



GST

(Goods and Services Tax)

Biggest Tax Reform Since Independence.....

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GST

- Goods and service tax (GST) is a comprehensive tax levy on manufacture, sale and consumption of goods and service at a national level.
- Gst is a tax on goods and services with value addition at each stage.
- Gst will include many state and central level indirect taxes.
- It overcomes drawback present tax system

TAX STRUCTURE IN INDIA

- **Direct Tax :**

e.g.: Income Tax, Corporate Tax, Wealth Tax

- **Indirect Tax :**

e.g.: Excise duty, custom duty, Service Tax, Octroi Tax, VAT.

METHOD OF TAXATION

□ **Progressive Tax :**

Increasing rate of tax for Increasing Value or Volume.

□ **Regressive Tax :**

Decreasing rate tax for Increasing Value or Volume

□ **Proportional Tax :**

Fixed rate of tax for every level of income or production

Short comings in current Tax System

- Tax Cascading (Tax on Tax)
- Complexity
- Taxation at Manufacturing Level
- Exclusion of Services
- Tax Evasion
- Corruption

Cascading Effect of Present Tax system

Table 1: Cascading Effect (or Tax-Upon-Tax) of Sales Tax (Amount in Rs.)

Producer/ Manufacturer	Cost of Input	Value of Output	Tax Rate	Selling Price Including Tax Rate	Tax Burden
Producer A	—	100	10 %	110 (100 + 10 % of 100)	10
Producer B	110	150	10 %	165 (150 + 10 % of 150)	15
Producer C	165	200	10 %	220 (200 + 10 % of 200)	20

VAT (VALUE ADDED TAX)

- Implemented in April-1/2005
- It is replacement to complex Sales Tax
- It overcomes a Cascading Effect of Tax
- It applied on " Value Added Portion" in sales price

ILLUSTRATION OF VAT

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- In the previous example, ‘value added’ by B is only Rs.50 (150–100)
- tax on producer B would be only Rs.5 (i.e., 10 % of Rs. 50) while
- the tax paid in previous system was Rs. 15 (10 % of Rs. 150).

In Old Tax System Consumer has to pay Rs 220
In VAT system Consumer Actually Paid Rs 205

PROBLEMS WITH VAT

- It is not uniform in nature
- VAT is different for different states
- Different rates of taxation for different good

TAXONOMY OF INDIAN TAXATION

vat / sales tax	on sale of goods, other than newspapers
Stamp duty	on other than 10 specified instruments
tax	on agricultural income
Toll tax	on utilities
Other taxes	on land and buildings, entry of goods in local area (entry tax), consumption or sale of electricity, vehicles, luxuries including taxes on entertainment, betting and gambling, alcoholic liquor, narcotic drugs and opium

PRE-REQUISITES FOR MIGRATING TO A GST REGIME

- Common/unified tax rate for goods and services which may be ideally, revenue neutral (a suitable GST rate) – dual tax proposed
- Avoiding or minimizing differential tax rates – under discussions
- Abolition of other small taxes – under discussions
- Abolition of CST in a phased manner – being done
- Power to levy service tax on select/agreed services to states – under discussions
- Issue of inter-state services and goods movement vis-à-vis levy of duty or tax to be sorted out – under discussions
- Revenue sharing mechanism to be rationalized – under discussions

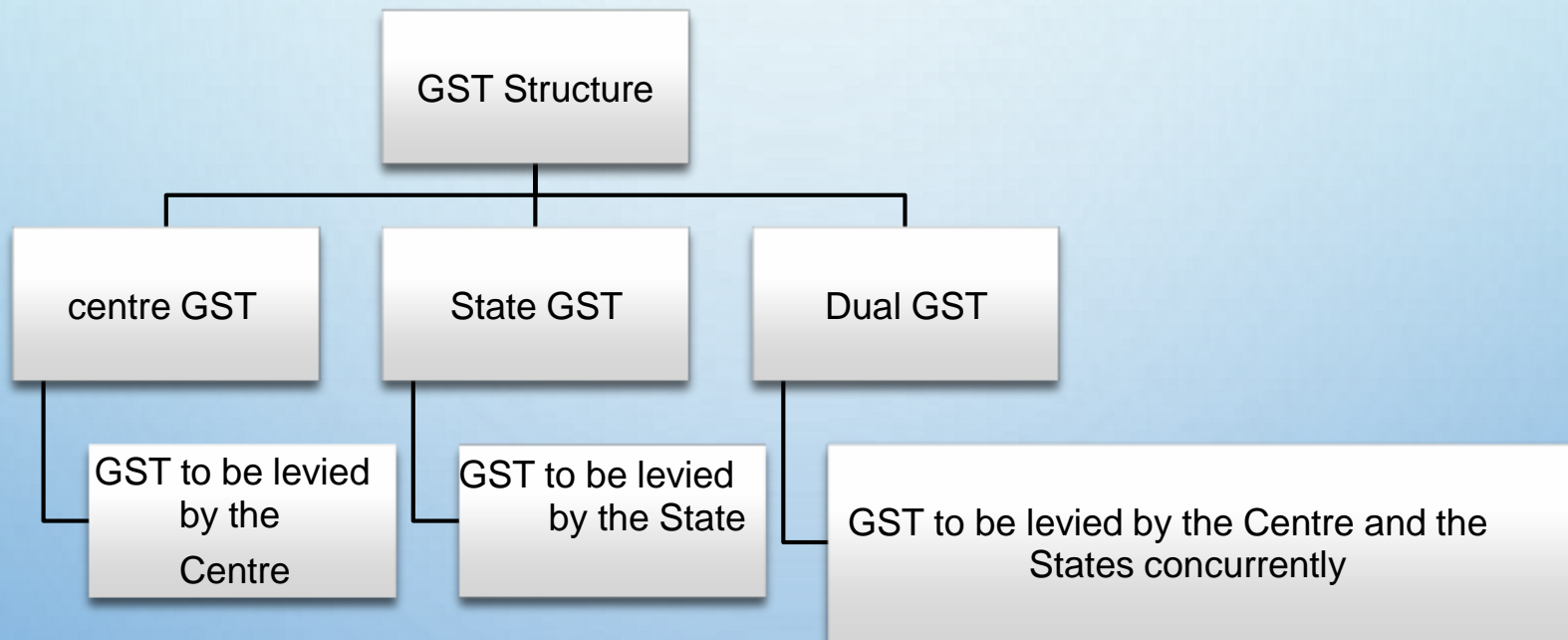
WHAT IS GST

- GST is a comprehensive value added tax on goods and services
- It is collected on value added at each stage of sale or purchase in the supply chain
- No differentiation between goods and services as GST is levied at each stage in the supply chain
- Seamless input tax credit throughout the supply chain
- At all stages of production and distribution, taxes are a Pass through and tax is borne by the final consumer
- All sectors are taxed with very few exceptions / exemptions

HISTORY

- Feb, 2006 : First time introduced concept of GST and announced the date of its implementation in 2010
- Jan. 2007: First GST study by ASSOCHAM released by Dr. Shome
- Feb. 2007: F.M. Announced introduction of GST from 1 April 2010 in Budget
- The Government came out with a First Discussion Paper on GST in November, 2009
- Introduced the 115th Constitution Amendment (GST) Bill in the year 2011.

MODEL OF GST



PROPOSED GST RATE

Items	Total GST rates (in %)	Centre	State
Goods	20	12	8
Services	16	8	8
Essential Goods	12	6	6

Presently it is (26.5 % , CENVAT-14 % and State VAT 12.5%)

Taxes proposed to be subsumed in GST

Central Taxes

- Excise Duty
- Additional Excise duty
- Excise duty under medicinal and toilet preparation Act
- Service Tax
- Additional Custom duty commonly known as countervailing duty (CVD), special additional duty (SAD)
- Surcharge
- CENVAT

Taxes proposed to be subsumed in GST

State Taxes

- Value added tax (VAT)
- Entertainment tax levied by states
- Luxury Tax
- Tax on Lottery, betting and gambling
- Entry tax other than for local bodies (Octroi)

PRODUCT EXCLUDED FROM GST

- Petroleum Product
- Alcohol
- Tobacco Product

ILLUSTRATION OF GST

Product A	VAT System	GST System
Base Price	100	100
+ 12% Excise duty	12	NA
+12.5% VAT	14	NA
State GST	NA	8
centre GST	NA	12
Total Tax Burden	26	20
Value Of Product to Consumer	126	120

WHY DOES INDIA NEED GST

- GST is being introduced majorly due to 2 reason
 1. The current indirect tax structure is full of uncertainties due to multiple rates.
 2. Due to multiple rates there are multiple forms.
- GST the tax complexity in the prevailing tax regime.

GST COUNCIL

- GST levy will be administered by
 1. Union finance minister(chairmen)
 2. Union minister in charge of state revenue or finance
 3. Minister in charge of finance or taxation.
 4. Any other minister(finance minister of the state) nominated by each state gvt would constitute the council.

DISPUTE SETTLEMENT AUTHORITY(DSA)

- Dispute between state and centre will be handled by the DSA.
- Appeal from dsa would be dealt with supreme court.
- Example: if a state receives less revenue in comparison with its previous one than it can appeal this case to the dsa.

IMPORTANCE OF ARTICLE 246(A)

- There is resistance by the SG as VAT is the main source of revenue for the SG.
- In 246(a) certain powers are allocated to the state government.
- The parliament & legislature of every state will have the power to make law with respect to goods and service tax imposed by union(gvt) or by the state.

BENEFITS OF GST

- Transparent Tax System
- Uniform Tax system Across India
- Reduce Tax Evasion
- Export will be more competitive

HURDLES IN IMPLEMENTATION

- Dispute between centre and Tax over Tax Sharing
- Highly sophisticated IT infrastructure required
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- Issue of taxing e-commerce is to be appropriately addressed and integrated.
- Political Imbalance

GST Global Scenario

- More than 140 countries have already introduced GST/National VAT.
- France was the first country to introduce GST system in 1954.
- Typically it is a single rate system but two/three rate systems are also prevalent.
Canada and Brazil alone have a dual VAT.
- Standard GST rate in most countries ranges between 15–20%.

INDIA'S GST STRUCTURE IS COMPLEX, SAYS IMF

- Report says the proposed GST structure will require the centre to coordinate with 30 states, which is an administrative challenge.
- Even as the international monetary fund (imf) says the proposed goods and services tax (gst) will improve tax compliance and enhance economic growth by 1–1.5 per cent over time, it finds the structure of the indirect tax regime in india complex.
- “The gst design being contemplated is... Fairly complex, with a dual administration arrangement that involves the tax authorities of both the centre and states separately taxing a single transaction,” says the fund in a report on india.

GST – ADVANTAGES

- As a developing country, india needs a transparent & unambiguous tax structure
- A complex tax structure with multiple rates of taxes
- Multiple taxes across the supply chain
- High transaction cost in the hands of the tax payers
- Increased tax collections due to wider tax base and better compliance
- Improvement in international cost competitiveness of indigenous goods and services.
- Enhancement in efficiency in manufacture and distribution due to economies of scale
- GST encourages an unbiased tax structure that is neutral to business processes, business models, organization structure, product substitutes and geographical locations
- Helping as a weapon against corruption
- GST operates on a negative list i.e. All goods and services are subject to GST unless specifically exempted

GST – ADVANTAGES

- Nature of complexities i.e. Classification to valuation regarding taxability, exist in the present structure.

Some of such burning issues are:

- ✓ Excise on MRP
- ✓ Excise, VAT and service tax on software,
- ✓ VAT & service tax on:
 - Works contracts
 - Right to use

GST : PROPOSED KEY FEATURES

- Dual GST : central GST & state GST
- Destination based state GST
- Uniform classification
- Uniform forms – returns, challans (in electronic mode)
- No cascading of central and state taxes
- Cross credit between centre and state not allowed
- Tax levied from production to consumption

GST : GLOBAL PERSPECTIVE

- It has been a part of the tax landscape in Europe for the past 50 years.
- It is fast becoming the preferred form of indirect tax in the Asia-pacific region.
- While countries such as Singapore and new Zealand tax virtually everything at a single rate, Indonesia has five positive rates, a zero rate and over 30 categories of exemptions.
- In china, GST applies only to goods and the provision of repairs, replacement and processing services.
- It is only recoverable on goods used in the production process, and gst on fixed assets is not recoverable.
- There is a separate business tax in the form of vat.

S. No.	Country	Rate (%)
1.	Australia	10
2.	Austria	20
3.	Canada	7
4.	China	17
5.	Denmark	25
6.	Finland	22
7.	France	19.6
8.	Germany	16
9.	Indonesia	10
10.	Italy	20
11.	Japan	5
12.	Malaysia	5
13.	Mexico	15
14.	New Zealand	12.5
15.	Philippines	10
16.	Russia	18
17.	Singapore	7
18.	South Africa	14
19.	Sweden	25
20.	Taiwan	5
21.	U.K.	17.5

GST : GLOBAL PERSPECTIVE

- Goods and services tax in brazil
 - Brazil was the first country to adopt GST system.
 - Brazil has adopted a dual gst where the tax is levied by both the central and the provincial governments.
 - Gst rate is 20 %.

GST- CAN WE ADOPT IT

- An information network allowing GST Council to cross-check payment information should be developed.
- What is needed is an IT system like the tax information network (tin), where the TDS or the vat credit is recorded in a central database.
- Paper bills and fraud to be largely eliminated.

KNOWING MORE ABOUT GST

- We all will pay GST on every product or service we buy/ consume
- All indirect taxes levied by the states and the centre will be merged into one GST, we would exactly know how much tax we pay which at present is difficult to understand.
- The sellers or service providers collect the tax from their customer.
- Before depositing the same to the exchequer, they deduct the tax they have already paid.
- The success of GST would rest upon efficiency, equity and Simplicity.

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Thank You