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Present Scenario of GST Model in India

Dr Meghna Aggarwal
Assistant Professor,
CBM Department,
ASSM College, Mukandpur

An efficient system of taxation should ensure transparency, simplicity and efficient administration to ensure self policing and cuts in tax avoidance and evasion. However, the existing regime of indirect taxation on goods and services is plagued by several difficulties relating to valuation, rates and administration at multiple values, multiple rates and multiple agencies. In this process, the major drawback is the loss of benefit of credit utilization of taxes paid on inputs. Therefore, the existing tax structure is cumbersome and there is a lack of transparency resulting in increased costs of products and services and at the same time it enhances the cost of compliances.

To overcome these hindrances the Task Force on Implementation of the Fiscal Responsibility and Budget Management Act, 2003 recommended the most elegant method of eliminating distortions and taxing consumption. It is also recommended that all different stages of production and distribution can be interpreted as a mere tax pass-through and the tax is levied on final consumption. Therefore, the Task Force recommended the introduction of a destination based VAT type dual Goods and Services Tax (GST).

Goods and Services Tax (GST) is India's most ambitious indirect tax reform since independence which aims to stitch together a common market by dismantling fiscal barriers between states. In Pre-GST period, the indirect tax system in India was mired in multi-layered taxes levied by the Center and State Governments at different stages of the supply chain such as Excise duty, Central Sales Tax (CST), Value Added Tax (VAT) and Octoroi among others. In GST, all these will be subsumed under a single tax regime. It is show cased as a single national uniform tax levied across the country on all goods and services.

Dual GST

Dual GST signifies that GST would be levied by both the Central Government and the State, on supply of goods and services. Under GST, the State and the Central Government are empowered to tax on supply of all goods and services. However, in the inter-state transaction, the power to tax shall be vested with the Central Government . The revenue of final transaction would accrue to the States and in case of intra-state transaction, CGST will be levied by Union Government, SGST will be levied by the State Government and UTGST will be levied by Union Territory. Since GST is levied under a dual transaction, it will have two tax components, via. Central GST and State GST or UTGST. The power to legislate and administer the taxes is separate for both Center and State Government. Dual GST will empower Center and State/ Union Territory to levy GST under separate legislation.

Consistent with the federal structure of the country, the GST in India has two components: one levied by the center (CGST) and the other levied by the states (SGST). IT also includes Union Territory (UTGST). This dual GST Model has been implemented through multiple statues (one for CGST and SGST statue for every state). However, the basic features of law such as chargeability, definition of taxable event and taxable person, measure of levy including valuation provision, basis of classification etc. would be uniform across these statues as far as practicable.

REQUIREMENT OF GST

India is a federal country where both the Center and the State have been assigned the powers to levy and it collect taxes through appropriate legislation. Both these levels of Government have distinct responsibilities to perform according to the division of powers prescribed in the Constitution for which they need to raise resources.

BENEFITS OF GST

The dual GST which is suited to the federal structure of India. It is expected that dual GST will result into the following benefits.

a) **Simpler Tax Structure**: As single tax on goods and services will be introduced in place of multiple taxes, the tax structure will be much simpler and easier to understand.

b) **Increased Revenue for Govt. Exchequer:** A simpler tax structure will bring greater compliance which will increase the number of tax payers and in turn tax revenues for the Government

c) **Competitive Pricing:** The removal of multiple taxes and provision of input tax credit will result into lowering the prices which will benefit consumers. Again, increase in consumption will be beneficial for companies.

d) **One India One Tax Rate One Market:** Presently, there are various tax rates which differ from state to state making tax calculation and administration complex. This also results into goods being sold by illegal ways to other states to avoid CST and entry tax which is undesirable for national growth. The introduction of GST will result into one India one tax rate an eliminate fluctuation of prices from one state to another.

e) **Boosting the Exports:** If the cost of production falls is low, the goods in foreign markets become more price-competitive which will result into larger export and earning of foreign exchange.

f) There will be decrease in effective tax rates for certain goods.

g) Reduced exemptions will lead to generate tax distortions.

h) In post-GST era, there will be removal to the cascading effects of taxes.

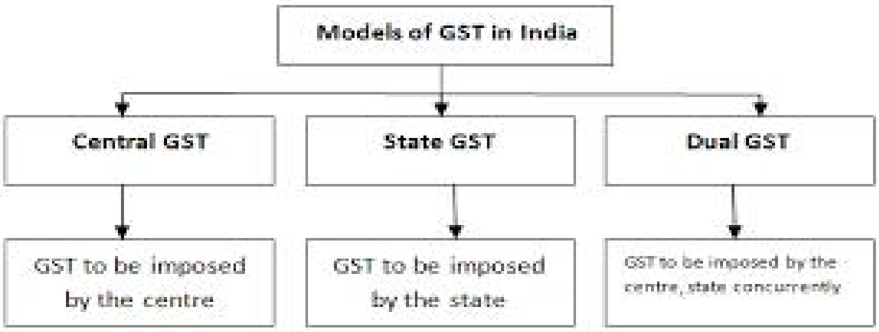
i) Simplified tax compliances will lead to reduction in transaction costs of the taxpayers.

j) Wider tax base and better compliance will lead to increased tax collection.

MODELS OF GST

Canada’s GST system extends from Union level to State Level covered all goods and services at all stages of value addition, include VAT, Retail Sales tax and so on. European Union Nations (each one is independent Nation) have adopted “classic” VAT. Constitution of India reserves the power to impose tax on specific activities to specific level of Government, e.g. tax on sale of goods involving movement of goods within the State can be imposed by State Governments only and tax on import of goods can be imposed by Union Government only.

GST can be broadly classified into three dimensions .ie. Central GST, State GST, Dual GST.



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Central Goods and Service Tax (CGST)

Under the CGST, tax is controlled and administered by the Central Government. There are several countries which are adopting this model. Australia is an example of NGST, where the proceeds are collected by the States but taxes are levied by Central Government. In India, GST with transactions taxed by Central and State Governments simultaneously. CGST will be levied by Central Government and SGST/ UTGST will be levied by State and UT Government respectively.

Main highlights of CGST are as follows:-

(1) It is levied on both goods and services by Central Government
(2) Exceptions would be exempted goods and services, goods kept out of GST and transactions below prescribed limits.
(3) It is levied by the Center through a separate statue on all transactions of goods and services made for a consideration.
(4) CGST shall be levied across the value chain.
(5) Rates for CGST shall be based on revenue consideration and acceptability.
(6) Proceeds from taxes shall be shared between Center and State.

Advantages

1) If levied on a comprehensive base at a single rate, it would clear the system of virtually all economic distortions and classification disputes.
2) Replacing 36 taxing Statutes (of the Centre and 35 States and Union Territories) with only one would lead to a substantial reduction in compliance costs and free up resources for other more productive pursuits.
3) It would make common market for India a reality. Goods and services can freely provide within India with no hindrances and other barriers to trade.

Disadvantages

1) Near impossibility of achieving the structure – It will require drastic modification to the Constitution of India.
2) It might upset the present concept of fiscal federalism, which is the cornerstone of Indian polity.
3) Entire infrastructure developed for taxation at both levels will have to undergo huge change.
4) States may not agree to give up the power of taxation and depend on the Union for resources.

STATE GOODS AND SERVICE TAX (SGST)

SGST means the tax levied under the SGST Act on intra-state supplies of goods and services and will be administered by the respective State Government. SGST could be set off against SGST credit or IGST credit only. Features of SGST are as follows:-

(1) It is levied by the States through Act on all transactions of supply of goods and services made for or without consideration.
(2) State GST shall be paid to the accounts of the respective state.
(3) Exceptions would be exempted goods and services, goods kept out of GST and transactions below prescribed limits.
(4) Basic features of law such as chargeability, measure, valuation, classification would be uniform across the States as far as practicable.

INTEGRATED GOODS AND SERVICES TAX (IGST)

Integrated Goods Services Tax is levied on the goods and services in the course of inter-state trade or commerce. IGST Act is applied to whole of India. Supply of goods or service in the course of import into the territory of India shall be deemed to be a supply of goods and services in the course of inter-state trade or commerce. An export of goods and services shall be deemed to be a supply of goods and services in the course of inter-state trade or commerce. IGST replaces central sales tax which is presently levied on inter-state transactions of sale of goods. Therefore, inter-state includes supply of goods and service in the course of

i) Inter-state trade or commerce
ii) Import into Indian territory
iii) Export (deemed to be inter-state)

Main Features of IGST model

i) Levied on inter-state supply of goods and services
ii) Includes cross border transactions
iii) Center shall levy and collect IGST in lieu of CGST and SGST.
iv) To be shared between center and states
v) IGST shall be levied on all inter-state transactions of taxable goods and services with appropriate provision for consignment or stock transfer of goods and services.
vi) Inter-state dealer shall pay IGST after adjusting available, input IGST, CGST and SGST on purchases.

UNION TERRITORY GOODS AND SERVICES TAX (UTGST)

The legislation applicable in union territory excluding union territories having elected government has named UTGST Act. UTGST shall be charged on the supply of taxable goods and services or both in case of intra-state supplies.

Main Feature of UTGST

1) UT includes Andaman & Nicobar Islands, Lakshadweep, Dadra and Nagar Haveli, Daman and Diu, Chandigarh or other territory.
2) Levied by Union territories through a statue on all transactions of goods and services made for or without a consideration.
3) Union territory GST would be paid to the accounts of the respective Union territories.
4) Exceptions would be exempted goods and services, goods kept out of GST and transactions below prescribed limits.
5) For all practical purposes, UT's will be considered as state.

TAXABILITY OF IMPORTS UNDER GST REGIME

As per GST law, imports would be deemed to be transactions in the course of inter-state trade or commerce and as such liable for levy of IGST. In case of imports into India, the incidence of tax will follow the destination principle and tax revenue in case of SGST accrue to that particular state where the imported goods and services are consumed. Full and complete set-off will be available on the GST paid on import of goods and service.

TAXABILITY OF EXPORTS UNDER GST REGIME

Exports shall be treated as zero rated supplies. No tax shall be payable on exports of goods and services. To the exporters, there will be no levy of GST on export of goods and service.

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