The Union Finance Minister Mr. P. Chidambaram in his budget speech in 2006 has said: **"It is my sense that there is a large consensus that the country should move towards a National Level Goods and Service Tax (GST) that should be shared between centre and states. I propose that we set April 1, 2010 as the date of introducing GST. World over, Goods and services attract the same rate of tax. This is the foundation of GST. People must get used to the idea of a GST. We must progressively coverage the service tax rate and cenvat rate. I propose to take one step this year and increase the service tax rate from 10 percent to 12 percent. Let me hasten to add that since tax paid can be credited against service tax payable or excise duty payable, the net impact will be nil."**

It is the tax which we have to pay every time we buy goods and services, further GST is levied on every stage of production.
Proposed Effective date of implementation is April 1, 2010. However many states demanding the postponed by one year but 13th Finance commission had Suggested postponing by six months to October 1, 2010.

1. Why Goods and Service Tax System?

Currently there are multiple of indirect taxes which is result in high effective tax rates but GST will replace all these taxes with simple levy, lowering effective tax on goods and creating a national market in goods and services.

2. Constitutional Provision:

We have three lists in the seventh schedule of the constitution of India:

1. Union List 2.State List 3.Concurrent List

For the union list parliament has exclusive power to make laws, For the state list legislature of state has exclusive power to make laws and For Concurrent List both parliament and state has power to make laws, however laws made on concurrent list by parliament shall prevail in case of any dispute between center and state.

"**Taxes on sale and purchase of goods are in the state list**"

Further parliament may in exercise of its constituent power amend by way of addition, variation and repeal any provision of the constitution.
Provided if such amendment seeks to make any changes in the seventh schedule then amendment shall also require to be ratified by the legislatures of state.

Why Constitutional Amendment is required:

The Constitution provides for delineation of power to tax between the Centre and States. While the Centre is empowered to tax services and goods upto the production stage, the States have the power to tax sale of goods. The States do not have the powers to levy a tax

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on supply of services while the Centre does not have power to levy tax on the sale of goods. Thus, the Constitution does not vest express power either in the Central or State Government to levy a tax on the 'supply of goods and services'. Moreover, the Constitution also does not empower the States to impose tax on imports. *Therefore, it is essential to have Constitutional Amendments for empowering the Centre to levy tax on sale of goods and States for levy of service tax and tax on imports* and other consequential issues.

3. Essential Features of Goods and service Tax:

(i) It is comprehensive in scope and applies to as large a range of goods and services as possible by minimizing the number of exemptions to a small list of essential items which impact the common man. To the extent possible, the exemption lists of the States and the Central Government are in alignment;

(ii) The rates of tax of CGST and SGST taken together are moderate;

(iii) The rates of tax of SGST and exemptions from SGST are uniform throughout the country so that a given set of goods and services invites the same tax treatment in every State;

(iv) The input credit chain is seamless covering the entire value chain from manufacturing to retail without breaks regardless of whether goods or services are supplied within a State or across State boundaries;

(v) As far as possible, every transaction in the tax net bears both CGST and SGST;

(vi) The tax treatment of goods and services is similar;

(vii) The Central and State levies are fully neutralized in the case of exports (out of India); and

(viii) The procedures are simple and harmonized between the Centre and the States.

4. Benefits to Industry, Government and common man

- Eliminate the cascading effects of multiple layers of taxation all over the country,
- Will create a world class tax system and improve the tax collections as it will end the long standing distortions of differential treatments of manufacturing and service tax and end exemptions,
- Tax burden will come down by 25-30% on people,
- Prices of goods and services will go down.

5. Number of Taxes Concepts in Goods and Services Tax Model:

Central Goods and Service Tax (CGST), State Goods and Service Tax (SGST) and Inter State Goods and Service Tax (IGST).

6. Taxation of Goods and services within state in CGST & SGST Model:

CGST and SGST will be levied simultaneously on every transaction of supply of goods and services, Further both will be levied on the same price or value While the location of the supplier and the recipient within the country is immaterial for the purpose of CGST, SGST would be chargeable only when the supplier and the recipient are both located within the State.

Illustration: Suppose hypothetically that the rate of CGST is 10% and that of SGST is 10%. When a wholesale dealer of steel in Uttar Pradesh supplies steel bars and rods to a construction company which is also located within the same State for , say Rs. 100, the dealer would charge CGST of Rs. 10 and SGST of Rs. 10 in addition to the basic price of the goods. He would be required to deposit the CGST component into a Central Government account while the SGST portion into the account of the concerned State Government. Of course, he need not actually pay Rs. 20 (Rs. 10 + Rs. 10) in cash as he would be entitled to set-off this liability against the CGST or SGST paid on his purchases (say, inputs). But for paying CGST he would be allowed to use only the credit of CGST paid on his purchases while for SGST he can utilize the credit of SGST alone. In other words, CGST credit cannot, in general, be used for payment of SGST. Nor can SGST credit be used for payment of CGST.

7. Cross Utilization of credits under GST regime:

Cross utilization of credit of CGST between goods and services would be allowed. Similarly, the facility of cross utilization of credit will be available in case of SGST. However, the cross utilization of CGST and SGST would generally not be allowed except in the case of inter-State supply of goods and services under the IGST model.

8. Why it is called as Dual GST?

I think after having above discussion it became clear to you, why it is called as dual GST.
Let me again brief you that India is a federal country where both centre and state has been assigned power to levy and collect taxes through appropriate legislation. A Dual GST will, therefore, be in keeping with the constitutional requirement of fiscal federalism.

9. Basic Exemptions in GST

Basic Exemptions will be 10 lakhs in case of services and for the traded goods. In case of manufactured goods, presently, excise exemption up to Rs. 150 Lakhs per annum is available, However with turnover less than Rs. 150 lakhs per annum will be exempt from CGST but will liable to pay SGST.

10. Taxation of Inter State Goods and services in IGST Model:

1. IGST will be entirely collected by the centre, It will be equal to SGST *plus* CGST.

2. Importing state will be entitled to avail the credit of entire IGST, If he utilizes the credit for the payment of SGST, that amount will be reimbursed to the importing state by the centre.

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{At present when no credit is available for CST against the State Vat, Inter State purchaser will have to pay State Vat separately on his Vat liability arises within the state}

3. If Exporting state utilizes the credit of SGST for he payment of IGST, centre will debit that amount to the exporting state. Thus, centre will act as 'Clearing house' among different state.

   {At Present when no credit is available for CST against the State Vat, Inter State Seller has to file refund claim if his credit of State Vat (later it will be SGST) is high.}

4. All the transaction will be checked through mechanism of e-filing of returns by both selling and purchasing dealer.

5. The amount credited to importing state and debited to exporting state will be calculated on the basis of e-returns submitted by registered dealer in importing state and exporting state, on monthly basis.

6. Dealer having inter state transaction will be registered with central authority and will Have tax Identity Number which will be Income Tax PAN based. The e-return filed by selling dealer will contain TIN number of purchasing dealer and the amount of IGST paid. This will be matched with e- return filed by purchasing dealer and then only credit will be allowed.

7. Sequence of Utilization of ITC (Input Tax Credit) of CGST and SGST for the payment of IGST.

ITC of CGST & SGST

↓

Output Tax CGST & SGST

↓

Balance for IGST

Illustration:

A dealer purchased 6,000 Kgs of inputs on which SGST and CGST paid @ 4% was Rs. 2,400 each. He manufactured 5,000 Kgs of finished product from inputs.1,000 Kgs was the process loss. The Final product was sold at uniform price of Rs. 10 per Kg, as follows –

Goods Sold with in the state	- 2,500 Kgs
Goods Sold as Inter State	– 2,500 Kgs

There was no opening and closing stocks in inputs, WIP or Finished Products. The SGST and CGST rate on finished product of the dealer is 8% each. Calculate Liability of SGST and CGST. Find Input tax credit available to dealer and tax required to be paid in cash.

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Solution:

1. The Tax payable will be as follows: (*After Implementation of GST*)

Description	Quantity Sold	Value of goods sold	CGST Payable(Rs.)	SGST payable (Rs.)	IGST Payable (Rs.)
Sale within state @ 8%	2,500	25,000	2,000	2,000	Nil
Goods Sold Inter State @ 8%	2,500	25,000	Nil	Nil	4,000
Total	5,000	50,000	2,000	2,000	4,000

Tax paid on inputs:
SGST- Rs. 2,400 and CGST – Rs. 2,400.

This credit should be first utilized for payment of CGST and SGST respectively and balance is to be used for payment of IGST. Thus balance available for payment of IGST is Rs. 400 of CGST and Rs. 400 of SGST.

Thus tax payable is as follows:
1. IGST Rs. 3,200 (4,000-800)
2. CGST- Nil
3. SGST –Nil

Since credit of SGST of Rs. 400 has been utilized for the payment of IGST, the state government will get debit Rs.400 from central government.

2. The Tax payable will be as follows: (*Before Implementation of GST*)

Description	Quantity Sold	Value of goods sold	Excise Duty Payable (Rs.)	Vat Payable(Rs.)	CST Payable (Rs.)
Sale within state @ 8% excise & 8% vat	2,500	25,000	2,000	2,000	Nil
Goods Sold Inter State @ 8% excise & 8% vat	2,500	25,000	2,000	Nil	2,000
Total	5,000	50,000	4,000	2,000	2,000

Tax paid on inputs:
Excise duty – Rs. 2,400 State Vat- Rs. 2,400

This credit will be utilized for the payment of out vat and excise duty and the balance input vat will be refundable to the dealer i.e, (Rs.2,400-Rs.2,000 = Rs. 400) as the credit of input vat is not available for the payment of excise duty.

Thus the tax payable is as follows:
1. Excise duty - Rs. 1,600 (Rs. 4,000- Rs. 2,400)
2. CST – Rs. 2,000

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3. State Vat – Rs. 400 is refundable.

Here tax collection to the central government is Rs. 3,600 whereas calculation as per IGST tax collection to the central government is Rs. 3,200 therefore a debit of Rs 400 is given to state govt. by the central govt.

Conclusion:

1. In both the situation whether before or after implementation no revenue loss to the Government, since in both the situation the ultimate collection to the government is Rs. 3,200.

2. The cascading effect will be reduced in the GST as the purchaser will be entitled to get credit of IGST of Rs.4,000 where as no credit of CST is available and it will be added to the cost of purchase.

3. The Tax collection will increase as the tax evasion will get reduced since the industry will get motivated as they would be now utilizing the credit of CST for the payment of state vat and vice-versa.

4. The departmental harassment for refund claim will be ended up in the new GST regime.

5. The Industry will have more working capital as the cash payment of tax will be reduced.

11. Central and State taxes are proposed to be subsumed under GST.

The Empowered Committee has recommended that the following Central Taxes should be, to begin with, subsumed under the Goods and Services Tax:

(i) Central Excise Duty
(ii) Additional Excise Duties
(iii) The Excise Duty levied under the Medicinal and Toiletries Preparation Act
(iv) Service Tax
(v) Additional Customs Duty, commonly known as Countervailing Duty (CVD)
(vi) Special Additional Duty of Customs - 4% (SAD)
(vii)Surcharges, and
(viii)Cesses.

The following State taxes and levies would be, to begin with, subsumed under GST:

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

12. Tax on items containing Alcohol:

Alcoholic beverages would be kept out of the purview of GST.

13. Tax on Tobacco products:

Tobacco products would be subjected to GST with ITC. Centre may be allowed to levy excise duty on tobacco products over and above GST with ITC.

15. Tax on Petroleum Products:

As far as petroleum products are concerned, it was decided that the basket of petroleum products, i.e. crude, motor spirit (including ATF) and HSD would be kept outside GST as is the prevailing practice in India. Sales Tax could continue to be levied by the States on these products with prevailing floor rate. Similarly, Centre could also continue its levies. A final view whether Natural Gas should be kept outside the GST will be taken after further deliberations.

16. Reason for delay in Implementation of GST:

1. Constitution is still required to be amended for the implementation of GST.
2. Disagreement by many states on the share of tax revenue collections between state govt. and central govt.

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