International Journal of Management, IT & Engineering
Vol. 7 Issue 9, September 2017,
ISSN: 2249-0558 Impact Factor: 7.119
Journal Homepage: http://www.ijmra.us, Email: editorijmie@gmail.com
Double-Blind Peer Reviewed Refereed Open Access International Journal - Included in the International Serial Directories Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gage as well as in Cabell's Directories of Publishing Opportunities, U.S.A

GOODS AND SERVICE TAX

ILA YADAV

INTRODUCTION

GST is not a new phenomenon. France was the first country to implement GST in 1954 and then many countries followed and implemented this unified taxation system.

In the year 2000, the GST bill was flagged in India when the then Prime Minister Atal Bihari Vajpayee brought forward the issue with indirect taxes.

India follows a taxation system which is divided into two: Direct taxes and Indirect taxes. Direct taxes are the taxes where the liability cannot be passed on to someone else (Income tax). On the other hand, indirect taxes are those in which the liability can be passed to someone else (so a shopkeeper can pass on the liability of paying VAT to its customers). Thus indirect taxes are borne by the consumers as the burden of taxes shifts from one customer to another and ultimately it is borne by the final consumer who consumes the good and services.

WHY GST?

Indirect taxes lead to increase in the price of goods and services and thus making it costlier because the burden of **two kinds of taxes** is passed on to the customer- first, since **the tax on inputs** is the cost to the manufacturer, it is added to the value of goods and services and secondly the **taxes collected by manufacturers from customers while selling** the finished products.

This effect of burdening multiple taxes on consumers by way of burdening the extra cost related to taxes on inputs is called **"cascading effects".**

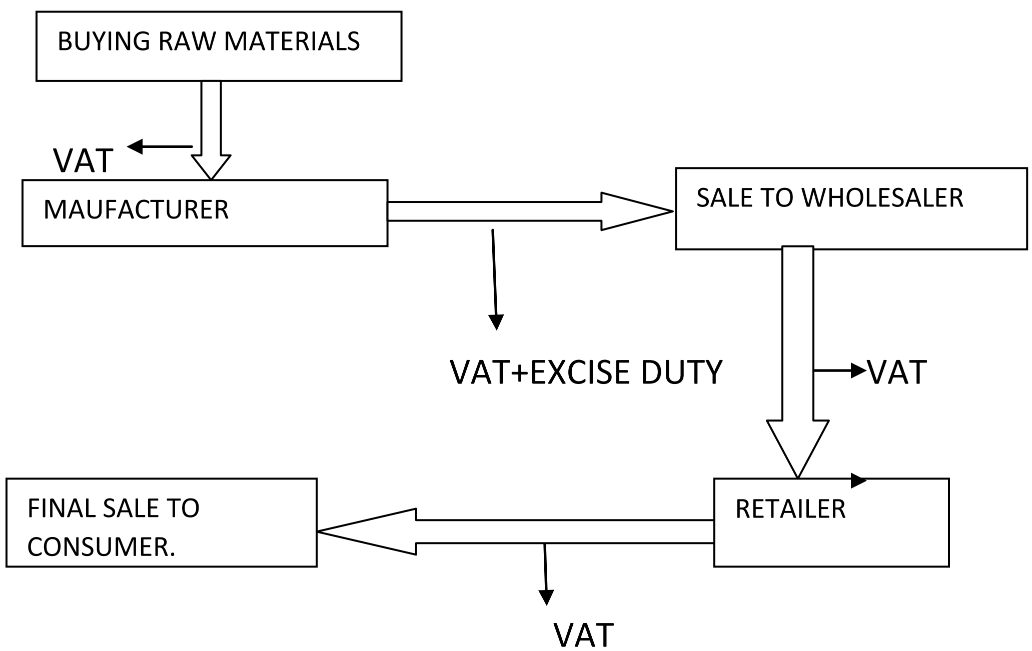
Let us understand this with the help of **an example:**

Suppose a shirt manufacturer pays Rs1000 to buy raw materials .If the tax rate is 10%and there is no profit and loss involved the he has to pay Rs100 as tax. Therefore the final cost of the shirt becomes Rs1100 (1000+100=1100).

Now the wholesaler buys the shirt from the manufacturer at Rs1100 and adds few labels to it. Adding labels means that he is adding some value, therefore his cost increases by suppose Rs400. Now the wholesaler also has to pay tax of 10%. So the final cost becomes Rs (1100+400) =1500 =10% tax= Rs16500.

At the third stage, the retailer buys the shirt at Rs16500 from the wholesaler because the tax liability has passed on to him. He does packaging of the shirt which means some valued is added again. So let us suppose he has added value of Rs300. Now the cost of the shirt further increases because the retailer also has to pay 10%tax. So the final cost to the customer becomes Rs 1650+300=1950+10%tax=Rs 2145.

So the customer has to pay Rs2145 for the shirt which was basically worth only Rs1700 (Rs 1100+400+300). This increase in the price of the item at every stage as tax is paid on tax is referred to as the **" CASCADING EFFECT OF TAXES.**



So **Goods and service tax addresses this issue** of tax on tax or double taxation. It will allow sellers to claim the tax already paid, that is, it has a system of **input tax credit.** The basis of GST is the flow of input tax credit along the entire value addition chain which means that at every step of the manufacturing process, business will have the option to claim the tax already paid in the previous transaction.

What is input tax credit? – It is the credit which an individual can avail for the tax he has already paid for the input used in the manufacturing process. He can subtract the amount of tax he has already paid on the purchase of inputs and submit the remaining to the government.

Thus this process will not lead to increase in the price of the product for the ultimate consumer. Let us **continue with our previous example** to explain this benefit of GST:

Suppose the manufacturer buys raw material of Rs 1000 to manufacture a shirt and at the tax rate of 10% pays Rs100 as tax. So the cost of the shirt becomes Rs1100.

Now the wholesaler buys that shirt and adds value of Rs 400 to the cost price of Rs1000 to the shirt. So his cost rises to Rs1400 (1000+400). Now he has to pay 10% tax to the government , that is , Rs140 (10% of 1400) but he has already paid one tax of Rs100 to the manufacturer of the shirt , hence he can subtract Rs100 already paid from his total tax liability and pay only Rs 40 to the government. Thus Rs100 becomes his input tax credit.

Similarly this continues throughout the value addition process of the product and **this will ultimately reduce the final value of the shirt by reducing the tax burden on the final customer.**

Let us understand the above example with a help of a table below:

Action	Cost	10%tax	Actual liability	Total
Buys raw material	Rs 1000	100	100	Rs 1100
Manufacturer adds value @400	Rs 1400	140	40	1540
Retailer adds value @300	Rs 1700	170	30	Rs 1870
Total	1700		170	1870

Thus clearly we can notice that the final costumer has to now pay Rs1870 instead of Rs2145 because of GST and thus reducing the tax burden to the final customer.

GST BASICS

GST covers and subsumes the following taxes:

- Central Excise tax
- Service tax
- Countervailing Duty
- Special Countervailing Duty
- Value Added Tax (VAT)
- Central Sales tax
- Octroi
- Entertainment tax
- Entry tax
- Purchase tax
- Luxury tax
- Advertisement tax
- Taxes applicable on lotteries

GST is applied on all transactions such as sale, transfer, purchase, lease, barter or import of goods and services.

The GST is levied at multiple rates ranging from 0% to 28%. GST council finalized a five tier GST tax structure of 0%, 5%, 12%, 18% and 28% with lower rates for essential items and highest for luxury and de-merits goods.

India has adopted a dual mode of GST- CGST and SGST. For transactions made within a single state , there will be two components of GST, that is, Central GST (CGST) will be levied by the Central Government and State GST (SGST) by the government of that particular state.
For all interstate transactions and imported goods and services, an Integrated GST (IGST) will be levied by the Central Government.

So the components of GST include:

- CGST- collected on intra –state transactions by the Central Government (for eg: transactions within the state of Karnataka)
- SGST- collected on intra- state transactions by the State Government (for eg: transactions within the state of Karnataka)
- IGST- collected on inter- state transactions by the Central Government (for eg: transactions from Karnataka to Tamil Nadu)

CGST and SGST is levied equally by the central government and the state government (for eg: if the GST rate is 28% on certain transaction then half ie 14% CGST and half SGST) which is applicable on the transaction.

Transaction	Old Regime	New Regime	
Sale within the state	VAT+ Sales tax/ Central Excise tax	CGST+ SGST	Revenue will shared equally between the center and the state
Sale to another state	Central Sales tax + Service tax / Excise	IGST	The center will levy only IGST and then share the IGST revenue based on destination of goods

<u>Input of all GST paid is allowed except</u>:

- Food and beverages, outdoor catering, beauty treatment, health services, cosmetic and plastic surgery.

But if the goods and services are taken to deliver the same category of service or as part of a composite supply, credit will be available.

- Sale of membership in a club, health, fitness centre.
- Rent a cab , health insurance except the following:

1. Government makes it obligatory for employees to provide it to its employees.

2. Goods and services are taken to deliver the same category of services or as a part of composite supply, credit will be available.

CONCLUSION:

Thus on a concluding note we can say that GST will improve the collection of taxes and improve or boost the development if Indian economy by removing the cascading effect of taxes and integrating the economy through a uniform tax rate.

Another important point includes that **GST is a consumption based tax** , that is, taxes are paid to the state in which the goods and services are consumed and not the state where they are produced.

Thus we can say that GST has various advantages attached to it which include:

- Reducing the prices of goods and services to the ultimate consumer
- Removing cascading effect of taxes
- Regulating the unorganized sector
- Uniformity in the economy’s tax structure
- Lesser compliances.