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Goods & Service Tax (GST)

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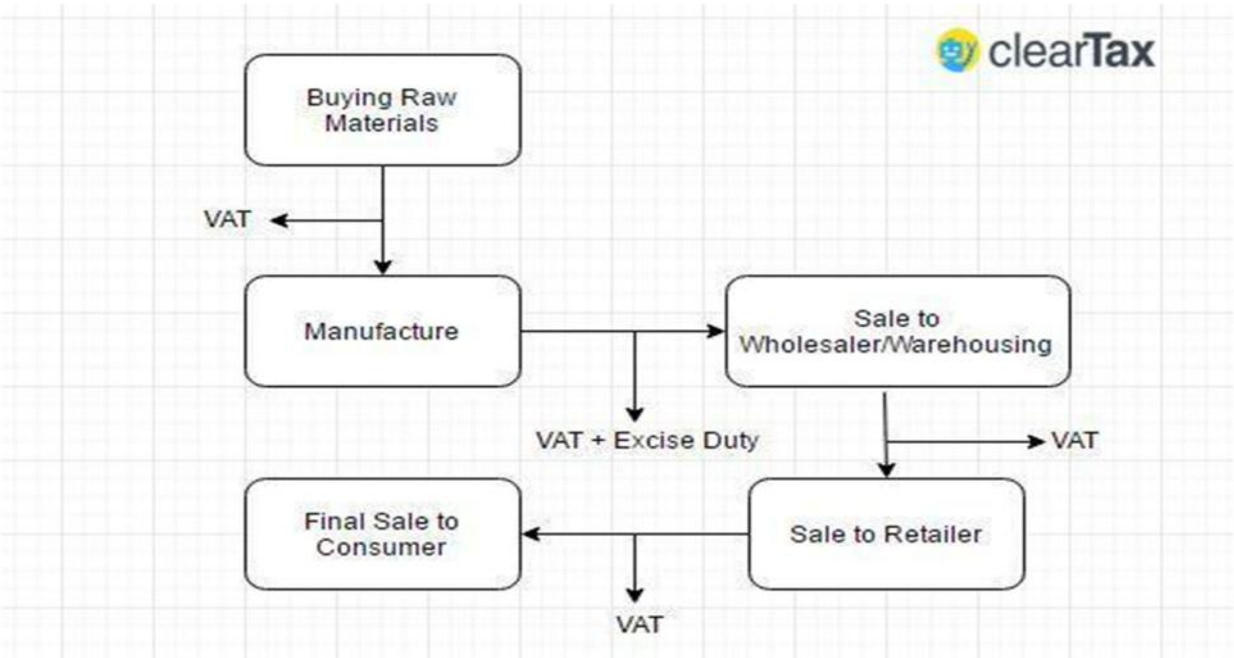
Abstract:
GST stands for Goods and services tax. It is an indirect tax which was passed in the Parliament on 29th march 2017 and came into effect on 1 July 2017. It has replaced many indirect taxes in India. It is levied on the supply of goods and services and is designed to support and enhance the economic growth of the country. In this particular paper, we take a closer look at what is GST and reasons it is making businesses and taxes simpler and easier.

Introduction:

GST law in India is a comprehensive ,multi stage tax levied on manufactuing, sale and consumption of goods at a national level. It is an indirect tax levied on every value addition and has replaced many indirect tax laws that previously existed in India.

So, before GST, following tax pattern was followed:



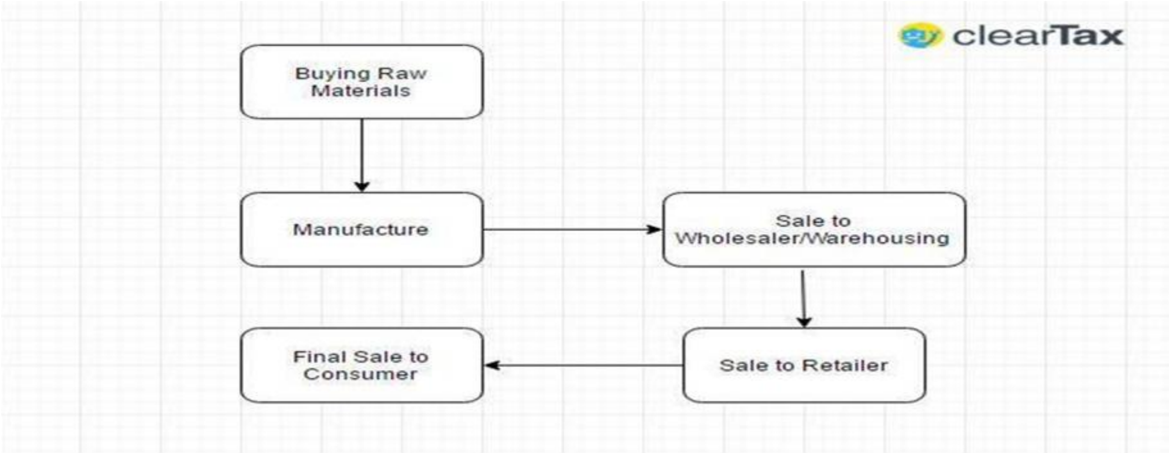
But under GST pattern, tax will be levied at every point of sale.

Characteristics:

1. Multi stage

There are multiple stages an item goes through its supply chain i.e., from manufacturere to final consumer in the following manner:

Purchase of raw materials to production or manufacturer to warehousing of finished goods and then from sale to wholesaler to retailer and then finaly to the consumer. The same has been shown in the picture below:



The above pattern shows that it is a multi stage tax levied on each of these stages.

2. Value addition

The following example of a manufacturer who makes biscuits will show how GST is levied on the value additions at each stage:

Manufacturer-He purchases raw materials such as flour, sugar and other material. When the manufacturer will mix sugar and flour and bake them in biscuits, the value of inputs will increase.
Wholesaler- Now the manufacturer will sell the biscuits to the warehouse agent who will pack the biscuits in large quantities and labels it. This is another addition of value after which the wholesaler sells it to the retailer.
Retailer- The retailer again increases its value by packaging the biscuits in smaller quantities and also invests in marketing of the biscuits.
The above example clearly shows how GST is levied on these value additions i.e., monetary value added at each stage in order to achieve final sale to the end consumer.

3. Destination based

As per GST rule, GST is levied at the point of consumption. So considering this, goods manufactured in Karnataka are sold to the final consumer in Maharashtra, the entire tax revenue will go to Maharahstra and not karnataka.

GST components:

1. ***CGST***- Central goods and service tax- It is collected by the central government on an intra state sale transaction i.e., within a state(Eg: Within Karnataka)
2. ***SGST***- State goods and service tax- It is collected by state government on an intra state sale transaction i.e., within a state(Eg: Within Karnataka)
3. ***IGST***- Integrated goods and service tax- It is collected by Central government on an inter state sale transactionn i.e., from one state to another state (Eg: From Karnataka to Maharshtra). In such transaction, the seller has to collect IGST from the buyer.

A major change that GST has brought in:

Cascading Effect of taxes

Cascading effect of taxes is one of the major distortions of Indian tax regime. Under pre-GST regime, tax on tax was calculated and paid by every purchaser including the final consumer. This tax on tax is called cascading effect of taxes.

With the introduction of GST, cascading effect is completely avoided as tax is calculated at each stage of value addition.

GST has improved the collection of taxes by removing indirect tax barriers between states and integrating the country through a uniform tax rate.

Example;

Based on a above example of biscuit manufacturer, lets consider few numbers to show the difference in taxes pre and post GST regime:

Pre GST regime:

Action	**Cost**	**10% Tax**	**Total**
Manufacturer	1,000	100	1,100
Warehouse agent labels and packages the product @ Rs. 200	1,300	130	1,430
Retailer advertises @ Rs. 400	1,830	183	2,013
Total	**1,600**	**413**	**2,013**

As illustrated above, the tax, liability passes on at every stage of transcation and the final liability comes on the customer. This shows cascading effect of taxes where tax is paid on tax and value of an item keeps on increasing every time it happens.

Post GST regime:

Action	**Cost**	**10% Tax**	**Actual Liabilty**	**Total**
Manufacturer	1,000	100	100	1,100
Warehouse agent labels and packages the product @ Rs. 200	1,200	120	20	1,320
Retailer advertises @ Rs. 400	1,600	160	40	1,760
Total	**1,600**	**-**	**160**	**1,760**

As illustrated above, under GST regime, tax is calculated at every stage of vaue additon and also it is calculated every time on actual cost instead of total cost . Therefore, the final value of biscuits is reduced from Rs. 2,013 to Rs. 1,760 , thus reducing tax burden on the final consumer

Conclusion:

At the end, because of a lower tax liability the sale price will reduce and the cost price for every buyer will reduce. Therefore, the final value of biscuits is reduced from Rs. 2,013 to Rs. 1,760, thereby the tax burden of final customer is reduced. Since, every time an individual is able to claim input tax credit, there will be a lower tax liability.

Reference: Pictures used above are taken from *Clear tax* website.