Goods and Service Tax (GST) - An Overview

Despite the success of CENVAT/ VAT, there are still certain shortcomings in the structure of CENVAT/ VAT both at the Central and at the State level. For instance, several taxes which are in the nature of indirect tax on goods and services, such as additional customs duty, surcharges, luxury tax, entertainment tax, etc., which have not been subsumed in the CENVAT/ VAT structure.

In the GST, both the cascading effects of CENVAT and service tax are removed with set-off, and a continuous chain of set-off from the original producer's point and service provider's point upto the retailer's level is established which reduces the burden of all cascading effects. Moreover, with the introduction of GST, burden of Central Sales Tax (CST) will also be removed. This is the essence of GST, and this is why GST is not simply VAT plus service tax but an improvement over the previous system of VAT and disjointed service tax- a significant step forward in Tax Reforms in India. Keeping this overall objective in view, an announcement was made by Shri P. Chidambaram, the then Union Finance Minister in the Central Budget (2007-2008) to the effect that GST would be introduced from April 1, 2010. But the said deadline of implementing GST from April 1, 2010, was missed due to differences between the Centre and States over the GST structure and compensation relief to States on account of loss due to phasing out of CST and set off relief of ITC. Now the deadline has been extended to 01st April 2011 for implementation of GST but it is also likely to miss as the differences between the Centre and States does not come to end. Some States are demanding more time to consider the proposals and some other States are concerned over the loss of fiscal autonomy on account of the grant of veto power to the Union finance minister as chairman of the GST Council, as proposed in the draft, however Mr. Pranab Mukherjee, finance minister of India, assured the States that their concerns will be addressed in the third draft of the Constitution Amendment Bill. If everything will go okay then the bill may be introduced in the Parliament in winter session. But still implementing the GST w.e.f. 01st April 2011 will be a tough task for the finance minister. Recently the officials of Finance Ministry of India released a statement that if GST could not be implemented from 01st April 2011 then it would be implemented from mid of the year, most likely from 01st June 2011. But in the view of current developments, it seems not possible to implement it before 01st April 2012 like Direct Tax Code (DTC).

Salient features of GST:

GST Rate Structure

The GST shall have two components: one levied by the Centre (Centre GST), and the other levied by the States (State GST). Rates for Central GST and State GST would be prescribed appropriately, reflecting revenue considerations and acceptability, however there may be a single rate for services under CGST and SGST. This dual GST model would be implemented through multiple statutes (one for CGST and SGST statute for every State). However, the basic features of law such as chargeability, definition of taxable event and taxable person, measure of levy including valuation provisions, basis of classification etc. would be uniform across these statutes as far as practicable. The Empowered Committee has decided to adopt a two-rate structure –a lower rate for necessary items and goods of basic importance and a standard rate for goods in general.

1) ***Taxes to be subsumed under GST***

A) *Centre level taxes and levies:*

i) *Central Excise Duty*
ii) *Additional Excise Duty*
iii) *Service Tax*
iv) *Additional Custom Duty (CVD)*
v) *Special Additional Duty of Customs (SAD)*
vi) *Excise Duty levied under the Medicinal and Toiletries Preparation Act*
vii) *Surcharges and Cesses*

B) *State level taxes and levies:*

i) VAT/ Sales Tax
ii) Entertainment Tax (unless it is levied by the local bodies)
iii) Luxury Tax
iv) Tax on lottery, betting and gambling
v) Entry tax not in lieu of Octroi
vi) State Cesses and Surcharges in so far as they relate to supply of goods and services

2) Utilization of Input Tax Credit (ITC)

Taxes paid against the Central GST will be allowed to be taken as input tax credit (ITC) for payment of Central GST and ITC of State GST may be utilized against payment of State GST. Cross utilization of ITC between the Central GST and the State GST will not be allowed except in the case of inter-State transactions of goods and services under the IGST Model. Refund of GST will be avoided by both Centre as well as States except in the cases such as exports, purchase of capital goods, input tax at higher rate than output tax etc. where, again refund/adjustment should be completed in a time bound manner.

3) Exports & Imports under GST

Exports would be zero-rated. Similar benefits may be given to Special Economic Zones (SEZs). However, such benefits will only be allowed to the processing zones of the SEZs. No benefit to the sales from an SEZ to Domestic Tariff Area (DTA) will be allowed.

The GST will be levied on imports with necessary Constitutional Amendments. Both CGST and SGST will be levied on import of goods and services into the country with ITC. SGST will accrue to that State where the imported goods and services are consumed.

4) GST on Alcohol, Tobacco and Petroleum Products

Alcoholic beverages and Petroleum Products i.e. crude, motor spirit (including ATF) HSD would be kept out of GST while tobacco products to be subjected to GST with ITC. Final view on taxability on Natural Gas is yet to be taken.

5) Service Tax under GST

Service Tax is presently levied at 10.3% (including cess) on more than 105 services. States do not levy or collect service taxes at present, but get a share from the Centre's collections. It is proposed that States would also tax another set of proposed new services, collect and appropriate as part of compensation for central sales tax phase-out. Since there would be issues on taxing cross border services it is expected that the State GST would only include services that are essentially of "local nature".

6) Threshold limit in GST

A threshold of gross annual turnover of Rs. 10 lakh, both for goods and services for all the States and Union Territories will be prescribed with adequate compensation for the States (particularly, the States in North-Eastern Region and Special Category States) where lower threshold had prevailed in the VAT regime. After taking into consideration the interest of small traders and small & medium scale industries and to avoid dual control, it has been proposed that the threshold for Central GST for goods will be Rs. 150 lacs and the threshold for services should also be appropriately high.

7) *Inter-state Transactions of Goods and Services (IGST)*

Centre would levy IGST which would be CGST plus SGST on all 'inter-State transactions of taxable goods and services with appropriate provision for consignment or stock transfer of goods and services. The inter-State seller will pay IGST on value addition after adjusting available credit of IGST, CGST, and SGST on his purchases. 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 in his own State. The Centre will transfer to the importing State the credit of IGST used in payment of SGST. The relevant information will also be submitted to the Central Agency which will act as a clearing house mechanism, verify the claims and inform the respective governments to transfer the funds.

8) *Taxpayer Identification number*

Each taxpayer will be allotted a PAN based13 to 15 digit taxpayer identification number for facilitating data exchange and taxpayer compliance.

9) *Composition Scheme*

Composition/Compounding Scheme will be an important feature of GST to protect the interests of small traders and small scale industries. Under composition scheme, there would be a compounding cut-off at Rs. 50 lakh of gross annual turnover (upper ceiling limit) and a floor rate of 0.5% across the States. The scheme would also allow option for GST registration for dealers with turnover below the compounding cut-off.

10) *Special Industrial Area Scheme*

After the introduction of GST, the tax exemptions, remissions etc. related to industrial incentives should be converted, if at all needed, into cash refund schemes after collection of tax, so that the continuous chain of set-offs is not disturbed under GST. Regarding Special Industrial Area Schemes, it is clarified that such exemptions, remissions etc. would continue up to legitimate expiry time both for the Centre and the States. Any new exemption, remission etc. or continuation of earlier exemption, remission etc. would not be allowed. In such cases, the Central and the State Governments could provide reimbursement after collecting GST.

11) *Documentation and compliance*

Due to the dual structure of the GST, the assessees will be required to maintain separate accounts for Central GST and State GST. There will be one periodical return for both CGST and SGST with one copy each to be submitted to the respective GST authority. Assessment, enforcement, scrutiny and audit would be undertaken by the authority which is collecting the tax, with information sharing between the Centre and the States.

Conclusion:

GST will give more relief to industry, trade and agriculture through a more comprehensive and wider coverage of input tax set-off and service tax set-off, subsuming of several Central and State taxes and phasing out of CST. The transparent and complete chain of set-offs which will result in widening of tax base and better tax compliance may also lead to lowering of tax burden on an average dealer in industry, trade and agriculture. Because of the removal of cascading effect, the burden of tax under GST on goods will, in general, fall which is likely to increase the competitiveness of Indian goods and services in the international market and to boost Indian exports.