GST – GOODS AND SERVICES TAX

HISTORY, MEANING, OBJECTIVES
AND SALIENT FEATURES

BASICS OF TAXATION

- Taxes are basically of two types viz- Direct Taxes and Indirect Taxes
- Direct Taxes are those wherein the impact and incidence of taxes are on the same person i.e. a person earns income, enjoys the benefits and hence the burden of payment of taxes fall on him. Income Tax, Property Tax are examples of Direct Taxes.
- Indirect Taxes are those wherein the impact and incidence of taxes are on different persons i.e. the manufacturer or retailer sells a product and makes profit and also pays tax for the benefits he derives. But while selling to the final consumer, the tax is added to the cost of the product and so the final consumer pays the taxes along with the cost. Hence the incidence of tax is on the seller while the impact is on the consumer. Excise Duty, Service Tax etc. are examples of Indirect Taxes.

KEYWORDS

1. GOODS
2. SERVICES
3. VALUE ADDITION
4. VALUE ADDED TAX
5. CASCADING EFFECT OF TAXES
6. EXCISE DUTY
7. SERVICE TAX
8. CENTRAL SALES TAX
9. CGST
10. IGST
11. UTGST
12. INPUT TAX
13. OUTPUT TAX
14. INPUT TAX CREDIT

GOODS & SERVICES

- Goods may be defined as any tangible commodities or products that can be sold in a market at a fixed price. For ex. Furniture, Car etc
- A service is something that the public needs, such as transport, communications facilities, hospitals, or energy supplies, which is provided in a planned and organized way by the government or an official body. Ex. Banking, Hospitality, Medical etc.

VALUE ADDITION & VALUE ADDED TAX

- **Value**-**Added** is the extra worth that comes from each stage of a process or from added features to a product, service or idea. Ex. Converting fruits into jam is a value addition.
- **Value Added Tax** is a tax levied on the value addition to a product or a service.

CASCADING EFFECT OF TAXES

- A Cascade tax or Cascading tax is a turnover tax that is applied at every stage in the supply chain, without any deduction for the tax paid at earlier stages.

EXCISE DUTY,SERVICE TAX & CENTRAL SALES TAX

- Excise Duty is a tax levied on manufacture of goods. Duty is levied when the manufactured goods are removed from the factory for sale. This duty is levied on the manufacturer.
- Service Tax is a tax levied on the taxable services rendered by the service provider.
- Central Sales Tax(CST) is a tax levied on the sale of goods from one State to the other State i.e. on the Interstate Sales.

CGST, SGST,IGST & UTGST

- The GST to be levied by the Centre on intra-State supply of goods and/or services i.e. supply of goods and services within a State is Central GST (CGST).
- The GST to be levied by the States on intra-State supply of goods and/or services i.e. supply of goods and services within a State is is State GST (SGST).
- The GST to be levied on inter-state supply of goods and services i.e. supply of goods and services from one State to other State(s) is Integrated GST (IGST) which will be collected by Centre. IGST will also apply on imports.
- SGST is GST which can be applied only on States which have their own legislature. They cannot be applied on Union Territories as they do not have their own legislature. India has 7 Union Territories. Hence UTGST is applicable on the Union Territories in place of SGST except for Delhi and Puduchery which have their own legislatures.

INPUT TAX, OUTPUT TAX AND INPUT TAX CREDIT

- Input Tax is an indirect tax paid on raw materials, capital goods, spare parts, services etc., which a business consumes or uses in its operations.
- Output Tax is a tax charged on the selling price of taxable goods or services, and is payable by the consumer.
- Input tax credit is the credit manufacturers receive for paying input taxes towards inputs used in the manufacture of products. Similarly, a dealer is entitled to input tax credit if he has purchased goods for resale. All dealers are liable for output tax on the taxable sales made by them.

GST - INTRODUCTION

- GST is a multi-stage, destination-based tax that will be levied on every value addition
- GST will be levied on value additions at each stage of the production cycle - buying raw materials, processing, manufacturing, warehousing and sale to customers - the monetary worth added at each stage to achieve the final sale to the end customer will be taxed.
- 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.

OBJECTIVES OF GST

- One Country – One Tax
- Consumption based tax instead of Manufacturing
- Uniform GST Registration, payment and Input tax Credit
- To eliminate the cascading effect of Indirect taxes on single transaction
- Subsume all indirect taxes at Centre and State Level under
- Reduce tax evasion and corruption
- Increase productivity
- Increase Tax to GDP Ratio and revenue surplus
- Increase Compliance
- Reducing economic distortions

SALIENT FEATURES OF GST

- Subsuming of Central Taxes.
- Subsuming of State and Other Taxes
- Integrated Goods and Services Tax (IGST).
- Distribution of GST.
- No Surcharge levy on GST.
- Scope of GST.
- Promulgation of GST Council.
- Working of GST Council.
- Seventh Schedule of Constitution Amended.
- Additional tax on supply of goods.
- Compensation to States.

- **Dual Goods and Service Tax** : CGST and SGST
- **Inter-State Transactions and the IGST Mechanism:** The Centre would levy and collect the Integrated Goods and Services Tax (IGST) on all inter-State supply of goods and services. The IGST mechanism has been designed to ensure seamless flow of input tax credit from one State to another. The inter-State seller would pay IGST on the sale of his goods to the Central Government after adjusting credit of IGST, CGST and SGST on his purchases (in that order). The exporting State will transfer to the Centre the credit of SGST used in payment of IGST. The importing dealer will claim credit of IGST while discharging his output tax liability (both CGST and SGST) in his own State. The Centre will transfer to the importing State the credit of IGST used in payment of SGST.

- **Computation of GST on the basis of invoice credit method:** The liability under the GST will be invoice credit method i.e. cenvat credit will be allowed on the basis of invoice issued by the suppliers.
- **Payment of GST:** The CGST and SGST are to be paid to the accounts of the central and states respectively.
- **Goods and Services Tax Network (GSTN):**A not-for-profit, Non-Government Company called Goods and Services Tax Network (GSTN), jointly set up by the Central and State Governments will provide shared IT infrastructure and services to the Central and State Governments, tax payers and other stakeholders

- **INPUT TAX CREDIT (ITC) SET OFF** : ITC for CGST & SGST will be taken for taxes allowed against central and state respectively**.**
- **GST on Imports :** Centre will levy IGST on inter-State supply of goods and services. Import of goods will be subject to basic customs duty and IGST.
- **Maintenance of Records** : A taxpayer or exporter would have to maintain separate details in books of account for availment, utilization or refund of Input Tax Credit of CGST, SGST and IGST.

- **Administration of GST** : Administration of GST will be the responsibility of the GST Council , which will be the apex policy making body of the GST. Members of GST Council comprised of the Central and State ministers in charge of the finance portfolio.
- **Goods and Service Tax Council:** The GST Council will be a joint forum of the Centre and the States. The Council will make recommendations to the Union and the States on important issues like tax rates, exemption list, threshold limits, etc. One-half of the total number of Members of the Council will constitute the quorum of GST council.