

# Goods and Service Tax: A Tax Revaluation in India



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## Abstract

Goods and Service tax is a dramatic change in the scenario of the indirect tax system. It has been considered the biggest tax reform after independence. After independence in 1947 Indian indirect tax system was biased and it was followed with imbrication of taxes imposed by union and state separately. GST will merge all indirect tax under it and will create smooth tax system for goods and service market in the nation. Economist view on GST that it will help the national economy to grow more efficiently, improving tax revenue and remove the tax barriers between states and central government. GST is a single base tax system for computation on central and state government and it has cascading effect. It is fear that in GST state governments lose tax revenue due to less taxable goods in his account. Economist arguing in later years due to cheap goods and service and increasing number of tax payer will increase the tax collection and boost state and center government revenue. In CRISIL report on GST that it is best for fiscal consolidation as there is much scope to increase government taxable revenue in India.

**Keywords:** Suggestion, Central Goods and Services Tax (CGST), State Goods and Services Tax (SGSY), Cascading.

## Introduction

GST was first introduced in 1954 by France (Europe). Today more than 150 countries adopting this single tax rate system. Brazil, Canada and India has adopting this dual tax system where center and state government imposed CGST and SGST. In 2003 Vijay Kalker committee give suggestion to implement GST in India and it was supposed that it will be implemented on 1 April 2010. But due to some political and tax rate obligation it will be possible on 1 July 2017 by the NDA government. When Indian government achieve the target to implement Goods and Service tax system. It is a comprehensive tax system that will subsume all state and central indirect tax. It can play vital role in the growth of the Indian economy. GST work on the theme "**One Nation One Tax System**". Prime Minister Mr. Narander Modi Ji call it as tax revaluation in India and it has great achievement for the nation after green revaluation in 1967. It removes the complicated indirect tax system in India and it has a positive step in booming Indian economy.

## Aim of the Study

1. The aim of this topic to tell about need and importance of GOODS & SERVICES TAX (GST).
2. It is important to tell the brief development of this tax system and which of the constitutions amendment take place under framing GST.
3. To tell the various items and various GST Tax rate and to develop the positive thinking in the mind of all citizen that GST is necessary for transparency and development of the nation.
4. To tell about the various GST structure in the world.

## Need and Importance of GST

Indian traditional tax regime system relied heavily on indirect taxes including customs, and excise duty. Indirect taxes were the major source of revenue of the center and state government. To increase the tax revenue and reduce cost of tax collection government make tax reform committee during and after nineties. Most of the tax reform committee arguing put forth for heavy reliance on indirect taxes that the major population of the nation was poor and widening base of direct tax that had some limitation. In order to simplify and rationalize indirect tax structure government of India constituted a task force of implementation of (FRBM) Fiscal Responsibility and Budget Management Act, 2003 to check out a framework for fiscal policy and FABM Act target under the headman ship of Dr. Vijay Kelker. Dr. Vijay Kelker made a number recommendation of a national VAT on Goods and Service Tax (GST). Under his recommendation

most of the indirect taxes would subsumed under GST. Which would increase efficiency and productivity of the tax revenue of the nation? GST would prove one of the most important tax reform in India.

#### **Development Process of GST In India**

In 2000, NDA government set up a committee under the chairmanship of Mr. Asim Das Gupta to empower the tax system in India. Hence Mr. .Asim Das Gupta designs the model of GST in India. After Mr. Asim Das, Dr. Vijay Kalker in 2003 give recommendation regarding GST. In 2006 UPA government finance Minister Mr. P.Chindamaram announced to implement GST till 1 April 2010. Therefore on May 2007 finance minister set up a committee of the state finance ministers to work and which submitted his report in Nov. 2007. Thus first detail discussion paper on GST was introduced in Nov. 2009 with the objective of generating, debating and getting the inputs. It was suggested a dual GST model has been adopted. Finally in March 2011 the 115<sup>th</sup> GST amendment bill was introduced to formation law for implementation of GST by the GST council in lower house and GST Amendment Bill was referred to parliamentary committee on finance for evaluation.

In Aug. 2013 the standing committee submitted the report and recommendation to GST council to propose Dispute Settlement and to prepare a mechanism to GST council itself. It also recommended that GST council should take decision by voting rather than consensus. Its representation in the GST council should be 1/3 from central and rest 2/3 from states. The discussion should be passed with more than ¾ vote representatives. But the 115<sup>th</sup> GST amendment bill was lapsed with dissolution of 15<sup>th</sup> Lok Sabha.

In 16<sup>th</sup> Lok Sabha NDA government redefined the GST Bill and passed GST Bill in Lok Sabha under 122<sup>th</sup> amendment of the constitution on 6 May 2015. Later GST has to passed with 2/3<sup>th</sup> majority Rajya Sabha in order to implemented on 1 April 2016.

#### **Meaning and Detail Study of GST, CGST, SGST Goods and Service Tax (GST)**

The GST is a Value added Tax (VAT) is proposed to be a comprehensive indirect tax levy on manufacturing, 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 Indian Central and state government. The GST is a Value – added tax (VAT) levied on most goods and services sold for domestic consumption. The GST is paid by consumers and it is remitted to the government by the businesses selling the goods and services. This tax provides revenue for government.

#### **Central Goods and Service Tax (CGST)**

CGST fall under Central Goods and Service Tax Bill 2016. When CGST is being introduced the present Central Excise Duty, Central Sale Tax, Service Tax, and Excise duty, Customs Duty, surcharges and cesses are submitted under CGST. It is charged on the movement of goods and services of standard commodities and services which can amended time to time by a separate body. The collected revenue under CGST is for center government. Input tax credit on CGST is given to

states and such input tax could utilize only against the payment of Central GST.

#### **State Goods and Service Tax (SGST)**

SGST fall under state government Goods and Service Tax Act 2016. To easy understand SGST the present state government Sale tax, VAT, lottery tax, Luxury tax, Entertainment tax, state Cess and Surcharges are related to supply of goods & services are subsumed in SGST. The collected revenue under SGST is for State government.

#### **GST Rate and Categories of Goods**

GST has been catch the market attention and taking earning from companies. The government has put a large number of goods and services under 18% tax slab. The government put four categories for taxes 5%, 12%, 18%, 28%. Basic needs goods are free from GST mean 0% tax rate. Energy sources, petroleum product, alcohol, electricity and LPG are not considered in GST.

#### **No Tax, 0% Tax Rate Related Goods & Services**

Necessary goods for life like as fresh milk, meat, fish, eggs, curd oil, natural honey, fruits and vegetables, flour, basin, bread, salt, judicial papers, printed books, newspapers and other 1271 goods which are outside the GST. Hotel and lodges with tariff below Rs. 1000 and grandfather service has been exempted from GST.

#### **5% Tax Rate Related Goods & Services**

Under 5% tax rate those items are consider below 1000Rs. like as packaged food items, footwear below to 500 Rs., tea, milk powder, frozen vegetables, coffee, spices, cashew nut, ice and snow, bio gas, insulin, postage stamps, and first-day covers. Transportation service like Railways, Air transport, textile jobs, and small restaurants service are under 5% tax rate because their main input is petroleum, which is exempted form GST.

#### **12% Tax Rate Related Goods & Services**

Apparel above 1000 Rs. Goods are under 12% GST tax rate like as ghee, dry fruits in packaged, animal fat, fruity juices, namkeen, ayuridic medicines, tooth powder, agarbatti, coloring books, picture books, sewing machine, cellphones, ketchup and shoes, kids, crockery, video game boards, carom and ludo and many more goods which are consider as more than 1000 Rs. State run lotteries, non AC hotels, business class air ticket, fertilizers and work under contracts will fall 12% GST tax rate.

#### **18% Tax Rate Related Goods & Services**

Most of the items are under this tax slab which includes costly like as software, costly footwear, biscuits & cakes, preserved vegetables, jams, sauces, soups, ice cream, mineral water, tissues paper. Camera, speakers and monitors, kajal pencil sticks, CCTV, optical fiber, bamboo furniture, and most of the auto-mobile industries parts. AC hotels that serve liquor, telecom services, IT services, branded garments and financial services, room tariffs between 2500Rs. to 7500 Rs. and restaurant inside five star hotel are charge 18% GST tax.

#### **28% Tax Rate Related Goods & Services**

Most of the luxuries items like as chewing gum, chocolate, pan masala, aerated water, paint, deodorants, shaving creams, hair shampoo, dye,

sunscreen, wallpaper, ceramic tiles, water heater, washing machine, ATM vending machines, vacuum cleaner, shavers, automobiles motorcycle, aircraft for personal use will under this tax slab. Under these categories private run lotteries authorized by the states, hotel room tariffs above Rs. 7500, five star hotel, race club betting, cinema ticket and other luxury services are charge under 28% GST rate.

#### **Important Characteristic of GST (Goods and Service Tax)**

1. GST is a simple, transparent and efficient indirect tax system.
2. It is not going to an additional new tax but will replace all Indirect taxes.
3. It is levied at each point of sale or provision of services.
4. It facilitates taxation of goods and service in an integrated manner.
5. It is a comprehensive value additional tax on the supply and consumption of the goods and services in the nation.
6. It will help in estimating tax revenue induced economic distortion and gives boost to Indian economy.
7. It lower the compliance and administrative cost for collection the taxable revenue for the government.

#### **Opportunities of GST**

1. Reduces the corruption in the nation.
2. Reduces the tax burden on consumer and helpful to check inflation.
3. Improve the growth of revenue in state and Union.
4. Reduces transaction costs and unnecessary wastage.
5. Eliminates the multiplicity of taxation.
6. One point single tax system.

#### **Challenge of GST**

1. There are two types of GST laws, one at a center level GST (CGST) and other one is state level GST (SGST). There are different taxes rate at CGST and SGST for goods and services, but the natural resources are based on geographical location and other factor.
2. It is big challenge on the states and the center how they make GST simple one. Success of any tax reform depends on the inherent simplifications of the system, which leads to the high conformity with the administrative measures and policy.
3. All credit will be available on online connectivity with GST Network. Hence small businesses may find difficulty to use the system.
4. Service sector may oppose because they have register in each state with central government. So every business at all India level will have around 60 registrations while the have one time.
5. One more challenge for GST is that tax revenue division between center and state. It is true that center tax revenue is divided between states according to finance commission recommendation but there is no provision of division central tax revenue after four year implementation of GST.

#### **Conclusion**

Taxation policy plays a vital role in equity, efficiency and the development of a nation. A good tax system should keep in view of income and distribution at the same time. It has endeavored to generate tax revenue to support government expenditure on infrastructure development and public services. High rate of tax increase the cost of production, decrease efficiency and giving a way to envision of taxes whereas the lower rate of tax increase efficiency, lowering cost of production and increase the base of tax revenue. GST has all good characteristic to enumeration of the benefits. GST is a superior, demand of time itself and provide a sufficient system depends upon the structure and it designed into a manner of implementation. Currently GST implemented by the center and the state respectively and it appears that there is different rate of taxes. Implementation of GST will boost the economy, increase output, generate employment opportunities and flourish GDP by 1- 1.5%. It can use the effective for fiscal policy management. If GST implement successfully due to nation- wide, its results in lower cost of doing business and helpful to make domestic product more competitive in local and international market. No doubt GST gives India a world class tax system by grabbing different treatment to manufacturing and service sector. Hence a single tax rate would help to maintain simplicity and transparency by the good tax system.

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