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Goods and Service Tax -- a New Tax Regime

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ABSTRACT

GST is one indirect tax for the entire nation, which will make India one integrated common market. It is a solitary tax on the supply of goods and services, directly from the manufacturer to the consumer. Credits of input taxes paid at each step will be accessible in the successive stage of value addition, which makes GST basically a tax only on value addition at every stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages.

***Keywords*--** dealer in the supply chain, product, marketing

I. INTRODUCTION

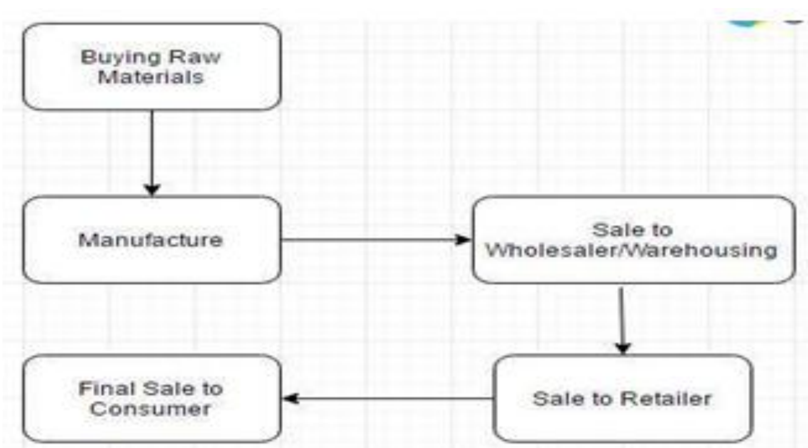
GST isn't always a new phenomenon. It became first implemented in France in 1954, and when you consider that then many nations have implemented this unified taxation machine to emerge as part of a worldwide whole. Now that India is adopting this new tax regime, allow us to appearance again on the how and whilst of the Goods and services Tax and its records within the kingdom.

France was the sector's first USA to put in force GST regulation inside the 12 months 1954. for the reason that then, 159 different international locations have followed the GST regulation in some shape or other. In many nations, VAT is the synthetic for GST, but unlike the Indian VAT machine, these nations have a unmarried VAT tax which fulfills the identical cause as GST.

In India, the dialogue on GST law changed into flagged off within the 12 months 2000, whilst the then high Minister Atal Bihari Vajpayee added the problem to the table. the goods and offerings Tax or GST is scheduled to be launched at the 1st of July, and it is set to revolutionize the manner we do our taxes.

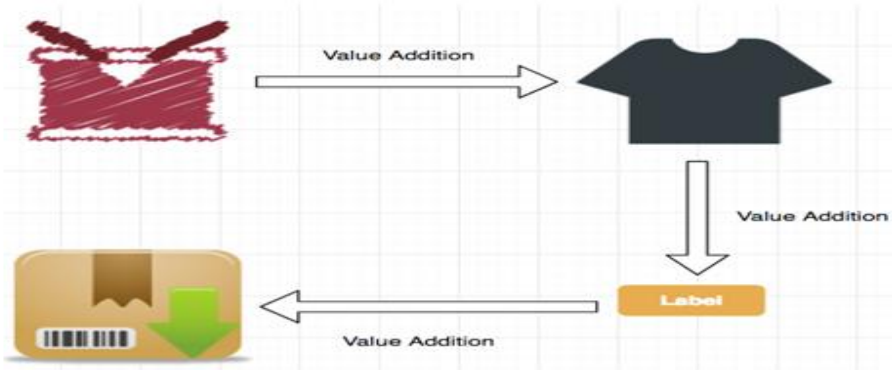
items & services Tax is a comprehensive, multi-level, destination-based tax with a view to be levied on each cost addition. There are more than one steps an item is going through from manufacture or manufacturing to the final sale. buying of uncooked materials is the primary stage. The second degree is production or manufacture. Then, there may be the warehousing of materials. Subsequent, comes the sale of the product to the store. And in the final stage, the retailer sells you – the quit customer – the product, finishing its existence cycle.

So, if we had to look at a pictorial description of the various stages, it would look like:



Goods and Services Tax will be levied on each of these stages, which makes it a multi-stage tax. How? We will see that shortly, but before that, let us talk about 'Value Addition'.

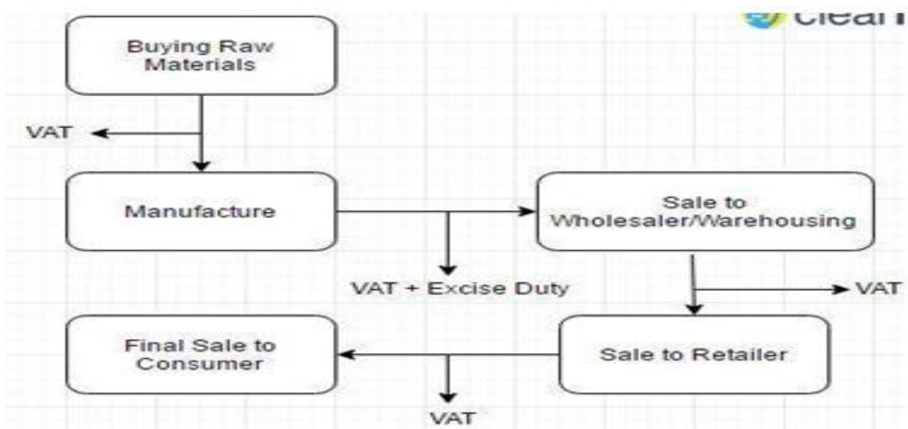
Let us assume that a manufacturer wants to make a shirt. For this he must buy yarn. This gets turned into a shirt after manufacture. So, the value of the yarn is increased when it gets woven into a shirt. Then, the manufacturer sells it to the warehousing agent who attaches labels and tags to each shirt. That is another addition of value after which the warehouse sells it to the retailer who packages each shirt separately and invests in marketing of the shirt thus increasing its value.



GST will be levied on these value additions – the monetary worth added at each stage to achieve the final sale to the end customer.

There is one more term we need to talk about in the definition – Destination-Based. Goods and Services Tax will be levied on all transactions happening during the entire manufacturing chain. Earlier, when a product was manufactured, the centre would levy an Excise Duty on the manufacture, and then the state will add a VAT tax when the item is sold to the next stage in the cycle. Then there would be a VAT at the next point of sale.

So, earlier the pattern of tax levy was like this:



Now, Goods and Services Tax will be levied at every point of sale. Assume that the entire manufacture process is happening in Rajasthan and the final point of sale is in Karnataka. Since Goods & Services Tax is levied at the point of consumption, so the state of Rajasthan will get revenue in the manufacturing and warehousing stages, but lose out on the revenue when the product moves out Rajasthan and reaches the end consumer in Karnataka. This means that Karnataka will earn that revenue on the final sale, because it is a destination-based tax and this revenue will be collected at the final point of sale/destination which is Karnataka.

II. IMPORTANCE OF GOODS AND SERVICES TAX

Presently, the Indian tax shape is split into two – Direct and oblique Taxes. Direct Taxes are levies wherein the liability cannot be handed directly to someone else. An example of that is Income Tax in which you earn the income and you by myself are susceptible to pay the tax on it.

In the case of oblique Taxes, the legal responsibility of the tax can be surpassed on to someone else, which means that when the shopkeeper need to pay VAT on his sale, he can bypass on the liability to the consumer. So, in effect, the consumer will pay the price of the object as well as the VAT on it so the shopkeeper can deposit the VAT to the authorities, which means the patron have to pay now not just the fee of the product, however he also can pay the tax liability, and consequently, he has a higher outlay when he buys an item.

This takes place due to the fact the shopkeeper has paid a tax when he offered the item from the wholesaler. To recover that quantity, in addition to to make up for the VAT he have to pay to the authorities, he passes the liability to the patron who has to pay the additional quantity. There may be no different option for the shopkeeper to get better something he can pay from his personal pocket for the duration of transactions and therefore, he has no choice but to bypass at the liability to the customer.

Goods and offerings Tax will address this problem after it is implemented. It has a system of input Tax credit with a purpose to permit sellers to claim the tax already paid, in order that the final liability on the cease customer is reduced.

Working of GST

A nationwide tax reform cannot characteristic without strict guidelines and provisions. The GST Council has devised an evidence method of enforcing this new tax regime via dividing it into 3 classes.

CGST: in which the revenue could be gathered by means of the critical authorities

SGST: where the sales will be amassed by way of the country governments for intra-state sales

IGST: where the revenue might be gathered by way of the central government for inter-nation income

In most cases, the tax structure under the new regime will be as follows:

Transaction	New Regime	Old Regime	Comments
Sale within the state	CGST + SGST	VAT + Central Excise/Service tax	Revenue will now be shared between the Centre and the State
Sale to another State	IGST	Central Sales Tax + Excise/Service Tax	There will only be one type of tax (central) now in case of inter-state sales.

Example

A dealer in Maharashtra sold goods to a consumer in Maharashtra worth Rs. 10,000. The Goods and Services Tax rate is 18% comprising CGST rate of 9% and SGST rate of 9%. In such cases the dealer collects Rs. 1800 and of this amount, Rs. 900 will go to the central government and Rs. 900 will go to the Maharashtra government.

Now, let us assume the dealer in Maharashtra had sold goods to a dealer in Gujarat worth Rs. 10,000. The GST rate is 18% comprising of CGST rate of 9% and SGST rate of 9%. In such case the dealer has to charge Rs. 1800 as IGST. This IGST will go to the Centre. There will no longer be any need to pay CGST and SGST.

III. GST, INDIA AND COMMON MAN

The basis of Goods and Services Tax is the seamless flow of Input Tax Credit (ITC) along the entire value addition chain. At every step of the manufacturing process, businesses will have the option to claim the tax already paid in the previous transaction. Understanding this process is crucial for businesses.

To understand this, let us first understand what is Input Tax Credit. It is the credit an individual receives for the tax paid on the inputs used in manufacturing the product. So, if there is a 10% tax that the individual must submit to the government, he can subtract the amount he has paid in taxes at the time of purchase and submit the balance amount to the government.

Let us understand this with a hypothetical numerical example.

Say a shirt manufacturer pays Rs. 100 to buy raw materials. If the rate of taxes is set at 10%, and there is no profit or loss involved, then he has to pay Rs. 10 as tax. So, the final cost of the shirt now becomes Rs (100+10=) 110. At the next stage, the wholesaler buys the shirt from the manufacturer at Rs. 110, and adds labels to it. When he is adding labels, he is adding value. Therefore, his cost increases by say Rs. 40. On top of this, he has to pay a 10% tax, and the final cost therefore becomes Rs. (110+40=) 150 + 10% tax = Rs. 165.

Now, the retailer pays Rs. 165 to buy the shirt from the wholesaler because the tax liability had passed on to him. He has to package the shirt, and when he does that, he is adding value again. This time, let's say his value add is Rs. 30. Now when he sells the shirt, he adds this value (plus the VAT he has to pay the government) to the final cost. So, the cost of the shirt becomes Rs. 214.5 Let us see a breakup for this:

Cost = Rs. 165 + Value add = Rs. 30 + 10% tax = Rs. 195 + Rs. 19.5 = Rs. 214.5

So, the customer pays Rs. 214.5 for a shirt the cost price of which was basically only Rs. 170 (Rs 110 + Rs. 40 + Rs. 30). Along the way the tax liability was passed on at every stage of transaction and the final liability comes to rest with the customer. This is called the Cascading Effect of Taxes where a tax is paid on tax and the value of the item keeps increasing every time this happens.

Action	Cost	10% Tax	Total
Buys Raw Material @ 100	100	10	110
Manufactures @ 40	150	15	165
Adds value @ 30	195	19.5	214.5
Total	170	44.5	214.5

In the case of Goods and Services Tax, there is a way to claim credit for tax paid in acquiring input. What happens in this case is, the individual who has paid a tax already can claim credit for this tax when he submits his taxes.

In our example, when the wholesaler buys from the manufacturer, he pays a 10% tax on his cost price because the liability has been passed on to him. Then he adds value of Rs. 40 on his cost price of Rs. 100 and this brings up his cost to Rs. 140. Now he has to pay 10% of this price to the government as tax. But he has already paid one tax to the manufacturer. So, this time what he does is, instead of paying Rs (10% of 140=) 14 to the government as tax, he subtracts the amount he has paid already. So, he deducts the Rs. 10 he paid on his purchase from his new liability of Rs. 14, and pays only Rs. 4 to the government. So, the Rs. 10 becomes his input credit.

When he pays Rs. 4 to the government, he can pass on its liability to the retailer. So, the retailer pays Rs. (140+14=) 154 to him to buy the shirt. At the next stage, the retailer adds value of Rs. 30 to his cost price and has to pay a 10% tax on it to the government. When he adds value, his price becomes Rs. 170. Now, if he had to pay 10% tax on it, he would pass on the liability to the customer. But he already has input credit because he has paid Rs.14 to the wholesaler as the latter's tax. So, now he reduces Rs. 14 from his tax liability of Rs. (10% of 170=) 17 and has to pay only Rs. 3 to the government. And therefore, he can now sell the shirt for Rs. (140+30+17) 187 to the customer.

Action	Cost	10% Tax	Actual Liability	Total
Buys Raw Material	100	10	10	110
Manufactures @ 40	140	14	4	154
Adds Value @ 30	170	17	3	187
Total	170		17	187

In the end, every time an individual was able to claim input tax credit, the sale price for him reduced and the cost price for the person buying his product reduced because of a lower tax liability. The final value of the shirt also therefore reduced from Rs. 214.5 to Rs. 187, thus reducing the tax burden on the final customer.

So essentially, Goods & Services Tax is going to have a two-pronged benefit. One, it will reduce the cascading effect of taxes, and second, by allowing input tax credit, it will reduce the burden of taxes and, hopefully, prices.

IV. BENEFITS OF GST

For business and industry

o Easy compliance: A robust and comprehensive IT system would be the foundation of the GST regime in India. Therefore, all tax payer services such as registrations, returns, payments, etc. would be available to the taxpayers online, which would make compliance easy and transparent.

o Uniformity of tax rates and structures: GST will ensure that indirect tax rates and structures are common across the country, thereby increasing certainty and ease of doing business. In other words, GST would make doing business in the country tax neutral, irrespective of the choice of place of doing business.

o Removal of cascading: A system of seamless tax-credits throughout the value-chain, and across boundaries of States, would ensure that there is minimal cascading of taxes. This would reduce hidden costs of doing business.

o Improved competitiveness: Reduction in transaction costs of doing business would eventually lead to an improved competitiveness for the trade and industry.

o Gain to manufacturers and exporters: The subsuming of major Central and State taxes in GST, complete and comprehensive set-off of input goods and services and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports. The uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cost.

For Central and State Governments

o Simple and easy to administer: Multiple indirect taxes at the Central and State levels are being replaced by GST. Backed with a robust end-to-end IT system, GST would be simpler and easier to administer than all other indirect taxes of the Centre and State levied so far.

o Better controls on leakage: GST will result in better tax compliance due to a robust IT infrastructure. Due to the seamless transfer of input tax credit from one stage to another in the chain of value addition, there is an in-built mechanism in the design of GST that would incentivize tax compliance by traders.

o Higher revenue efficiency: GST is expected to decrease the cost of collection of tax revenues of the Government, and will therefore, lead to higher revenue efficiency.

For the consumer

o Single and transparent tax proportionate to the value of goods and services: Due to multiple indirect taxes being levied by the Centre and State, with incomplete or no input tax credits available at progressive stages of value addition, the cost of most goods and services in the country today are laden with many hidden taxes. Under GST, there would be only one tax from the manufacturer to the consumer, leading to transparency of taxes paid to the final consumer.

o Relief in overall tax burden: Because of efficiency gains and prevention of leakages, the overall tax burden on most commodities will come down, which will benefit consumers.

V. CONCLUSION

The idea behind having one consolidated indirect tax to subsume multiple currently existing indirect taxes is to benefit the Indian economy in a number of ways:

- It will help the country's businesses gain a level playing field
- It will put us on par with foreign nations who have a more structured tax system
- It will also translate into gains for the end consumer who not have to pay cascading taxes any more
- There will now be a single tax on goods and services

In addition to the above,

- The Goods and Services Tax Law aims at streamlining the indirect taxation regime. As mentioned above, GST will subsume all indirect taxes levied on goods and service, including State and Central level taxes. The GST mechanism is an advancement on the VAT system, the idea being that a unified GST Law will create a seamless nationwide market.
- It is also expected that Goods and Services Tax will improve the collection of taxes as well as boost the development of Indian economy by removing the indirect tax barriers between states and integrating the country through a uniform tax rate.

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