

## **THE GOODS AND SERVICES TAX AND ITS SIGNIFICANCE**

**Mr. Angshuman Sharma**  
Jalukbari, Guwahati  
Assam-781014

### **Abstract**

The much awaited GST bill has been passed in the Indian Parliament and is regarded to be a game changer in the Indian economy. In India, there are different indirect taxes applied on goods and services by central and state government. GST is intended to include all these taxes into a single umbrella. Excise duty, Special Additional duty, Service Tax, VAT etc. to name a few will be added into GST. To facilitate this transition, GST will have 3 parts- The CGST, SGST and IGST. The central taxes will be subsumed into CGST and state taxes will be subsumed into SGST. GST is expected to have numerous benefits like reduction in compliances in the long run since multiple taxes will be replaced with a single tax. It is also expected to bring down prices of commodities and stabilise the inflation rate since it will eliminate the cascading effect of tax or tax over tax mechanism.

This paper studies the impact of GST on the prices the consumers will have to pay and also thoroughly analyses with proper examples as to how the Goods And Services Tax will eliminate the so called “Cascading” effect of the otherwise indirect taxation regime.

### **INTRODUCTION**

The much awaited Goods and Services Tax bill has been finally passed in the Indian Parliament on the 3<sup>rd</sup> of August and with this, India is on the verge of subsuming local and national tax levies under a single tax regime- GST. The bill seeks to transform the country into a unified market by replacing various indirect taxes being levied presently, with a single tax.

Since its inception during the times of erstwhile NDA government headed by former PM Atal Bihari Vajpayee, the bill has always been a basis for difference in opinions of the ruling and the opposition parties. This is why it took over a decade for the much awaited GST bill to be finally passed in both the houses of the Parliament. It can thus be said that for the first time in Modern India, our nation can be called as a single nation as far as the taxation is concerned. Prime Minister Narendra Modi stated that GST will also be the best example of “cooperative federalism” and “Together we will take India to new heights of progress”. The provisions of the Constitution, which gives power to Centre to levy taxes like excise, and empowers states to collect retail sales taxes, was amended through the 122<sup>nd</sup> Constitution Amendment Bill.

**OBJECTIVES OF THE STUDY:-**

The objective of this study is to understand the conceptual framework of GST, along with the identification of the Central and State taxes that the GST will replace and its impact on the pricing of goods and services.

**THE NEED FOR GOODS AND SERVICES TAX:-**

A Modern Integrated Goods and Services tax, with tax payable only on the value added at each stage of output and sets off available along with the value chain would lead to the overall decrease in the levy of indirect tax regimes across the nation. We may classify the benefits of GST to Businesses, the Central and the State governments and consumers separately:-

**Need for Business:-**

- a) Simplification of compliance process: - On account of a comprehensive IT system, the various taxpayer services such as tax payments, returns etc. Would be available online thereby leading to an easy and transparent compliance process.
- b) Eliminating the cascading effect:- In the absence of GST, there is a cascading burden of “tax on tax”. This is because of the lack of set offs for taxes paid on previous purchases. This can be better understood from the example mentioned under the working mechanism of GST.
- C) Uniformity of tax rates:- With the onset of GST, the indirect taxes and structures will be common across the country, thereby enhancing the ease of doing business.

**Need for Central and State governments:-**

- a) Easy and simpler administration: - GST would be simpler and easy to administer than all other indirect taxes of the Centre and State levied so far. The main reason being the fact that it is backed with a robust and end-to-end IT system.
- b) Reduction in cost of collection:- GST is expected to decrease the cost of collection of tax revenues of the Government, and will therefore lead to higher revenue efficiency.

**Need for Consumers:-**

- a) Transparency of taxes paid: - The cost of goods and services in the country today are laden with many hidden taxes. This is due to multiple indirect taxes being levied by the Centre and State at progressive stages of value addition. Under GST, there would be only one tax from the manufacturer to the consumer, leading to transparency of taxes paid to the final consumer.
- b) Reduction in overall tax burden:- Because of efficiency gains in the form of relief in the cascading effect of taxes, the tax burden on most commodities will come down, which will benefit consumers.

**TAXES SUBSUMED BY THE GOODS AND SERVICES TAX:-**

The GST will subsume the following taxes at the Central level:-

- a) Central Excise Duty
- b) Additional Excise Duty
- c) Service Tax
- d) Additional Customs Duty commonly known as Countervailing Duty, and
- e) Special Additional Duty of Customs.

At the State level, the following taxes are being subsumed:-

- a) State Value Added Tax/Sales Tax
- b) Entertainment Tax
- c) Octroi and Entry Tax
- d) Purchase Tax
- e) Luxury Tax and
- f) Taxes on lottery, betting and gambling.

### **IMPACT AND FUNCTIONING OF GST:-**

The Goods and Services Tax is cited to be the most phenomenal change that has potential to change the whole paradigm of taxation in India. Now the process as to how GST will impact the prices of goods and services is discussed as under:-

#### **STAGE 1:-**

Consider the case of a garment manufacturer. He buys raw materials required for his production such as cotton, thread, tailoring equipment for say Rs. 200/=, a sum that includes a tax of Rs. 10/=. With the help of these raw materials he will manufacture one readymade garment. In the process of manufacturing the garments, the manufacturer adds value to the materials he started out with. Assume the value added by him on his manufactured garment to be Rs.20/=. Then, the gross value of his good would be Rs. 200+20 = Rs. 220/=

At a rate of 10%, the tax on output will then be Rs.22. But under the provisions of GST, he can set off this tax (Rs22) against the tax he has already paid on raw material/inputs (Rs.10). Therefore, the effective GST incidence on the manufacturer is only Rs. 12 (22-10).

#### **STAGE 2:-**

In the second stage, the good passes from the manufacturer to the wholesaler. The Wholesaler purchases it for Rs. 220/= and then adds a value (his profit margin) of say Rs. 30. Now, the gross value of the goods which he will sell would be Rs. 220+30= Rs. 250/=. A 10% tax on this amount would be Rs.25. But again, under the provisions of GST, he can set off the tax on his output( Rs.25) against the tax on his good purchased from the manufacturer( Rs.22). Thus, the effective GST incidence on the wholesaler is only Rs. 3( 25-22).

#### **STAGE 3:-**

In the final stage, a retailer buys the garment from the wholesaler. To his purchase price of Rs.250/= he adds a profit margin of say Rs.10/=. The gross value of what he sells therefore goes up to Rs.250+10= Rs. 260/=. The output tax at this rate @ 10% would be Rs. 26/=. But by setting off this tax against the tax on his purchase from the wholesaler (Rs.25), the retailer brings the effective GST incidence on himself to Rs. 1(26-25).

Thus, the total GST on the entire value chain from the raw material suppliers through the manufacturers, wholesaler and retailer is Rs. 10+12+3+1 = Rs. 26/=. It is therefore clear from the above given example that GST ultimately brings down the cascading effect of taxation( tax on tax) and thereby leads to price stability , greatly helping the final consumers and also benefitting the various participants in the value chain of any manufacturing process.

### **THE GST COUNCIL AND ITS SIGNIFICANCE:-**

The Cabinet has notified the setting up of a GST Council which aims to develop a harmonized national market of goods and services. According to the GST Bill, the President must constitute a GST Council within 60 days of this Act coming into force. The composition of the GST Council includes:-

- The Union Finance Minister ( as Chairman)
- The Union Minister of State in charge of Revenue or Finance and
- The Minister in charge of Finance or taxation or any other Minister, nominated by each state government.

The decisions of the Council will be made by three-fourth majority of the vote's caste. The Centre shall have one-third of the votes cast, and the states together shall have two-third of the votes cast. The GST council will make recommendations on:-

- \* Taxes, cesses and surcharges to be subsumed under the GST
- \* Goods and services which may be subject to, or exempt from GST,
- \* Rates of GST
- \* Special provisions with respect to the eight north eastern states, Himachal Pradesh, Jammu and Kashmir and Uttarakhand and other related matters.

The GST Council provides veto power to centre along with state governments. The GST Council will give the Centre one-third voting power and the states two –thirds. Any decision will need three-fourth of the votes. Thus neither the states together nor the Centre alone can change the GST.

The States and the Centre have to draft the Central GST, State GST, and Integrated GST laws. These laws have to be passed by Parliament and respective legislatures. The CGST and IGST will be drafted on the basis of the model GST Law. The States will draft their respective State GST (SGST) laws with minor variation incorporating state based exemptions. The IGST law would deal with inter-state movement of goods and services. The first meeting of the GST Council will be held on September 22-23 in the national capital.

### **CONCLUSION:-**

#### **IMPLEMENTATION OF GST:-**

One common question in the buzz concerning the implementation of GST is that will the bill be able to meet the deadline of April 1, 2017 for its roll out? This question does not have any definite answer as of now. The GST Council is first expected to take up the finalization of Model GST law for its recommendation and enactment by the Parliament and State Legislatures. The immediate agenda of the Council would be finalisation of rate and exemptions, without a fix on which the consent of all the stakeholders is difficult to achieve.

### **WHAT LIES AHEAD:-**

Indirect Taxes in India have driven businesses to restructure and model their supply chain and systems owing to multiplicity of taxes and costs involved. With hopes that the Goods and Services Tax will see the light of the day, we may say that the way India does business will change, forever.



**BIBLIOGRAPHY:-**

- A Hand book on GST in India, June, 2016
- Indirect Taxes, Taxman publication
- Indirect Taxes- HC GAUTAM, S. SIKDER
- GST-Concept and Roadmap
- Official Website- The Goods And Services Tax, Govt. of India