GST: An Introduction

Background

Goods and Services Tax (GST) is one of the greatest indirect tax reforms of India. Before leaping into the concept of GST, let's first understand the

- Indian taxation framework and
- The underlying reasons that mandated the implementation of a single, unified tax.

Indian Tax Structure primarily consists of two types of taxes: 'Direct Tax' and 'Indirect Tax'. Direct Tax is a tax levied directly on the income, wealth, and profession of an individual. Income Tax and Corporation Tax are the major direct taxes.

Indirect Tax, on the other hand, is not chargeable on the direct income of an individual. It is rather levied on the goods and services consumed by the ultimate consumer. Customs and GST are the major indirect taxes in India.

Now, the previous indirect tax system comprised of separate Centre and State laws. Such a tax structure not only increased the cost of goods but also made the taxation system more complex. Therefore, to bring in simplicity and reduce '**cascading tax effect**', a single, unified tax in the form of GST was introduced. Such a tax system involves levy on the supply of goods or services or both with concurrent jurisdiction of Centre and States.

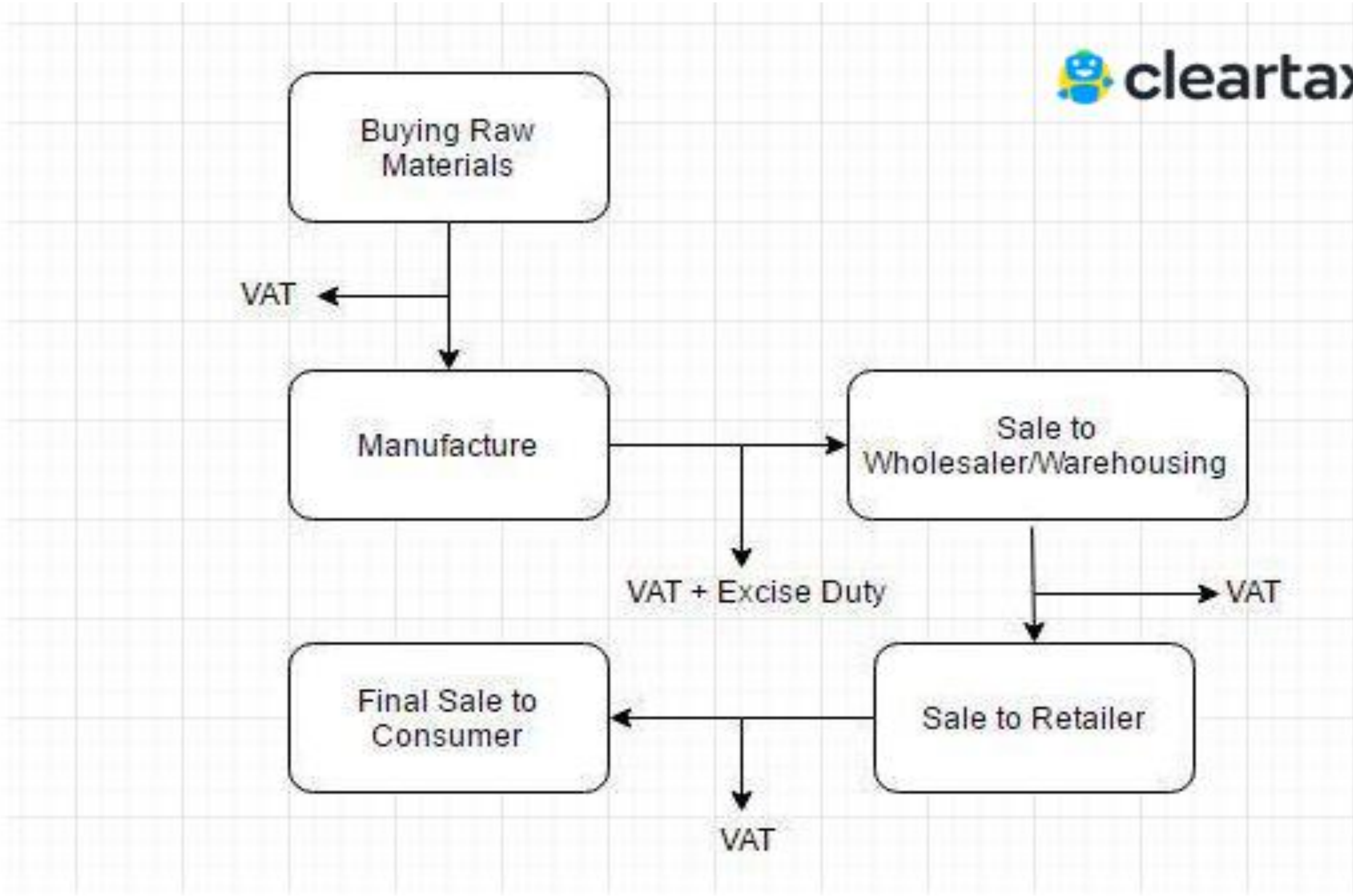
What is GST?

GST is an Indirect Tax which has replaced many Indirect Taxes in India. The Goods and Service Tax Act was passed in the Parliament on 29th March 2017. The Act came into effect on 1st July 2017; Goods & Services Tax Law in India is a **comprehensive**, **multi-stage**, **destination-based tax** that is levied on every **value addition**.

In simple words, Goods and Service Tax (GST) is an indirect tax levied on the supply of goods and services. This law has replaced many indirect tax laws that previously existed in India.

GST is **one indirect tax** for the **entire country**.

So, before Goods and Service Tax, the pattern of tax levy was as follows:



Under the GST regime, the tax is levied at every point of sale. In the case of intra-state sales, Central GST and State GST are charged. Inter-state sales are chargeable to Integrated GST.

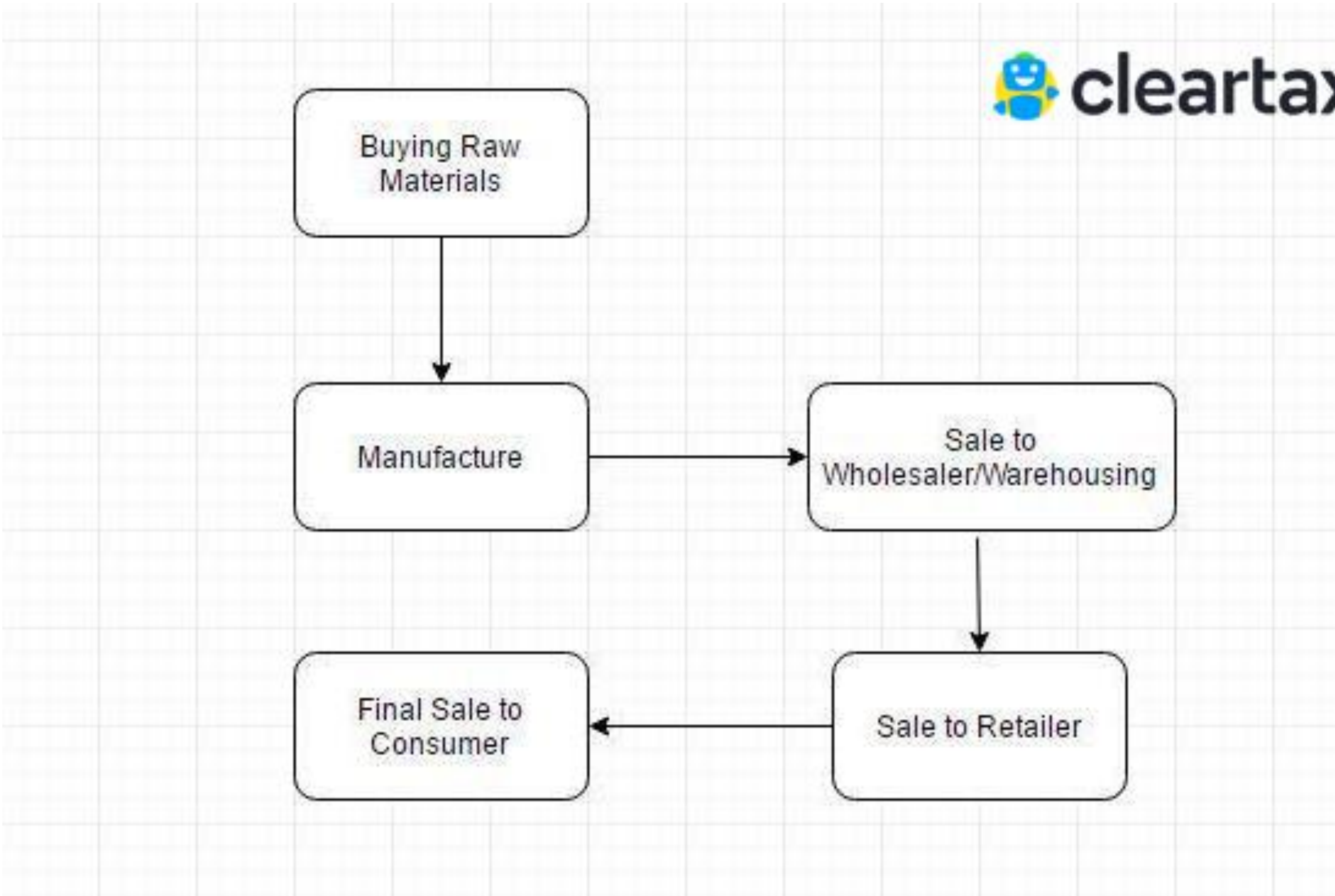
Now let us try to understand the definition of Goods and Service Tax – "GST is a comprehensive, **multi-stage**, **destination-based tax** that is levied on every **value addition**."

Multi-stage

There are multiple change-of-hands an item goes through along its supply chain: from manufacture to final sale to the consumer.

Let us consider the following case:

- Purchase of raw materials
- Production or manufacture
- Warehousing of finished goods
- Sale to wholesaler
- Sale of the product to the retailer
- Sale to the end consumer



Goods and Services Tax is levied on each of these stages which makes it a multi-stage tax.

Value Addition

The manufacturer who makes biscuits buys flour, sugar and other material. The value of the inputs increases when the sugar and flour are mixed and baked into biscuits.

The manufacturer then sells the biscuits to the warehousing agent who packs large quantities of biscuits and labels it. That is another addition of value after which the warehouse sells it to the retailer.

The retailer packages the biscuits in smaller quantities and invests in the marketing of the biscuits thus increasing its value.

GST is levied on these value additions i.e. the monetary value added at each stage to achieve the final sale to the end customer.

Destination-Based

Consider goods manufactured in Maharashtra and are sold to the final consumer in Karnataka. Since Goods & Service Tax is levied at the point of consumption. So, the entire tax revenue will go to Karnataka and not Maharashtra.

<u>Features of GST</u>

The features of GST can be summarized as under:

- *Subsuming of 17 taxes at Central/States level.*
- *Consumption Based Tax.*
- *One Tax rate across the country.*
- *Taxable event – "Supply of Goods or Services"*
- *No differentiation in Goods or Services*
- *Comprehensive tax on Goods & Services*
- *No tax on tax.*
- *Free flow of credit.*
- *Value Addition Tax at each stage.*

Dual GST Framework in India

India is a federal country, where both Centre and States have powers to levy and collect taxes under respective legislation. Hence, a **dual GST** model is implemented in India. Under the dual model, the power to levy taxes is distributed between Centre and States. Accordingly there are four components of GST: CGST, SGST, IGST and UTGST.
Central GST (CGST) is levied on intra-state supply of goods and services by the Central Government. It is governed by CGST Act. The State GST (SGST) is levied on the intra-state supply of goods and services by the State Government. It is governed by the SGST Act.
Integrated GST (IGST) is levied on the inter-state supply of goods and

services by the Central Government. It is governed by the IGST Act. The term ‘inter-state’ supply also includes 1) imports and exports 2) goods supplied to foreign tourists and 3) goods supplied to or by Special Economic Zones (SEZs).

Rates of GST in India

Goods and services are divided into five different tax slabs for collection of tax - 0%, 5%, 12%, 18% and 28%. However, petroleum products, alcoholic drinks, and electricity are not taxed under GST and instead are taxed separately by the individual state governments, as per the previous tax system. There is a special rate of 0.25% on rough precious and semi-precious stones and 3% on gold.

Advantages and Disadvantages of GST

GST is undoubtedly one of the biggest tax reforms since India opened its gates to the world economy in 1991. It aims to create a unified market throughout the nation by subsuming multiple taxes and reducing tax compliance. Thus, there are a lot of **advantages of GST** as an indirect tax. However, there are a number of **disadvantages of GST** too that make it challenging to implement the tax.

Advantages of GST

- Upcoming of common national market
- Elimination of cascading effect of taxes as a host of taxes get subsumed Small traders or service providers exempt from paying tax as threshold for registration increased to Rs 20 Lakhs

- Small businesses to benefit from the **composition scheme** as it eases the compliance burden for them
- Reduced tax compliance as number of **tax returns to be filed under GST** has come down
- The final price of goods and services to come down as the benefit of the input tax credit gets passed on to the final consumer
- **Registration** and filing returns under GST made simple as everything is done online
- Unorganized businesses would now be regulated as input tax credit can be availed only when supplier accepts the amount.

Disadvantages of GST

- Compliance under GST is very high as there are three tax returns to be filed every month
- Challenging for smaller businesses to adapt to the online system under GST
- GST does not adhere to 'One Nation One Tax' paradigm. Currently, there are 31 legislations governing and regulating GST law
- Instead of single or dual rate GST system, there are 7 standard tax rates as well as multiple rates of **CESS**
- Hurried implementation of GST which has lead to confusion among professionals and businesses
- Increased cost for businesses as they either have to update current software or invest in new one