

Chapter 2: Basics of GST

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2.0 What is GST?

- Goods and service tax means a tax on supply of goods or services, or both, except taxes on supply of alcoholic liquor for human consumption (Article 366(12A) of Constitution of India).
- GST is a value added tax levy sale or service or both.
- GST is a destination based consumption tax.
- GST offers comprehensive and continuous chain of tax credit.
- GST where burden borne by final consumer.
- GST eliminate cascading of tax.
- GST brings uniform tax structure all over India.

2.1 Advantages of GST

- (a) One Nation One Tax.
- (b) Removal of bundled indirect taxes such as VAT, CST, Service tax, CAD, SAD, and Excise.
- (c) Removal of cascading effect of taxes *i.e.* removes tax on tax.
- (d) Increased ease of doing business.
- (e) Lower cost of production increase in demand will lead to increase in supply. Hence, this will ultimately lead to rise in the production of goods. Resultant boost to make in India initiative.
- (f) It will boost export and manufacturing activity, generate more employment and thus increase GDP with gainful employment leading to substantive economic growth;

2.2 Need for GST in India

The following deficiencies in the existing Indirect Tax Laws cause need to bring GST in India as a **cure** for ills of existing Indirect Tax regime.

2.2.1 GST is a Cure for ills of existing Indirect Tax

The given statement is true. Cascading affect of taxis one of the vital cause-to-cause ill of existing Indirect Tax. It means, a tax that is levied on a good at each stage of the production process upto the point of being sold to the final consumer. It is also known as tax on tax.

One of the fundamental features of GST is the seamless flow of input credit across the chain (from the manufacture of goods till it is consumed) and across the country.

Let us understand it in the following cases.

2.2.1a Non-integration of VAT and Service Tax causes double taxation:

In the present regime, restaurant services provider is liable to pay VAT on sale of food and service tax on supply of services. There is no set-off. It means VAT is not allowed as input tax credit against service tax and *vice versa*.

Example 1:

Service Tax and VAT on Restaurant Bill:

Particulars	Amount ₹
Total Food Bill	1,000
Service charges @ 10%	100
Total	1,100
VAT @ 14.5% on ₹1,100	159.50
Total bill (before Service Tax)	1,259.50

Particulars	Amount ₹
Service Tax @ 14% on ₹440 (i.e. 1,100 x 40%)	61.60
Add: Swachh Bharat Cess 0.5% on ₹440	2.20
Add: Krishi Kalyan Cess 0.5% on ₹440	2.20
Total Bill payable by customer (rounded off)	1325.00

2.2.1b No CENVAT Credit after manufacturing stage to a dealer:

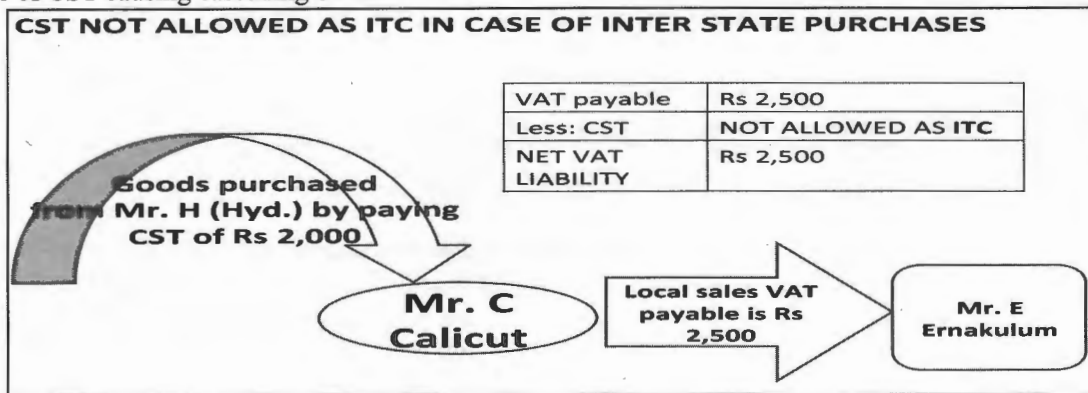
In the present regime, a manufacturer of dutiable goods charge excise duty and value added tax on intra-state sale of goods or CST on inter-state sale of goods. VAT or CST is levied inclusive of excise duty.

Example: Invoice of a manufacturer cum seller:

Particulars	Value in ₹
Value of Goods	1,00,000
Add: Excise duty 12.5%	12,500
Taxable Turnover	1,12,500
Add: VAT 14.5%	16,313
Invoice Price	1,28,813

2.2.1c Cascading of taxes on account of levy of CST Inter-State purchases:

Example: Mr. C of Calicut being a dealer purchased goods from Mr. H of Hyderabad by paying central sales tax of ₹2,000. Since, CST is not allowed as Input Tax Credit against VAT payable on local sales, VAT is calculated inclusive of CST causing cascading of tax.



2.2.1d The existing Indirect Tax frame work in India suffers from various duties and taxes at Central as well as at State level:

Central Indirect taxes	State Indirect Taxes
Central Excise duty	State Value Added Tax
Excise duty levied under Medicinal and Toilet preparations (Excise duty) Act, 1955	Entertainment tax
Service Tax	Central Sales Tax
CVD on import	Entry tax
Spl. CVD on import	Purchase tax
Central surcharge	Luxury tax
Central Cesses	Betting and Gambling tax
	State surcharges
	State Cesses

In the GST regime, all the above taxes have been subsumed in the ambit of GST.