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GOODS AND SERVICE TAX (GST): A KEY TAX REFORM IN INDIA

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ABSTRACT

The Tax is very much beneficial for the consumers in the aspects of payment of taxes that is we all have to pay separate tax at the state level and at central level for the goods and services purchased. In order to overcome the problems the government of India simply the direct tax as well as indirect tax and implemented GST (Goods and Service Tax) on 1st July, 2017. GST, one of the biggest tax reforms in India is all set to assimilate Economies of the State and boost up the overall economic growth. GST is the only indirect tax that directly connects all the sector of Indian economy thus enhancing the economic growth of the country by creating a single unified market. It is single regime tax system which makes India One Nation One Tax by subsuming both Indirect tax levied by the Central government and State government. Amalgamation of central and state taxes will help in boosting Indian economy and enhancing its position in International markets. The GST based taxation system brings more transparency in taxation system and increases GDP rate and reduces tax theft and corruption in the country. Thus, Input tax credit has made GST beneficial for consumers. It also reduces the tax burden on manufacturers and thus encourages for the higher production. This process will increase the export of India, and it will increase the total GNP. Thus, the introduction of the Goods and Services Tax is an extremely notable step in the field of indirect tax reforms in India economy.

KEY WORDS: *Goods and services Tax (GST), Indirect Tax, Government, Tax Reform, Tax, and India.*

INTRODUCTION:

The tax system is the backbone of any developing nation. The Government of any country needs money for its functioning and taxes are a major source of revenue for a Government. The taxes thus collected are spent by Government on the public. In India also, revenue from tax collection is the biggest source of income for its social welfare activities. These taxes are broadly classified into two types: Direct Tax and Indirect Tax. Direct Tax is imposed on the Income of an individual. The amount of Tax payable varies on the income earned by the individual from various sources such as salary, house rent income, etc. Thus, the more you earn, the more tax you pay to the Government which really means the rich pay more tax in contrast to the poor. The Indian Constitution, the charter of the nation clearly talk over the tax gathering and his different characteristics. Indirect tax is not imposed directly on the income of individuals. As a substitute, it is imposed on goods and services which in turn increase the cost of MRP of Goods and Services. Unlike the direct tax, the indirect tax should be borne by the end customer, rich and poor alike. There are many indirect taxes. More or less of these are levied by the Central Government where some are imposed by the State Government. The Department of Revenue under the Government of India's Ministry of Finance is solely responsible for the computation of tax. This department levy taxes on human being or organizations for income, customs duties, service tax and central excise. However, the agriculture-based income taxes are levied by the respective State Governments. Local bodies have got the power to compute and levy taxes on properties and other utility services like drainage, water supply and a lot of others.

The tradition of taxation in India has been in force since ancient times. It gets back its references in several ancient books like 'Manu Smriti' and 'Arthasastra'. The Islamic rulers levied jizya. It was later on abolished by Akbar. Then again, Aurangzeb, the last prominent Mughal Emperor levied Jizya. Reasons for this mention to be financial stringency and personal feeling on the part of the emperor, and an appeal by the ulema.

The period of British rule in India witnessed some remarkable change in the whole taxation system of India. During the British Empire, the entire taxation system of India was transformed. It was entirely in favor of the British Empire, but it also incorporated modern and scientific techniques of taxation systems. Another remarkable transformation came in the year 1922 in the taxation system when Britishers established an entirely new administrative and taxation system in India. In this system, the taxation system was categorized in two main categories: Direct Taxes and Indirect Taxes in India are levied by the Central Government and the State Governments. Other minor taxes are also levied by the local authorities such as Municipality or Local Council or Grampanchayat. The authority to levy tax is derived from the Constitution of India which allocates the power to levy various taxes between Centre and State.

GST is termed as biggest tax reform In Indian Tax Structure of Indian History since Independence which was long pending. The purpose of GST is to replace all taxes with single comprehensive tax, bringing it all under single Umbrella and ensuring a smooth national market with high economic growth rate. Goods and Service Tax (GST) is a full tax charge on the manufacture, sales, and expenditure of goods and services. The fundamental aim of GST is to make uniform the scattered indirect tax system in India and avoid the cascading effect in taxation. It is a domestic trade tax that will be charged in the form of a value-added tax on all goods and services -in practice with some exceptions. A value-added tax exempts all inputs together with capital goods. GST is meant to simplify the indirect tax regime of India by replacing a host of taxes by a single unified tax. GST is a comprehensive, multi-stage, destination-based tax that is levied on every value addition. GST is a broad taxation policy that system that includes all indirect taxes of central and state governments. Both the state and the central governments will impose GST on almost all goods and services produced in India or imported into the country. By merging large no. of centre and state taxes into one single point taxation system will reduce the burden on producers and foster growth through more production. Various toll plazas and tax barriers lead to a lot of wastage for perishable items being transported which leads to the increase the costs of goods. GST could eliminate this roadblock which leads to lowering of prices for essential goods. The following erstwhile state and central taxes have been subsumed in GST.

CENTRAL TAXES

1. Central Excise Duty
2. Service Tax
3. Duties of Excise (Medicinal and Toilet Preparations)
4. Additional Duties of Excise (Goods of Special Importance)
5. Additional Duties of Excise (Textiles and Textile Products)
6. Additional Duties of Customs (commonly known as CVD)
7. Special Additional Duty of Customs (SAD)
8. Central Surcharges and Cesses so far as they relate to supply of goods and services

STATE TAXES

1. State VAT
2. Central Sales Tax
3. Luxury Tax
4. Entry Tax (all forms)

5. Entertainment and Amusement Tax (except when levied by the local bodies)
6. Taxes on advertisements
7. Purchase (Entry) Tax
8. Taxes on lotteries, betting and gambling
9. State Surcharges and Cesses so far as they relate to supply of goods and services

The GST is governed in India by GST Council and its Chairman is the Finance Minister, Government of India. Keeping in mind the federal structure of India, there are two components of GST – Central GST (CGST) and State GST (SGST). In association Centre and States can alone collect GST close the value chain. The tax is obligatory on each one supply of goods and services. Centre would charge and collect Central Goods and Services Tax (CGST), and States would impose and collect the State Goods and Services Tax (SGST) on every transaction inside a State. The input tax credit of CGST would exist for payment the CGST liability upon the output in every one stage. In the same method, the credit of SGST paid on inputs would be permissible for paying the SGST on output. No cross-utilization of credit would be allowed.

GST IN OTHER COUNTRIES

The Goods and services tax or GST which is popular as what it is all over the world was first introduced in France in the year 1954 and subsequently more than 160 countries had implemented the GST law like Germany, Italy, UK, South Korea, Japan, Canada, Australia, etc. and India was 161 countries to implement Goods and service tax (GST) in July 2017. Most of the countries had adopted unified GST while some countries like Brazil, Canada follows a dual GST the system where tax is imposed both by central and by the state government. India had adopted the dual system of GST as CGST and SGST. In China, GST apply only to goods and the provision of repairs, replacement, and processing services. The GST in Canada replaced the federal manufacturers' sales tax which was then levied at the rate of 60 percent and was similar in design and structure as the CENVAT in India. It is estimated that this replacement resulted in an increase in potential GDP by 24%, consisting of 12.4% increase in national income from higher factor productivity and 50% increase from a larger capital stock (due to the elimination of tax cascading). The Canadian experience is suggestive of the potential benefits to the Indian economy. GST rates are not uniform across the globe. The GST rates of some countries are given below:

Name of Country	GST Rates (in %)
Denmark	25%
Italy	22%
Netherlands	21%
United Kingdom	20%
France	20%
Germany	19%
India	0%, 5%, 12%, 18%, 28%
Russia, Tanzania, Uganda	18%
China	17%
Mexico, Kenya	16%
New Zealand	15%
Egypt, South Africa	14%
Philippines, Kazakhstan	12%
Australia, Brazil, Indonesia, Korea	10%
Japan, Switzerland	8%
Thailand, Singapore	7%
Malaysia	6%
Canada, Jersey, UAE	5%

Note: Ranking as per Descending Order

GST in India

The idea of GST in India was proposed by Atal Bihari Vajpayee in 1999 and a committee was set up under the leadership of Asim Das Gupta the then finance minister of West Bengal to design a GST model in 2000. Then after, in the year 2003, a task force was formed by the Vajpayee government under Vijay Kelkar to recommend tax reforms. The Kelkar Task Force on indirect tax had suggested a comprehensive Goods and Services Tax (GST) based on VAT principle. But after the fall of BJP – led NDA government in the year 2004 and coming of Congress-led UPA government our new finance minister of that time P. Chidambaram continued the work on GST and proposed the GST rollout plan by 1st, April 2010. But in the very same year, Asim Dasgupta resigned as the head of GST committee but he mentioned that 80% of the task has been done.

In 2004, Vijya Kelkar recommended GST to replace current taxation system. In February 2006, GST appeared for first time in the budget speech in the Indian Budget in 2006-07 by the then Finance Minister Mr. P. Chidambaram as a single centralized Indirect tax. Finance Minister P. Chidambaram set the target to implement GST by the year 2010. In February 2007, he said that Empowered Committee will prepare a Roadmap for GST. In April 2008, the committee submitted a report, "A Model and Roadmap Goods and Services Tax (GST) in India." Kelkar (2009) committee recommended that GST will bring qualitative change in the indirect tax system of the country and the GDP will grow due to the reduction of production cost leads to enhance consumption by the consumers.

In February 2010, project for computerization of commercial taxes was launched by the government. In March 2011, Constitutional Amendment Bill was introduced in Lok Sabha. After that Bill was referred to Standing Committee on finance. In August 2013, Standing Committee submitted the report to Parliament regarding improvements but the bill has lapsed with the dissolving of Lok Sabha. In the year 2014, BJP government again came into power with Mr. Narendra Modi as our prime minister and the GST Bill was introduced in December 2014 and passed in May 2015 in the Lok Sabha and Passed in Rajya Sabha in August 2016 by the majority. It became law in September 2016 when President signed the Bill. In May 2016 the constitutional amendment bill for GST was passed by Lok Sabha and deadline of 1st April 2017 to implement GST was set by Arun Jaitley the finance minister of India.

The past 15 years have witnessed tremendous reformations of the taxation system in India. New tax laws have been made for reducing complexity and bringing transparency in taxation payment. Finally, in the year 2017 with the introduction of Goods and Service tax (GST), GST will bring in "One Nation One Tax One Market" to integrate the taxation structure in the country. The tax replaced existing multiple cascading taxes levied by the central and state governments. It has replaced 17 indirect taxes and 22 cesses. The GST was launched at midnight (30 June – 1 July) 2017 by the President of India, Pranab Mukherjee, and the Prime Minister of India Narendra Modi. The launch was noticeable by a historic midnight (30 June – 1 July) session of both the houses of parliament call together at the Central Hall of the Parliament. However, the session was attended by prominent guests from the business and the entertainment industry including Ratan Tata, it was boycotted by the opposition due to the expected problems that it was bound to lead to for the middle and lower class Indians.

GST rates in India are 0%, 5%, 12%, 18% and 28% with 12% and 18% being standard rate. The lowest rate of 5% is for common use item. The government has kept large no of items under 18% slab rate. And the peak rate of 28% will apply to luxury goods. The Centre and States have agreed to impose the cess on demerit and luxury goods under GST, over and above peak rate of 28%. Gold and rough diamond does not fall under the current rate slab ambit and will be taxed at 3% and 0.25% respectively. The GST council has fixed the tax rate for 1211 items. The following table will show the comprehensive list of item and services that will be taxed at different slab rate of GST. The GST tax rate come under 5 slabs and these make sure that people get their slabs just right.

The following are the GST Tax Slab categories wise:

Tax Rates	Goods	Services
Exempted Go (No tax) 0%	Jute, fresh meat, fish chicken, eggs, milk, butter milk, curd, natural honey, fresh fruits and vegetables, flour, besan, bread, prasad, salt, bindi. Sindoor, stamps, judicial papers, printed books, newspapers, bangles, handloom, Bones and horn cores, bone grist, bone meal, etc.; hoof meal, horn meal, Cereal grains hulled, Palmyra jaggery, Salt - all types, Kajal, Children's' picture, drawing or colouring books, Human hair, Khadi purchased from Khadi and Village Industries stores, Clay idols, brooms, Cotton seed oil cake, Charkha.	Hotels and lodges with traffic below Rs 1000, grandfathering services has been exempted under GST.
5%	Fish fillet, Apparel below Rs 1000, packaged food items, footwear below Rs 500, cream, skimmed milk powder, branded paneer, frozen vegetables, coffee, tea, spices, pizza bread, rusk, sabudana, kerosene, coal, medicines, stent, lifeboats, Cashew nut, Cashew nut in shell, Raisin, Ice and snow, Bio gas, Insulin, Agarbatti, Kites, Postage or revenue stamps, stamp-post marks, first-day covers, Branded food, walnuts, dried tamarind, roasted gram, Dhoop batti, Corduroy fabric, saree fall, Paper mache items,Oil cakes, Duty Credit Scrips,Cotton quilts(quilts not exceeding Rs 1000 per piece),corals,Rosaries and prayer beads,Hawan samagri,Grass, leaf and reed and fibre products,including mats, pouches, wallets, mangoes sliced dried, Khakra and plain chapati / roti, branded Namkeens, Ayurvedic, Unani, Siddha, Homeopathy medicines; Paper waste or scrap; Real Zari; Plastic waste, parings or scrap; Rubber waste, parings or scrap; Hard Rubber waste or scrap; Paper waste or scrap; Real Zari; Cullet or other waste or scrap of Glass; E-Waste; Biomass briquettes.	Transport services (Railways, Air transport), small restaurants will be under 5 % category because their main input is petroleum, which is outside GST ambit.
12%	Apparel above Rs 1000, frozen meat products , butter, cheese, ghee, dry fruits in packaged form, animal fat, sausage, fruit juices, Bhutia, namkeen, Ayurvedic medicines, tooth powder, agarbatti, colouring books, picture books, umbrella, sewing machine, cellphones, Ketchup & Sauces, All diagnostic kits and reagents, Exercise books and note books, Spoons, forks, ladles, skimmers, cake servers, fish knives, tongs, Spectacles, corrective, Playing cards, chess board, carom board and other board games, like ludo, rubber band, Wood, stone, metals, marble idols,Table and kitchenware,Batters, including idli / dosa batter, Textile caps,sprinklers,Cotton quilts(quilts exceeding Rs 1000 per piece),Statues, statuettes, pedestals,ceramic articles, porcelain items, ornamental articles, bells, gongs, non-electric of base metal,animal carving material, synthetic filament yarn, such as nylon, polyester, acrylic, etc; artificial	State-run lotteries, Non-AC hotels, business class air ticket, fertilisers, Work Contracts.

	filament yarn, such as viscose rayon, Cuprammonium; Sewing thread of manmade staple fibres; Yarn of manmade staple fibres.	
18%	Footwear costing more than Rs 500, Trademarks, goodwill, software, Bidi Patta, Biscuits (All categories), flavoured refined sugar, pasta, cornflakes, pastries and cakes, preserved vegetables, jams, sauces, soups, ice cream, instant food mixes, mineral water, tissues, envelopes, tampons, note books, steel products, printed circuits, camera, speakers, Kajal pencil sticks, Headgear and parts thereof, Aluminium foil, Weighing Machinery [other than electric or electronic weighing machinery], Printers [other than multifunction printers], Electrical Transformer, CCTV, Optical Fiber, Bamboo furniture, Swimming pools and padding pools, Curry paste; mayonnaise and salad dressings; mixed condiments and mixed seasonings, Tractor parts, raincoats, Medical grade disposable gloves, Computer monitors(up to 20 inch),Custard powder, Rice rubber rolls for paddy de-husking machine,Kitchen gas lighters, poster Colour; Modelling paste for children amusement; Fittings for loose-leaf binders or files, letter clips, letter corners, paper clips, indexing tags and similar office articles, of base metal; staples in strips.	AC hotels that serve liquor, telecom services, IT services, branded garments and financial service, Room traffic between Rs 2500-and Rs 7500, restaurants inside five-star hotels.
28%	Bidis, chewing gum, molasses, chocolate not containing cocoa, waffles and wafers coated with choclate, pan masala, aerated water, paint, deodorants, shaving creams, after shave, hair shampoo, dye, sunscreen, wallpaper, ceramic tiles, water heater, dishwasher, weighing machine, washing machine, ATM, vending machines, vacuum cleaner, shavers, hair clippers, automobiles, motorcycles, aircraft for personal use.	Private-run lotteries authorized by the states, hotels with room tariffs above Rs 7500, 5-star hotels, race club betting, cinema

Not covered under the GST purview:

1. Petroleum products
2. Entertainment and amusement tax levied and collected by panchayat /municipality/district council
3. Tax on alcohol/liquor consumption
4. Stamp duty, customs duty
5. Tax on consumption and sale of electricity

It will affect the entire indirect tax system the tax structure, tax incidence, tax computation, compliance, input credit utilization and reporting procedures. India had adopted the dual system of GST as CGST and SGST. The need for a concurrent dual GST model is based on the following:

1. As per constitution of India concurrent power to levy the tax on domestic goods and services is provided to both central and state government
2. As per the dual GST, the model tax can be levied independently by the central and state government but both will operate in common platform for the imposition of taxes, liabilities would be identical.

The 23rd meeting of the GST council was held in Guwahati on November 10, 2017, headed by Finance Minister Arun Jaitley, Government of India. The council recommended widespread changes in the rates of mass consumption items by slashing the Goods & Services Tax (GST) on them. The Council cut rates on 211 items through all tax brackets. The GST Council slashed tax rates on 177 items in the top 28% to 18% bracket which included chocolates, chewing gum, shaving cream, aftershave kits, beauty products, granite and marble with effect from 15 November 2017. A uniform 5% tax was prescribed for all restaurants both air-conditioned and non-AC, that were lowered from 18% in air-conditioned and 12% on non-AC ones. GST on many items has also been reduced.

On the 18th of January, the 25th GST Council Meeting was held at New Delhi. In addition to relaxation of GST rules and regulations, GST rates have also revised for 29 goods, 53 services categories effective from 25 January 2018 as below:

Changes in rates of GST (Goods)

Particulars	Present Rate	Recommended Rate
Old and used motor vehicles (medium and large cars, and Sport Utility Vehicles (SUVs)) on the margin of the supplier, subject to the condition that no ITC of central excise duty/Value Added Tax (VAT) or GST paid on such vehicles have been availed by him.	28%	18% (compensation cess reduced to nil)
Buses, for use in public transport, which exclusively run on biofuels.	28%	18%
All types of old and used motors vehicles (other than medium and large cars and SUVs) on the margin of the supplier of subject to the conditions that no ITC of central excise duty/VAT or GST paid on such vehicles have been availed by him.	28%	12% (compensation cess reduced to nil)
Diamonds and precious stones	3%	2.5%
Sugar boiled confectionary, Drinking water packed in 20 litres bottles Bio-diesel, Drip irrigation system including laterals, sprinklers, etc.	18%	12%
Liquid Petroleum Gas (LPG) supplied to domestic household consumers by private LPG distributors	18%	5%

Changes in rates of GST (Services)

Particulars	Present Rate	Recommended Rate
Services by way of admission to theme parks, water parks, joy rides, merry-go-rounds, go-carting and ballet	28%	18%
Construction of metro and monorail projects (construction, erection, commissioning or installation of original works). Works Contract Services (WCS) provided by subcontractor to the main contractor providing WCS to Government. Common effluent treatment plants services for the treatment of effluents	18%	12%
Tailoring service	18%	5%

In GST practice, all transactions and procedures mandatory to be completed only through electronic mode. This will help in cut down the physical dealings of taxpayers with tax officials. The GST provides for the facility of auto-populated monthly returns and annual return. It will similarly make easy the taxpayers by setting up the contribution of refund within 60 days, and provisional release of 90% refund to exporters within seven days. Further assistance measures under GST include interest payment if the refund is not sanctioned in time, and refund to be directly credited to bank accounts.

CONCLUSION

The main purpose of GST (Goods and Service Tax) is to fetch on the single tax system for the manufacture and the sale of goods at the both central and the state level in the country. Under GST, there is one tax for both goods and services, which is a clear tax policy and this will improvise collections of tax. It would also lead to a clear system and abolish tax based theft and corruption at the national level. GST being a friendly taxation system for the corporate sector will provide easiness in tax policies, reduce inflation levels, and make the overall system more transparent. GST is not the only investor or business friendly but also consumer friendly. A well-designed GST in India is likely to make simpler, remove tax tumbling and put the Indian economy on the high-growth path. It is expected that GST will boost economic growth by 2% which will, in turn, reduce the budget deficit and help the government to allocate more funds for development projects. GST is expected to become healthier easiness of look after business in India. In the GST system, exports will be zero-rated in whole. This is not anything like the previous system of the tax structure, where reimbursement of some of the taxes does not take place due to fragmented nature of indirect taxes between the Centre and the States. History has shown that several countries have benefited from moving to a GST regime. Implementation of GST would also significantly good thing in taking away economic inequality caused by previous multifaceted tax structure in India and will help in the development of a common national market. According to Ministry of Finance, “GST will make India a common market with common tax rates and procedures and remove economic barriers.”

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