Journal of Investment and Management
2018; 7(1): 13-18
http://www.sciencepublishinggroup.com/j/jim
doi: 10.11648/j.jim.20180701.12
ISSN: 2328-7713 (Print); ISSN: 2328-7721 (Online)

Goods and Service Tax in India: Basic Concepts and Features

Hajera Fatima Khan

Department of Accounting, College of Business Administration, University of Hail, Hail, Kingdom of Saudi Arabia

Email address:
hajeratameem48@gmail.com

To cite this article:
Hajera Fatima Khan. Goods and Service Tax in India: Basic Concepts and Features. *Journal of Investment and Management*. Vol. 7, No. 1, 2018, pp. 13-18. doi: 10.11648/j.jim.20180701.12

Received: February 2, 2018; **Accepted**: February 16, 2018; **Published**: March 16, 2018

Abstract: This paper is an analysis of the impact of GST (Goods and Services Tax) on Indian Tax Scenario. The Good and services tax (GST) is the biggest and substantial indirect tax reform since the year 1947. The main idea of GST is to take over existing taxes like value-added tax, excise duty, service tax and sales tax. GST will be levied on manufacturing of sales and consumption of goods and services and is expected to address the tumble effect of the existing tax structure and result in uniting the country economically. Its main objective is to maintain a plebeian between the basic structure and design of the CGST, SGST and SGST between states. GST is a new story of VAT which gives a widespread setoff for input tax credit and contains many indirect taxes from state and national level. The main aim of GST is to create a single, unified market which will benefit in the development of country's economy. India is a democratic country and therefore the GST will be implemented parallel by the central and state governments respectively. In this article, I have discussed GST and highlighted on the objectives of it. Consequently, I also put a light on the possible challenges, threats, and opportunities that GST brings to strengthen the free market economy. Finally, the paper examines and draws out a conclusion.

Keywords: GST, CGST, SGST, VAT, Input Credit, Free Market Economy

1. Introduction

1.1. Tax

The word tax is derived from the Latin word '*taxare'* meaning to estimate. A tax is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority" and is any contribution imposed by government whether under the name of toll, tribute, impost, duty, custom, excise, subsidy, aid, Supply or other name."

1.2. Value Added Tax (VAT)

VAT at the Central and the State level has been considered as a major step, towards indirect tax reforms in India. If VAT is a major improvement over the pre-existing Central excise duty at the national level and the sales tax system at the State level, then the Goods and Services Tax (GST) will undoubtedly be an additional important perfection, the next logical step towards a widespread indirect tax reforms in the country. At the outset, it was conceptualized that there would be a national level goods and services tax, however, with the release of First Discussion Paper by the Empowered Committee of the State Finance Ministers on 10.11.2009, With this it has been made clear that there would be a "Dual GST" in India, taxation power both by the Centre and the State to levy of taxes on Goods and Services. Almost 160 countries have introduced GST in some or the other form. While countries such as Singapore and New Zealand collecting tax basically at a single rate, Indonesia has five positive rates, a zero rate and over 30 categories of exemptions. In China, GST applies only to goods and the provision of repairs, replacement and processing services.

Table 1. *List of Countries Implementing VAT/GST.*

No.	Region	No. of Country
1	ASEAN	7
2	Asia	19
3	Europe	53
4	Oceania	7
5	Africa	44
6	South America	11
7	Caribbean, Central & North America	19

Table 2. *Rate of GST in Some Countries.*

Country	GST Rate
Saudi Arabia	5%
Australia	10%
France	19.6%
Canada	5%
Germany	19%
Japan	5%
Singapore	7%
Sweden	25%
New Zealand	15%

Presently there are 160 countries in the world that have implemented GST or VAT. Under this scheme, no distinction is made between goods and services for levying of taxes. This means that goods and services attract the same rate of tax. GST is a multi-tier tax where ultimate burden of tax fall on the consumer. It is termed as value added tax because at every stage, tax is being paid on the value addition. Under the GST scheme, a person who was liable to pay tax on output, whether for provision of service or sale of goods, is entitled to get input tax credit (ITC) on the tax paid of its inputs. Since VAT was beneficial for the taxation system but with certain shortcomings which are expected to be overcome by the Goods and Services. Hence, it would definitely a positive reform for the Indirect tax system in India.

2. Goods and Service Tax (GST)

Smart Taxation System

Goods and Service Tax (GST) would be a very compelling step in the field of indirect tax reforms in India. By amalgamating a large number of Central and State taxes into a single tax, it would lessen overflow or double taxation in a major way and pave away common national market. From the consumer point of view, the biggest advantage would be in terms of a reduction in the overall tax burden on goods, which is currently estimated to be around 25%-30%. Commencement of GST would also make Indian products competitive in the domestic and international markets. Studies shows that this would have a boosting impact on economic growth. Because of its transparent and self-policing character, GST would be easier to administer as well. GST is a tax on goods and services with comprehensive and continuous chain of setoff benefits from the Producer's point and Service provider's point up to the retailer level. It is conventional to be levied only at the destination point, and not at various points (from manufacturing to retail outlets). It is essentially a tax only on value addition at each stage and a supplier at each stage is permitted to setoff through a tax credit mechanism which would eliminate the burden of all overflow effects, including the burden of CENVAT and service tax.

All goods and services, excluding a few exceptions, will be brought into the GST base. There will be no divergence between the goods and services. Concurret GST, the taxation burden will be divided equally between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing the exemptions.

Beneath, GST structure, all different stages of production and distribution can be interpreted as a mere tax passes through and the tax essentially sticks on final consumption within the taxing jurisdiction. Forthwith, a manufacturer needs to pay tax when a finished product moves out from the factory, and it is again taxed at the retail outlet when the product is sold. The taxes are levied at the multiple stages such as CENVAT, Central sales tax, State Sales Tax, Octroi, etc. will be replaced by GST which is introduced at Central and State level.

2.1. Concept of GST: "One Nation One Tax"

Alternatively of having thirteen taxes like Excise duty, Sale tax, VAT, CST, Entry Tax, Service Tax or VAT of each state etc., One comprehensive and all Inclusive tax system for entire nation.

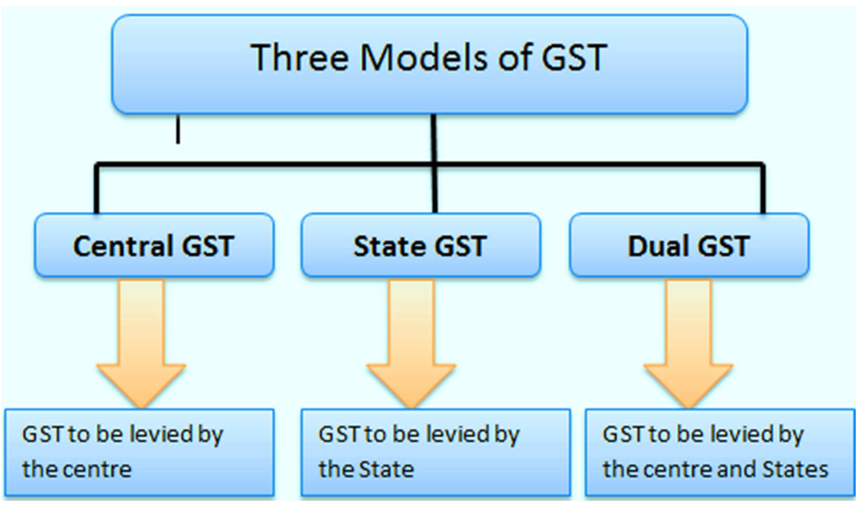

Figure 1. *Three Models of GST.*

There are manifolds in indirect taxation structure. It is bifurcated in five parts as illustrate below:

Table 3. *Five Major types of Indirect Taxes in the country.*

Excise Duty	Service Tax	Sales Tax/VAT/CST	Custom Duty	Party Tax/Entertainment Tax
Entry no. 84 List I, Schedule VII	Residuary entry no. 97, List I, Schedule VII	Entry no. 54 of List II (VAT) and 92 A of list 1 (CST)	Entry no. 83, Unit I, Schedule VII	Entry no. 52 & 62 List II, Schedule VII
Taxable event is manufacture.	Taxable event is provision of service.	Taxable event is sales.	Taxable event is import & export.	Taxable event is entertainment and entry of Goods

Table 4. *Standard GST rates in India.*

0%	5%	12%	18%	28%
Food grains, Fresh vegetables, milk, newspapers, Hearing aids.	Tea and coffee, sugar, milk food for babies, medicines, Coal, LPG for households use, renewable energy devices.	Butter, fruit juices, bio-gas, fertilisers, candels, leather goods, utensils, tractors, Electrically operated vehicles, bicycles.	Toothpaste, refined sugar, cornflakes, ice cream, Petroleum jelly, chemicals, and industrial intermediates.	Air conditioners, refrigerators, Beauty or makeup preparations, sanitary wear, fax machines and motor cars.

However, the basic features of law such as chargeability, definition of taxable event and taxable person, measure of levy including valuation provisions, basis of classification etc. would be uniform across these statutes as far as practicable. The existing CST will be discontinued. Instead, a new statute known as IGST will come into place on the inter-state transfer of the Goods and Services. By removing the cascading effect of taxes (CST, additional customs duty, surcharges, luxury Tax, Entertainment Tax, etc.), CGST & SGST will be charged on same price.

2.2. GST Training Under Pradhan Mantri Kaushal Vikas Yojana

GST Training under Pradhan Mantri Kaushal Vikas Yojana: Central Government of India have recently launched a training program in the field of GST to train around 2 lakh people in 6 months to handle tax compliance issues relating to invoice. This will help businesses areas such as registration and calculation of Tax Liability.

It will be Implemented in 14 states for next 6months and 2 lakh people will be trained. There have been 100 centers inaugurated Digitally. The Ministry also Launched National Portal for assessors and trainers besides 51 new PMKVY centers. With this, the total number of PMKVY centers has increased to 200. The course would be conducted at 100 centers across these 3 cities. Anyone who wishes to upgrade their skills can undergo this training. Candidates including chartered accountants, company secretaries, graduates and post-graduates in commerce, banking, statistics, financial markets and business administration can get the GST training certificate after successfully undergoing the GST training course.

3. History of GST

GST was first suggested by Kelkar Task Force on implementation of Fiscal Reforms and Budget Management Act 2004 but the First Discussion Paper on Goods and Services Tax in India was presented by the Empowered Committee of State Finance Ministers on Nov. 10th, 2009. The One Hundred and Twenty Second Amendment Bill of the Constitution of India, formally known as The Constitution (One Hundred and First Amendment) Act, 2016, introduced a national Goods and Services Tax in India from 1 July 2017.

The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014 was introduced in the Lok Sabha by Finance Minister Arun Jaitley on 19 December 2014, and passed by the House on 6 May 2015. In the Rajya Sabha, the bill was referred to a Select Committee on 14 May 2015. The Select Committee of the Rajya Sabha concedes its report on the bill on 22 July 2015. The bill was passed by the Rajya Sabha on 3 August 2016, and the amended bill was passed by the Lok Sabha on 8 August 2016.

The bill, after authorization by the States, received assent from President Pranab Mukherjee on 8 September 2016, and was notified in The Gazette of India on the same date.

Now passed by both the houses and ascended by President of India, it will come to effect from 1.07.2017. Earlier this bill was opposed by many manufacturing states like Maharashtra, Gujarat, Andhra Pradesh as tax revenue will be collected by Consuming state and not by producing state and there will be huge loss of Revenue to such states, later on term that such loss for first five years will be Reimbursed by Government of India they supported the bill.

4. Objectives of Goods and Service Tax (GST)

GST is proposed to fulfill the following objectives:

1. It would help to eliminate the cascading effects of production and distribution of cost of goods and services. This would help to increase GDP and economic condition of the country.
2. It would wipe out the multiplicity of indirect taxation and streamline all the indirect taxes which would be beneficial for manufacturer and ultimate consumer.
3. It would be able to cover all the shortcomings of existing VAT system and hopefully serve the economy's health.
4. Incidence of tax falls on domestic consumption. There should be no export of taxes across taxing jurisdiction and the Indian market should be integrated into single common market.
5. It also enhances the cause of cooperative federalism.

Present Indirect Tax structure in India is very complicated and complex in nature. It consists of cascading effects of tax. These add to cost of goods and services through “tax on tax” which finally the consumer have to bear.

5. Research Methodology

The paper uses an elementary research technique based on literature review from respective reports, journals, newspapers and magazines covering wide collection of academic literature on GST. According to the objectives of the study, the research design is descriptive in nature. Available secondary data was abundantly used for the present study.

Objective of the study

The objectives of the paper are:

1. To study GST and its impact on the Indian economy.
2. To examine the benefits and challenges of GST in Indian economy.
3. To know the threats of GST in Indian economy.

6. Impact of Goods and Service Tax

GST has a positive impact on the economy and on various sectors which are as follows:

1. Fast moving consumer goods sector

With the implementation of GST, FMCG sector changed excessively. FMCG sector consists of 50% Food and Beverage sector and 30% of Household and Personal care. It has major contribution of taxation in the economy. The multiplicity of the taxation influences the company’s decision on manufacturing location and distribution of Goods. FMCG companies set their manufacturing units and warehouses where they can avail tax benefits. To transfer the stock from the warehouses among the states they have to pay taxes. So, GST would surely brunt on FMCG sector.

2. Food Industry

As food constitutes a large portion of the consumer expense of lower income households, any tax on food would be in reverse in nature. Therefore, extending GST to food processing sector will also cause difficulty in view of the fact that production and distribution of food is largely unorganized in India. Overall, most of the countries tax food at a lower rate keeping in view the considerations of fairness and equity. Even in countries such as Canada, UK and Australia where food constitute a relatively small portion of the consumer basket, food is taxed at zero rates. While countries like Singapore and Japan food is taxed at a standard rate of 3% which is very low. Even in international jurisdictions, no distinction is drawn on the degree of processing of food. Hence, the benefit of lower or zero tax rates should also be extended to all food items in India regardless to degree of processing.

3. Information Technology enabled services

The proposed GST rate under the IT industry is not yet decided. While the discussed combined rate of GST for the product is 27%. According to the proposed GST if the software is transferred through electronic form it would be regarded as service (intellectual property) and if it is transferred through media or any other tangible property then it should be treated as goods. Application of GST will help in uniformity of single point taxation and thereby reduced price.

4. Infrastructure sector

Indian infrastructure sector largely constitute of power, road, port, railways and mining. And the indirect tax levy is different and unique for each of them, and is complex in nature. This sector enjoys different exemptions and concessions as it is important for national front. With the implication of GST the multiplicity of taxes will be removed and it would increase the tax base with continuation of exemptions and concessions for national interest and growth.

5. Impact on small enterprises

Small scale enterprises have three categories: 1) Those below threshold need not to register for the GST. 2) Those between the threshold and composition turnovers will have the option to pay a turnover based tax or opt to join the GST regime. 3) Those above threshold limit will need to be within framework of GST.

In respect of the central GST the situation is slightly complex. GST is expected to encourage compliance and which is also expected to widen tax base adding up to 2% to GDP. Manufacturers, traders will have to pay less tax with the implication of GST.

6.1. Benefits of GST

1. To Business and industry

With use of IT compliance will be much easier as now they have to file one return instead of separate returns of each of the taxes. It also helps in uniformity in tax rates and structure across the country.

2. To the state

GST helps the state to receive higher revenue by easily controlling over leakages. As GST is single and transparent, therefore it helps in the reduction of overall tax burden on the consumers. Its quiet simple to administer.

3. The registration process

The process of registration under GST is user friendly. Firstly they have to use apply form i.e. REG-01, fill all the dealers and attach the required documents. After uploading the same an acknowledgement will be generated in REG-02 Form. Authorities either rejected the application in REG-05 after given the opportunity of being heard or give notice in REG-03 for additional information for additional information. Assesse can fill the additional information in REG-04 in the proper time which is mention in notice. If the concerned authority is satisfied then he can give the registration certificate in form REG-06.

4. The return process

The taxpayer must fill the GSTR-01 form in case of Sales Register on or before 10th day of the month. In the case of Purchase Register he will be filling GSTR-02 on or before 15th day of the month. After that monthly Return will be available i.e. GSTR-03 on or before 20th day of the month. While the GSTR-09 for an annual return which will be file on or before 31st December at the end of the F. Y.

6.2. Challenges of GST

1. With respect to Tax Threshold

The threshold limit for turnover above which GST would be levied on area which would have to be strictly looked at. First of all, the threshold limit should not be so low to bother small scale traders and service providers. It also increases the allocation of government resources for such a petty amount of revenue which may be much more costly than the amount of revenue collected. The first impact of setting higher tax threshold would naturally lead to less revenue to the government as the margin of tax base shrinks; secondly GST may have affected small and less developed states which have set low threshold limit under current VAT regime.

2. With respect to nature of taxes

Taxes that are generally included in GST would be excise duty, countervailing duty, service tax, and state level VATs among others. Interestingly, there are numerous other states and union taxes that would be still out of GST.

3. With respect to number of enactments of statutes

There are two types of GST laws, one at a Centre level called 'Central GST (CGST)' and the other one arrange at the state level - 'State GST (SGST)'. As there seems to have different tax rates for goods and services at the Central Level and at the State Level, and in addition division based on necessary and other property based on the need, location, geography and resources of each state.

4. With respect to Rates of taxation

It is true that a tax rate should be devised in accordance with the state's necessity of funds. Whenever states feel that they need to raise greater revenues to fund the increased expenditure, then, ideally, they should have power to decide how to increase the revenue.

5. With respect to tax management and Infrastructure

It depends on the states and the union how they are going to make GST a simple one. Success of any tax reform policy or managerial measures depends on the inherent simplifications of the system, which leads to the high conformity with the administrative measures and policies.

6.3. Inter-State Transactions and the IGST Mechanism

The Centre empowers custom and collects the Integrated Goods and Services Tax (IGST) on all inter-State supply of goods and services. The IGST mechanism has been designed to ensure consistent flow of input tax credit from one State to another. The inter-State vendor direct pay IGST on the sale of his goods to the Central Government after adjusting credit of GIST, CGST and SGST on his purchases (in that order). The exporting State will transfer to the Centre the credit of SGST used in payment of IGST. The importing dealer will claim credit of IGST while discharging his output tax liability (both CGST and SGST) in his own State. The Centre will transfer to the importing State the credit of IGST used in payment of SGST.

7. Threats of GST

1. Higher tax burden for manufacturing SMEs

Small businesses in the construction sector will carry most of the burden of GST implementation. Under the existing excise laws, only manufacturing business with a turnover more than Rs. 1.50 cores have to pay excise duty. Anyhow, under GST the turnover limit has been reduced to Rs. 20 lakh thus increasing the tax burden for many manufacturing SMEs.

2. Increase in operating costs

Most small businesses do not employ professionals and prefer to pay taxes and file returns on their own to save costs. For GST though, as it is a completely new tax system, they will require professional assistance. While this will benefit the professionals, the small businesses will have to bear the additional costs of hiring experts. Also, businesses will need to train their employees in GST conformity increasing their overhead expenses.

3. Change in business software

Most businesses use accounting Software's or ERPs for filing tax returns which have excise, VAT, and service tax already incorporated in them. The change to GST will require them to change their ERPs, too, leading to increased costs of purchasing new software and training employees.

4. GST will be implemented during the middle of the year

The tentative GST implementation date is 1st July 2017. So, for the fiscal year 2017-18 business will follow the old tax structure for the first 3 months, and GST for the rest of the time. It is absurd to cross over from one tax structure to the other in just a day, and hence businesses will end up running both tax systems in parallel, resulting in more confusion and compliance issues.

5. Increase in taxes will increase prices

Presently, some sectors like the textile industry are exempted from taxes or pay low tax. GST has only 4 proposed tax rates of 5%, 12%, 18%, and 28%. Thus, for many sectors the tax burden will increase which in turn will increase the price of the final goods.

6. Petroleum products are not part of GST yet

As of now petroleum products are being kept outside the scope of GST. States will impose their own taxes on this sector. Tax credit for inputs will consequently not be available to related industries like the plastic industry which are heavily dependent on petroleum products. Petrol and diesel are required to run factory machinery and unavailability of input tax credit on petroleum products will most probably push up the final price of all manufactured goods.

7. Registration in different states

GST requires businesses to register in all the states they are operating in. This will increase the burden of compliances.

8. Conclusion

It is concluded from the study that GST is the most coherent steps towards the comprehensive indirect tax reform in India which is levy on all supply of goods and services. All sectors of economy whether industrial, business, Govt. departments or service sector have to bear GST. With the implication of GST, the tax burden will be divided honestly between the manufacturing and service sector through a lower tax rate. All economical sections either big, medium, small scale units, intermediaries, Importers, exporters, traders, professionals and consumers shall be directly affected by GST.

GST will create a single, leagued Indian market to make the economy stronger. Experts say that it is likely to improve tax collections and Boost India's economic development by breaking tax barriers between the States and Integrating India through a uniform tax rate.

From the above discussion it is concluded that change is definitely never easy. It is important to take a leaf from global economies that implemented GST and overcame the teething troubles to experience the advantages of having a unified tax system, easy input credits, and reduced compliances. Hopefully GST, which is considered as one of the biggest taxation reforms in India, will help to boost the overall Growth and development of the country.

Central government of India has recently launched a training program named Pradhan Mantri Kaushal Vikas Yojana. Anyone who wishes to upgrade their skills can undergo this training program. Candidates including chartered accountants, company secretaries, graduates and post-graduates in commerce, banking, statistics, financial markets and business administration can get the GST training certificate after successfully undergoing the GST training course.

References

[1] Girish Garg "Basic Concepts and Features of Good and Service Tax In India" International Journal of scientific research and management (IJSRM).||Volume||2||Issue||2|| [2014].

[2] Dr. Jayashree, R Kotnal "Basic concepts and features of goods and service tax in India" International Journal of Academic Research and Development, Volume 2; Issue 6; November [2017].

[3] Akanksha Khurana1, Aastha Sharma2 "Goods and services tax in India-A positive reform for indirect tax system" "International Journal of Advanced Research, Volume 4, Issue 3 [2016].

[4] Dr. Sanjiv Agarwal, "Basic concepts of GST (PART-1)" F:\RPAPERS\GST\Basic concepts of GST (PART-1) – GST India-Goods and Services Tax in India.

[5] GST – concept & status – As on 5th April, [2017].

[6] https://www.coursehero.com/file/24450826/GST-PPT-taxgurupptx/.

[7] F:\RPAPERS\GST\Key Features of GST, Benefits of GST or Main Features of GST.html.

[8] http://gst.customs.gov.

[9] http://www.gstcouncil.gov.in.

[10] https://en.wikipedia.org.

[11] https://www.google.com.sa.

[12] https://www.discountwalas.com/government-launches-gst-training-programme-to-skill-two-lakh-youth.