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TAX REFORMS THROUGH GST IN INDIA- AN APPRAISAL

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ABSTRACT

GST is an integrated scheme of taxation that does not discriminate between goods and services and is a part of the proposed tax reforms that centre on evolving an efficient and harmonized consumption tax system in the country. GST is expected to replace the plethora of indirect taxes including service tax, central excise duty, additional excise and customs duties, central surcharges and cesses, state VAT, state sales tax, entertainment tax not levied by local bodies, luxury tax, taxes on lottery, betting and gambling, tax on advertisements and state cesses and surcharges related to supply of goods and services. As these taxes have been ineffective and have suffered from a litany of infirmities, including exemptions and multiple rates, GST is expected to transform the labyrinthine patchwork of taxes to a lean, streamlined process.

Keywords: GST; Tax structure; Elevate; Destination ; Exemptions.

INTRODUCTION:

GST is an integrated scheme of taxation that does not discriminate between goods and services and is a part of the proposed tax reforms that centre on evolving an efficient and harmonized consumption tax system in the country. GST is expected to replace the plethora of indirect taxes including service tax, central excise duty, additional excise and customs duties, central surcharges and cesses, state VAT, state sales tax, entertainment tax not levied by local bodies, luxury tax, taxes on lottery, betting and gambling, tax on advertisements and state cesses and surcharges related to supply of goods and services. As these taxes have been ineffective and have suffered from a litany of infirmities, including exemptions and multiple rates, GST is expected to transform the labyrinthine patchwork of taxes to a lean, streamlined process.

Goods and Services Tax (GST) was introduced as a Constitutional Amendment bill in the Lok Sabha on 19 th December 2014 and passed by the house on 6th May 2015. However, it took more than a year for the Rajya Sabha to pass this on 3rd August 2016. The bill after ratifications by the states received the Presidential assent on 9th September 2016. GST is expected to come into force by 1st July 2017.

Implementation of the Goods and Services Tax (GST) will have a significant impact on the real estate sector, where, a property under construction is taxed under VAT and Service Tax. The Goods and Services Tax (GST) will replace all these with a single tax, which shall, in the long run, reduce the overall cost of home ownership. The stamp duty and registration fees, however, will be outside the purview of the Goods and Services Tax (GST).

PROPORTION OF GST ON DIFFERENT PRODUCTS

GST Nil rate (0%):

No tax will be imposed on items like fresh meat, fish chicken, eggs, milk, butter milk, curd, natural honey, fresh fruits and vegetables, flour, besan, bread, prasada, salt, bindi. Sindoor, stamps, judicial papers, printed books, newspapers, bangles, handloom etc.

GST 5% Items List

Items such as fish fillet, cream, skimmed milk powder, branded paneer, frozen vegetables, coffee, tea, spices, pizza bread, rusk, sabudana, kerosene, coal, medicines, stent, lifeboats will attract tax of 5 percent.

GST 12% Items list

Frozen meat products , butter, cheese, ghee, dry fruits in packaged form, animal fat, sausage, fruit juices, Bhujia, namkeen, Ayurvedic medicines, tooth powder, agarbatti, colouring books, picture books, umbrella, sewing machine, and cellphones will be under 12 per cent.

GST 18% Items List

Most items are under this tax slab which includes flavored refined sugar, pasta, cornflakes, pastries and cakes, preserved vegetables, jams, sauces, soups, ice cream, instant food mixes, mineral water, tissues, envelopes, tampons, note books, steel products, printed circuits, camera, speakers and monitors.

GST 28% Items list

Chewing gum, molasses, chocolate not containing cocoa, waffles and wafers coated with chocolate, pan masala, aerated water, paint, deodorants, shaving creams, after shave, hair shampoo, dye, sunscreen, wallpaper, ceramic tiles, water heater, dishwasher, weighing machine, washing machine, ATM, vending machines, vacuum cleaner, shavers, hair clippers, automobiles, motorcycles, aircraft for personal use, and yachts will attract 28 per cent tax – the highest under GST system.

Important Characteristics of GST

- ❖ The Bill proposes that both the Centre and States would be entitled to concurrently impose GST on the supply of goods and services within a State. Effectively, every supply of goods and services would be subjected to a Central GST (CGST) and State GST (SGST) on such “intra-state” supply by the jurisdictional State.
- ❖ When the supply of goods and services is between States as an “inter-state” transaction, a levy called Integrated Goods and Services Tax (IGST) would be levied by the Centre.
- ❖ Imports are intended to be treated at par with inter-state transactions and therefore should attract IGST; it is currently unclear if such IGST would apply in complete exclusion to the current customs duty regime. Similarly, exports have not been given similar treatment. Therefore, the modus of imposing export duties on certain items is unclear.
- ❖ The Bill empowers the formulation of principles to determine when the supply of goods and services would constitute an inter-State transaction for IGST to apply; such principles would be incorporated in the GST legislation that would be introduced after this Bill becomes law.
- ❖ Though IGST on inter-state supply of goods and services would be imposed by the Central Government, IGST Revenues would be shared between the Centre and States as per the recommendations of the GST Council. It is expected that the methodology of this revenue share would be coded into the GST legislation that would be introduced by the Centre after completion of this constitutional amendment.
- ❖ As indicated above, revenue sharing between the Centre and States has been a historic stumbling block on progress on GST over the past few years. Effectively, this resulted in concern by the States on relinquishing the power to tax revenue leading items such as petroleum, tobacco, medicinal and toilet preparations (MTP) and alcohol. This Bill indicates a level of agreement on these elements, as it proposes to bring all items except alcohol within the ambit of GST. However, the Bill also provides that for certain items, this transition to GST would be immediate, while on a phased for other items. This has been illustrated below:
 - ❖ Entry tax imposed by various States across India when goods enter for consumption or sale within its jurisdiction. This levy has been subjected to various legal challenges in almost all States and is currently pending resolution at various appellate fora. This also posed specific logistical difficulties for the supply chain. The Bill seeks to delete the imposition of entry tax across India and is a welcome development.

- ❖ Entertainment tax, which is currently imposed by States on a variety of activities (television, movie theatres etc.), would be now subjected to GST. This is a positive development for the entire entertainment sector which would not come within the folds of GST as it was hitherto subject to different taxes at the stages of content development, licensing and dissemination. However, taxes on entertainment at the Panchayat, Municipality or District level would continue.
- ❖ GST would be capable of being levied on the sale of newspapers and advertisements therein. This would give the governments the access to substantial incremental revenues since this industry has historically been tax free in its entirety.
- ❖ Stamp duties, typically imposed on legal agreements by the State, would continue to be levied by the States.
- ❖ The Bill has provided for a definition of services, covering “anything other than goods”, which is modelled on the regulations prevalent under the VAT regimes in the European Union. An initial reading suggests that this could be intended to further widen the scope of GST to potentially tax other items such as lottery tickets which constitute actionable claims etc.
- ❖ The Bill provides that the administration of GST would be the responsibility of the GST Council which would then become the apex indirect tax policy making body of the country. This GST Council would be formed by the Central and State level ministers in charge of the finance portfolio. The Bill also lays down various elements of how the GST Council would operate and its powers, such as determining the rate and exemptions of tax, threshold limits, framing model laws and principles of levy and apportionment of IGST, and voting powers.

Optimistic Impact of GST in India:

The GST rate starts at 5% and 18% taxation services such as restaurants; movies etc. are bound to increase prices. GST may fuel inflation for the short term. It will bring transparent and corruption free the system. The cost of doing business will be lower. It will boost the Indian Economy. Increase in demand and consumption of goods and services.

- GST is a single taxation system that will reduce the number of indirect taxes. From now, a single taxation term would cover all of those indirect taxes.
- The Prices of products and services will reduce , thus this system would prove to be beneficial for the people who are fed up of paying high prices.
- Reduce the burden from the state and the central government. With the introduction of GST, all indirect taxes would come under a single roof.
- GST would not be charged at every point of sale like other indirect taxes, market would be developed.

- Corruption-free taxation system.
- **GST** will boost Indian economy in comparison to the other developing countries.

Some important benefits of GST

- Under GST, the taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions.
- GST will be levied only at the destination point, and not at various points (from manufacturing to retail outlets).
- Currently, a manufacturer needs to pay tax when a finished product moves out from a factory, and it is again taxed at the retail outlet when sold.
- It is expected to help build a transparent and corruption-free tax administration.

Benefit of Centre and the States

- It is estimated that India will gain \$15 billion a year by implementing the Goods and Services Tax as it would promote exports, raise employment and boost growth.
- It will divide the tax burden equitably between manufacturing and services.

Benefits of GST for individuals and companies

- In the GST system, both Central and State taxes will be collected at the point of sale.
- Both components (the Central and State GST) will be charged on the manufacturing cost. This will benefit individuals as prices are likely to come down. Lower prices will lead to more consumption, thereby helping companies.
- Thus, the prices of commodities are expected to come down in the long run as dealers will be allowed to avail the CENVAT credit of Excise duty paid by Manufacturers and more over he will be allowed to avail the CENVAT credit of tax paid on services also. This passing of the benefits of reduced tax incidence to consumers by slashing the prices of goods will definitely reduce the prices.

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