



## NEED OF GOODS AND SERVICE TAX IN INDIA

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### Introduction :

The President of India approved the Constitution Amendment Bill for Goods and Services Tax (GST) on 8 September 2016, following the bill's passage in the Indian parliament and its ratification by more than 50% of state legislatures. This law will replace all indirect taxes levied on goods and services by the central government and state government and implement GST by April 2017. The implementation of GST will have a far-reaching impact on almost all the aspects of the business operations in India. With more than 140 countries now adopting some form of GST, India has long been a stand-out exception. Goods & Services Tax Law in India is a comprehensive, multi-stage, destination-based tax that is levied on every value addition. In simple words, Goods and Service Tax is an indirect tax levied on the supply of goods and services. GST Law has replaced many indirect tax laws that previously existed in India. GST is one indirect tax for the entire country.

GST is a value-added tax levied at all points in the supply chain, with credit allowed for any tax paid on input acquired for use in making the supply. It would apply to both goods and services in a comprehensive manner, with exemptions restricted to a minimum. In keeping with the federal structure of India, it is proposed that the GST will be levied concurrently by the central government (CGST) and the state government (SGST). It is expected that the base and other essential design features would be common between CGST and SGSTs for individual states. The inter-state supplies within India would attract an integrated GST (IGST), which is the aggregate of CGST and the SGST of the destination state.

### Features of the GST :

1. The power to make laws in respect of supplies in the course of inter-state trade or commerce will remain with the central government. The states will have the right to levy GST on intrastate transactions, including on services.
2. The administration of GST will be the responsibility of the GST Council, which will be the apex policy-making body for GST. Members of GST Council will comprise central and state ministers in charge of the finance portfolio.
3. The threshold for levy of GST is a turnover of Rs. 1 million. For a taxpayer who conducts business in a northeastern state of India the threshold is Rs. 500,000.
4. The central government will levy IGST on inter-state supply of goods and services. Import of goods will be subject to basic customs duty and IGST.
5. GST is defined as any tax on supply of goods and services (other than on alcohol for human consumption).
6. Central taxes such as central excise duty, additional excise duty, service tax, additional custom duty and special additional duty, as well as state-level taxes such as VAT or sales tax, central sales tax, entertainment tax, entry tax, purchase tax, luxury tax and octroi will be subsumed in GST.
7. A provision will be made for removing imposition of entry tax, octroi, cess, etc.
8. Entertainment tax, imposed by states on movies, theatre, etc., will be subsumed in GST, but taxes on entertainment at panchayat, municipality or district level will continue.
9. Stamp duties, typically imposed on legal agreements by states, will continue to be levied.
10. The key benefits associated with GST are

11. Offers a wider tax base, necessary for lowering tax rates and eliminating classification disputes
12. Eliminates the multiplicity of taxes and their cascading effects
13. Rationalizes the tax structure and simplifies compliance procedures
14. Automates compliance procedures to reduce errors and increase efficiency

#### **Need of GST in India**

There are various taxes that have to pay at every stage and differently collected by State and Central Government and rates differ from one state to another. If we talk about GST, it will unified whole nation and taxes will be divided among Central and State Government, which will make easier to provide services and goods across country, as no more additional state taxes will be imposed. Imposing several taxes on goods and services can lead to high cost and inefficient tax structure which can subject to shirking and revenue disclosures. The need for GST in Indian Taxation System will add value at each stage and will set off the rates both at state and at central level. Introducing GST, will increase the efficiency of taxation, improves the economic growth and it will bring whole nation to one national market.

#### **1) Tax Structure will be Simple: -**

At present, there are huge number of taxes that has to pay by consumers, with GST it will single tax to pay, which is much easier to understand. For businesses, accounting complexities will reduce and results less paperwork, which will save both time and money. GST will increase economic GDP by 2%-2.5%.

#### **2) Tax revenue will increase:**

Simple tax structure will bring more tax payers and in return it will be revenue for government.

#### **3) Competitive pricing:**

What GST will do? Well, it will eliminate all other taxes of indirect taxes and this will effectively mean that tax amount paid by end users (consumers) will reduce. As in Economics, lower will be the prices, more will be demand for that product, results in more consumption of goods, which will be benefited to companies.

#### **4) Boost to exports:**

If Indian market will be competitive in pricing, then more and more foreign players will try to enter the market, which results in more numbers of exporters and benefits to Indian Market. As far there is no tax rate is finalized, but yes GST is much needed in the countries where, it lacks transparency and complex taxation system.

#### **The Benefits of GST:**

##### **1) For business and industry**

**Easy compliance:** A robust and comprehensive IT system would be the foundation of the GST regime in India. Therefore, all tax payer services such as registrations, returns, payments, etc. would be available to the taxpayers online, which would make compliance easy and transparent.

##### **2) Uniformity of tax rates and structures:**

GST will ensure that indirect tax rates and structures are common across the country, thereby increasing certainty and ease of doing business. In other words, GST would make doing business in the country tax neutral, irrespective of the choice of place of doing business.

##### **3) Removal of cascading:**

A system of seamless tax credits throughout the value chain, and across boundaries of States would ensure that there is minimal cascading of taxes. This would reduce hidden costs of doing business.



**4) Improved competitiveness:**

Reduction in transaction costs of doing business would eventually lead to an improved competitiveness for the trade and industry.

**5) Gain to manufacturers and exporters:**

The subsuming of major Central and State taxes in GST, complete and comprehensive set-off of input goods and services and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports. The uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cost.

**For Central and State Governments**

**1) Simple and easy to administer:**

Multiple indirect taxes at the Central and State levels are being replaced by GST. Backed with a robust end-to-end IT system, GST would be simpler and easier to administer than all other indirect taxes of the Centre and State levied so far.

**2) Better controls on leakage:**

GST will result in better tax compliance due to a robust IT infrastructure. Due to the seamless transfer of input tax credit from one stage to another in the chain of value addition, there is an in-built mechanism in the design of GST that would incentivize tax compliance by traders.

**3) Higher revenue efficiency:**

GST is expected to decrease the cost of collection of tax revenues of the Government, and will therefore, lead to higher revenue efficiency.

**For the consumer**

**Single and transparent tax proportionate to the value of goods and services:**

Due to multiple indirect taxes being levied by the Centre and State, with incomplete or no input tax credits available at progressive stages of value addition, the cost of most goods and services in the country today are laden with many hidden taxes. Under GST, there would be only one tax from the manufacturer to the consumer, leading to transparency of taxes paid to the final consumer.

**Advantages Of GST:**

**1) Eliminating tax on tax effect**

Previously, several taxes were levied on the same product that increased the price of the product. With the passing of GST, it will eliminate the tax on tax effect by providing credit for the taxes paid.

**2) Product identification**

Under the previous regime, classification of products into different categories caused a lot of confusion and was a litigious issue. GST aims to solve this issue by bringing in Harmonized System of Nomenclature or HSN, which is an eight-digit code to identify products according to international standards.

**3) One tax**

Instead of several different taxes being levied by state and central government, GST proposes to impose only one tax. GST will replace several hidden taxes that were imposed by state governments and it will improve ease of doing business.

**4) Decrease in price of products**

GST will be charged at the manufacturing cost and collected at the point of sale, which means that the price will come down that will benefit the consumers. Once the prices come down, the consumption of consumers will increase which will benefit the companies.

#### 5) Easy Compliance

All the compliances like registration, returns, payments, etc. under the GST system will have to be done online, which will make compliance under the GST system hassle-free and transparent.

#### 6) GST eliminates the cascading effect of tax

GST is a comprehensive indirect tax that was designed to bring the indirect taxation under one umbrella. More importantly, it is going to eliminate the cascading effect of tax that was evident earlier. Cascading tax effect can be best described as 'Tax on Tax'. Let us take this example to understand what is Tax on Tax:

#### 7) Higher threshold for registration

Earlier, in the VAT structure, any business with a turnover of more than Rs 5 lakh (in most states) was liable to pay VAT. Please note that this limit differed state-wise. Also, service tax was exempted for service providers with a turnover of less than Rs 10 lakh. Under GST regime, however, this threshold has been increased to Rs 20 lakh, which exempts many small traders and service providers.

#### 8) Composition scheme for small businesses

Under GST, small businesses (with a turnover of Rs 20 to 75 lakh) can benefit as it gives an option to lower taxes by utilizing the Composition scheme. This move has brought down the tax and compliance burden on many small businesses.

#### 9) Simple and easy online procedure

The entire process of GST (from registration to filing returns) is made online, and it is super simple. This has been beneficial for start-ups especially, as they do not have to run from pillar to post to get different registrations such as VAT, excise, and service tax. Our *ClearTax GST* software is already on a roll filing GST returns.

#### 10) The number of compliances is lesser

Earlier, there was VAT and service tax, each of which had their own returns and compliances. Below table shows the same. Under GST, however, there is just one, unified return to be filed. Therefore, the number of returns to be filed has come down. There are about 11 returns under GST, out of which 4 are basic returns which apply to all taxable persons under GST. The main GSTR-1 is manually populated and GSTR-2 and GSTR-3 will be auto-populated.

#### 11) Defined treatment for E-commerce operators

Earlier to GST regime, supplying goods through e-commerce sector was not defined. It had variable VAT laws. Let us look at this example Online websites (like Flipkart and Amazon) delivering to Uttar Pradesh had to file a VAT declaration and mention the registration number of the delivery truck. Tax authorities could sometimes seize goods if the documents were not produced. Again, these e-commerce brands were treated as facilitators or mediators by states like Kerala, Rajasthan, and West Bengal which did not require them to register for VAT. All these differential treatments and confusing compliances have been removed under GST. For the first time, GST has clearly mapped out the provisions applicable to the e-commerce sector and since these are applicable all over India, there should be no complication regarding the inter-state movement of goods anymore.

#### 12) Improved efficiency of logistics

Earlier, the logistics industry in India had to maintain multiple warehouses across states to avoid the current CST and state entry taxes on inter-state movement. These warehouses were forced to operate below their capacity, giving room to increased operating costs. Under GST, however, these restrictions on inter-state movement of goods have been lessened. As an outcome of GST, warehouse operators and e-commerce aggregators players have shown interest in setting up their warehouses at strategic locations such as Nagpur (which is the zero-mile city of India), instead of every other city on their delivery route. Reduction in unnecessary logistics costs is already increasing profits for businesses involved in the supply of goods through transportation.

### 13) Unorganized sector is regulated under GST

In the pre-GST era, it was often seen that certain industries in India like construction and textile were largely unregulated and unorganized. Under GST, however, there are provisions for online compliances and payments, and for availing of input credit only when the supplier has accepted the amount. This has brought in accountability and regulation to these industries.

### Disadvantages of GST

#### 1) Increased costs due to software purchase

Businesses have to either update their existing accounting or ERP software to GST-compliant one or buy a GST software so that they can keep their business going. But both the options lead to increased cost of software purchase and training of employees for an efficient utilization of the new billing software. ClearTax is the first company in India to have launched a ready-to-use GST software called *ClearTax GST software*. The software is currently available for free for SMEs, helping them transition to GST smoothly. It has truly eased the pain of the people in so many ways.

#### 2) Being GST-compliant

Small and medium-sized enterprises (SME) who have not yet signed for GST have to quickly grasp the nuances of the GST tax regime. They will have to issue GST-compliant invoices, be compliant to digital record-keeping, and of course, file timely returns. This means that the GST-compliant invoice issued must have mandatory details such as GSTIN, place of supply, HSN codes, and others. ClearTax has made it easier for SMEs with the ClearTax BillBook web application. This application is available for FREE until the end of September and is an easy solution to this problem. This will help every business to issue GST-compliant invoices to their customers. These same invoices can then be used for return filing through the ClearTax GST platform.

#### 3) GST will mean an increase in operational costs

As we have already established that GST is changing the way how tax is paid, businesses will now have to employ tax professionals to be GST-compliant. This will gradually increase costs for small businesses as they will have to bear the additional cost of hiring experts. Also, businesses will need to train their employees in GST compliance, further increasing their overhead expenses.

#### 4) GST came into effect in the middle of the financial year

As GST was implemented on the 1st of July 2017, businesses followed the old tax structure for the first 3 months (April, May, and June), and GST for the rest of the financial year. Businesses may find it hard to get adjusted to the new tax regime, and some of them are running these tax systems parallelly, resulting in confusion and compliance issues.

#### 5) GST is an online taxation system

Unlike earlier, businesses are now switching from pen and paper invoicing and filing to online return filing and making payments. This might be tough for some smaller businesses to adapt to. Cloud-based GST billing software like the *ClearTax GST Billing Software* is definitely an



answer to this problem. The process for return filing on ClearTax GST is very simple. Business owners need to only upload their invoices, and the software will populate the return forms automatically with the information from the invoices. Any errors in invoices will be clearly identified by the software in real-time, thus increasing efficiency and timeliness.

#### 6) SMEs will have a higher tax burden

Smaller businesses, especially in the manufacturing sector will face difficulties under GST. Earlier, only businesses whose turnover exceeded Rs 1.5 crore had to pay excise duty. But now any business whose turnover exceeds Rs 20 lakh will have to pay GST. However, SMEs with a turnover upto Rs 75 lakh can opt for the composition scheme and pay only 1% tax on turnover in lieu of GST and enjoy lesser compliances. The catch though is these businesses will then not be able to claim any input tax credit. The decision to choose between higher taxes or the composition scheme (and thereby no ITC) will be a tough one for many SMEs.

#### Conclusion:

Goods and Service Tax, with end-to-end IT-enabled tax mechanism, is likely to bring buoyancy to government revenue. It is expected that the malicious activity of tax theft will go away under Goods and Service Tax regime in order to benefit both governments as well as the consumer. In reality, that extra revenue that the government is expecting to generate won't come from the consumers' pocket but from the reduction of tax theft. Change is definitely never easy. The government is trying to smoothen the road to GST. It is important to take a leaf from global economies that have implemented GST before us, and who overcame the teething troubles to experience the advantages of having a unified tax system and easy input credits. The key is to be GST-compliant at any time. We at ClearTax have an All-in-one GST kit specially designed for CAs. Please feel free to read our articles and watch our GST tutorial videos.

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