GST

Goods and Services Tax, commonly referred to as GST is probably the most discussed financial reform until the recent demonetisation act because it is bound to have an indelible impact on the common man.

Touted as India's biggest taxation reform yet, its benefits are aplenty. Before we understand GST we need to understand the current taxation regime of our country.

Currently taxes are divided into two sections: Direct and Indirect.GST will impact only the Indirect taxes. Direct taxes are taxes which cannot be shifted and it is paid directly to the government by some individual or company; income tax for example. Indirect taxes on the other hand can be shifted, before we see what this means we will look at the different types of indirect taxes.

Indirect taxes:

a) Central Excise: Tax levied by the central government on the manufacture of goods.

b) Sales tax:

i) Local Sales Tax: If a good is manufactured and sold in the same state then the tax levied on this good is known as Local sales tax or VAT(Value added tax).

ii) Central Sales Tax: If a good is manufactured in State A and sold in State B the tax levied on this good is the Central Sales Tax and it is paid to the Government of State A.

c) Service Tax: Tax levied on services provided by some individual, company or Organization. Example: We all pay service tax when we dine at a restaurant.

Now let us try to understand shifting of tax using the following scenario:

Let us consider that a manufactures a commodity for Rs. 100 at a tax rate of 10%. The Wholesaler pays Rs. 110 for this commodity out of which Rs. 10 is paid to the Government. The Wholesaler now sells this commodity to a Retailer for Rs. 150 at 10% tax. He receives Rs. 165 out of which Rs. 15 is the tax, but the Wholesaler has already paid Rs. 10 as tax so he will now pay Rs. 15- Rs. 10= Rs. 5 to the government. The Retailer now sells the commodity to the customer for Rs. 200 at 10% tax. He receives Rs. 220 out of which Rs. 20 is tax but since he has already paid Rs. 15 as tax to the wholesaler he now pays just Rs. 5 to the government. The total tax collected by the government over this commodity is Rs. 20 but this has not been paid by one person, the tax was shifted.

The above scenario was just an example to understand tax shifting.

It is quite evident that the current taxation regime is highly convoluted. With the GST reform, all the indirect taxes will be subsumed under one tax: The Goods and Services Tax.

GST has been introduced to ensure transparency and tackle the fiscal (government revenue) deficit. We will now see its implications.

GST will be levied on two levels simultaneously, State GST and Central GST.

Under the current taxation regime, tax is levied on the final output. Bloating of prices is observed because cascading of taxes takes place (tax on tax). If the manufacturer pays 10% tax on a commodity priced at Rs. 100, the wholesaler will now pay tax on the new amount i.e Rs. 110 and so on. Consequently the Consumer will have to pay tax on the cumulative price of the commodity hence explaining the bloating of prices of goods. In theory an exorbitant amount of revenue seems to be collected but this is not true because most of the tax is evaded.

Under the new regime, tax will be levied only on value addition rather than the final output. Tax will be levied only the activities performed in that stage that leads to increase in the value of the good. For example, Raw Cottton-->Cotton Yarn-->Cloth-->Trousers. The manufacturer will now pay tax on the cotton yarn. The wholesaler will pay tax on cost of cloth-cost of cotton yarn and so on. Therefore if the price of trousers were Rs. 200 and Cloth say Rs. 100 the consumer would have to pay a tax of Rs. 10 if the rate was 10% under the GST regime. In the current regime the consumer would have to pay tax on the final output so the tax levied would be Rs. 20 at the same rate. GST is therefore also called multi staged tax. Since the tax is monitored at every stage, tax evasion is also difficult.

We will now look at IGST(Integrated Goods and Services Tax). With the abolition of Central Sales Tax it would now be discouraging for a manufacturer to sell his goods in another state but that is not the reality. For example, a manufacturer in Delhi will now receive the SGST( State GST) if he sells his commodity in say, Karnataka (He/She would earlier receive the Central Sales Tax) . Hence GST is a destination based tax. IGST also serves the purpose of monitoring interstate trade. The introduction of GST will hence make the entire country a level playing field even for business as the tax is uniform ( both CGST and SGST are levied simultaneously).

All GST pertinent decisions including the rate of GST will be taken by the GST council which consists of the following members:

a) Finance Minister of the Union who will also serve as the chairman of the council.

b) Minister of State for Revenue.

c) Finance Minister of the States.

We will finally look at the GST rate structure:

1) Standard rate of GST will be 18%.

2) The GST rate on Ultra luxuries and Sinned goods (Tobacco and alcohol) will be 28%.

3) The GST rate on food grains (Essential commodities) will be 0%.

4) Items of common consumption: 5%.

5) Heavy consumer goods such as washing machines and refrigerators at 28% with rider(i.e transportation charges included,a seperate 28% will not be levied on transportation charges).

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