase Tax, Luxury Tax, Entry Tax (all forms), Entertainment Tax (not levied by local bodies), Taxes on advertisements, Taxes on lotteries, betting and gambling, State cesses and surcharges (all state taxes).

All these taxes have been replaced by Central GST, State GST and Integrated GST (on every inter-state supply of goods and services). After its implementation, consumers will not be subjected to the burden of double taxation. The final consumer will bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages.

#### **Benefits of GST**

GST brings benefits to all the stakeholders of industry, government and the consumer. It will lower the cost of goods and services, give a boost to the economy and make the products and services globally competitive. Besides, it aims to remove the economic barriers, thus paving the way for an integrated economy at the national level. GST is also pegged to improve competitiveness and improve liquidity of the businesses. Besides widening the tax base and improving the taxpayer compliance, GST will help in improving the country's ranking in the 'Ease of Doing Business Index'. India is currently ranked 130 out of 190 countries in World Bank Group's annual report on the ease of doing business.

The new tax regime is largely technology driven. It will reduce the human interface to a great extent and this will definitely lead to speedy decisions. Also, all imported goods will be charged integrated tax (IGST) which is equivalent to Central GST + State GST. This will bring equality with taxation on local products. GST will also help boosting Indian exports in the international market, improving the balance of payments position. Exporters with clean record will be rewarded by getting immediate refund of 90 per cent of their claims arising on accounts of exports, within a week period of time.

According to Finance Minister Arun Jaitley, GST will boost economic growth by as much as 2 per cent. This will, in turn, reduce the budget deficit and help the government to allocate more funds for development projects.

#### **Advantages of GST**

1. GST is a transparent Tax and also reduce numbers of indirect taxes. With GST implemented a business premises can show the tax applied in the sales invoice. Customer will know exactly how much tax they are paying on the product they bought or services they consumed.
2. GST will not be a cost to registered retailers therefore there will be no hidden taxes and the cost of doing

business will be lower. This in turn will help Export being more competitive.

3. GST can also help to diversification of income sources for Government other than income tax and petroleum tax.
4. Under Goods and Services Tax, the tax burden will be divided equally between Manufacturing and services. This can be done through lower tax rate by increase Tax base and reducing exemptions.
5. In GST System both Central GST and State GST will be charged on manufacturing cost and will be collected on point of sale. This will benefit people as prices will come down which in turn will help companies as consumption will increase.
6. Biggest benefit will be that multiple taxes like octroy, central sales tax, state sales tax, entry tax, license fees, turnover tax etc will no longer be present and all that will be brought under the GST. Doing Business now will be easier and more comfortable as various hidden taxation will not be present.

#### **Disadvantages of GST**

- Higher burden of tax for manufacturing units
- Change in business software. There will be a single registration by 10th of every month
- Business needs to register in all the states they are operating in. This could make it more complicated and increase the burden
- Increase in prices are suspected due to increase in tax
- Petroleum products are currently not in scope of GST

#### **Conclusion**

The market is always full of rumors when there is anything new goes to happen. This time also people are considering GST as Goods and Service tax. Demerits seems to be more than the merits, but once GST is implemented, perhaps India will become a single market where goods or services can move freely from one place to another with little compliance to deal with for businesses.

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