

Goods and Service Tax- One nation One Tax

Siddharth Dhawan¹

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Abstract:

This research paper is based upon the recently passed law by the parliament termed as Goods and Service tax Act. It deals with the origin, meaning, working and impact of the Goods and Service Tax upon the Indian Economy.

Introduction of this Research paper emphasis on the meaning of the Goods and Service Tax and the nations who opted for the same. There after it shows that how the Goods and Service Tax replaced the existing Indirect system of our country. Timeline of the Goods and Service Tax is also an essence of this paper, which is followed by the constitutionality of this Act. Later it shows the main features of the 122nd Amendment Bill 2014.

After the introduction, comes the working of this Goods and Service Tax bill which is explained with the help of 2 Examples. Impact of this Goods and Service Tax act has been focused upon 2 areas I.e. impact upon the economy and the impact upon the second-hand goods industry.

Lastly the Benefits of the Act for the Consumer, Businessmen, and government had been highlighted. Few questions were asked to the general public through the questionnaire as a part of this research paper with respect to the Goods and Service Tax, and the result of the same has been mentioned in the paper.

Key Words: *Goods and Service Tax. Second Hand Industry, Slab rates, Impact, Public View, 101 Amendment.*

Authors:

1. Amity Law School, Delhi, INDIA

Introduction

Goods and Service Tax

Goods and service Tax refers to the one Indirect tax system for the whole of India. This tax will cover the supply of goods and services from the manufacturer to the consume. Purpose of introducing this new tax was to make India a unified market. This tax system will not only clear the complication of earlier tax system, but will also help the government to curb corruption and to prevent leakage of tax revenue.¹

Origin of Goods and service tax.

Goods and service tax was first introduced in the country of France in the year 1954. After that many other countries (140) have opted for the same scheme of Indirect taxes in their economy. Many developed countries are included in this list like Australia, Canada, United Kingdom etc. Some countries have opted for the dual Goods and Service Tax Model. India is also one of them, including Canada, Brazil and others. USA did not opt for the Goods and Service Tax system because it wanted to preserve the autonomy of its states. Same question arises for the states of India. Since the Central Government had fixed the revenue percentage of states, it will result in the loss of revenue for majority of states. Centre had promised for compensating the states for their losses, but the quantum of compensation, depends upon of the Central government only. Centre Government in a way had affected the autonomy of the states.

Goods and Service Tax and India

Goods and Service Tax in India was passed in the historic session of parliament on 30th June midnight. The proposal for Goods and Service Tax was made back in year 2000 and it took exactly 17 years to become an act. This shows the complication of procedure of law making in our country. This Goods and Service Tax replaced the existing taxes like central excise duty, services tax, additional customs duty, surcharges, state-level value added tax and Octroi.

However taxes like Custom Duty, Stamp Duty, Vehicle Tax etc. are outside the preview of GST.

Timeline of GST

YEAR 2000

The Vajpayee Government started discussion about the Goods and Service tax by setting up a committee. Asim Dasgupta was the head of the committee.

YEAR 2002-2004

The Kelkar Task Force on the implementation of Fiscal Responsibility and Budget Management Act 2003 and suggested a comprehensive Goods and Service Tax.

YEAR 2006

In year 2006-07, a proposal was first mooted in the Budget Speech to introduce a national level Goods and Service Tax by April 1, 2010.

YEAR 2007

On May 2007 Empowered Committee of State Finance Ministers, started work on Goods and Service Tax road map. On 19 November 2007 The Joint Working Group, submitted its report to the Empowered Committee.

YEAR 2008

A report titled 'A model and roadmap for Goods and Services Tax in India' was finalized by the Empowered Committee.

YEAR 2009

First Discussion Paper was released by the committee in Nov 2009.

YEAR 2010

Finance Minister in the speech (Feb 2010) mentioned about the Goods and Service Tax to be introduced in April 2011.

YEAR 2011

¹ CBEC. (2017), *FAQs ON GOODS AND SERVICE TAX*, Central Board of Excise and Customs, (July. 06, 2017, 06:21PM), <http://www.cbec.gov.in/htdocs-cbec/gst>.

In March 2011 The 115th Constitutional Amendment Bill was introduced in the Lok Sabha for levy of Goods and Service Tax on all goods or services except for the specified goods.

YEAR 2013

August- Standing committee submitted its report on Goods and Service Tax. November- EC rejected Government's proposal to include petroleum products.

YEAR 2014

On 17th December 2014, the 122th Constitutional Amendment Bill was passed in Lok Sabha for levy of this new Tax which enables the introduction of Goods and Service Tax expected by April 2016.

YEAR 2016

On 3rd August 2016 'The Constitution (122nd Amendment) Bill passed by the Rajyasabha.

YEAR 2017

On 16th March 2017 GST council cleared State and Union Territory Goods and Service Tax laws.

On 30th June 2017 in the midnight session of the Parliament, Goods and Service Tax was passed and made enforceable by 1st July 2017.

Goods and Service Tax and Constitution of India

Every law is passed by the Primary law-making body of our Country, i.e. Parliament.

Every bill, before becoming any act should be passed either by simple majority, special majority or special majority requiring 50% state ratification. To amend the constitution of India (Article 368) special majority with 50% state ratification is required. This Goods and Service tax Act was introduced as 122nd Amendment and was passed as 101st Constitutional Amendment Act. First state to ratify the Goods and Service Tax bill was Assam. Consent of the President of India was received on September 8th 2016.

The important changes made in Constitution (new articles / amended articles) via this law are as follows:²

Article 246 (A)

Article 269A

Article 279-A

Changes in the 7th Schedule. Union list and State list.³

It was introduced as 122nd Constitutional amendment bill. But as we know every bill have to be pass through the parliamentary procedure and if it affects the federal structure of Constitution (effect the right of the states) than it must need to pass through at least 50% of the states, known as state ratification

Every bill is not able to get pass because they may not come to common ideology. So either they lapse or removed by government with the introduction of new bill. Many of such bill could not make through this process.⁴

Therefore Goods and Service Tax came as 122nd Constitutional Amendment bill but when it was passed, it make to 101st Constitutional Amendment act.

Working of goods and service tax

Taxation scheme

Goods and Service Tax is divided into three parts. I.e. Central GST, State GST, and Integrated GST. CGST will be levied and collected by Centre, SGST will be levied by State, IGST will be levied by the Central Government on inter state supply of goods and services. GST will be levied on all transaction such as sale, transfer, purchase, barter, lease or import of goods and services. It is must be noted that Goods and Service Tax will be levied in the state in which the goods/services are consumed, and not where they are produced because of the nature of this tax i.e Consumption Base Tax.⁵

²GK Today, *Constitution 101st Amendment Act, 2016*. GK TODAY, (JULY. 06, 2017 03:32PM), <https://www.gktoday.in/blog/constitution-101st-amendment-act-2016>.

³ CBEC. (2017), *101ST Constitution Amendment Act 2016*. Central Board of Excise and Customs. (July. 07, 11:53AM). <http://www.cbec.gov.in/resources/htdocs-cbec/gst/consti-amend-act.pdf>.

⁴Yuvrajsingh Solanki, *Is GST Bill 101st or 122nd constitutional amendment*, QUORA (June. 30, 2017, 10:43AM). <https://www.quora.com/Is-GST-bill-101-or-122-constitutional-amendment>.

⁵ GST-SEVA, (2017). *GST HISTORY INDIA / GST-Seva / GST-in-India / CGST / SGST / IGST/ Goods and Services tax free tax site*, GST SEVA. (July. 04, 2017, 11:53PM), <https://www.gstseva.com/gst/history/>.

Under the previous system, a state would have to only deal with a single government in order to collect tax revenue

Slab rates for the items are as follows – 0% (Half of the Consumer price Basket, including food grains), 5% (Most Consumption item like spices and oil), 12% (processed item), 18% (Daily use item like toothpaste, smart phone, soaps), 28% (cars), 28% plus cess (Luxury items).

Working and example

EXAMPLE 1

A dealer in Delhi sold goods to a consumer in Delhi worth Rs. 1,00,000. The Goods and Services Tax rate is 18% comprising CGST rate of 9% and SGST rate of 9%. In such cases the dealer collects Rs. 18000 and of this amount, Rs. 9000 will go to the central government and Rs. 9000 will go to the Delhi government.

Now, let us assume the dealer in Delhi had sold goods to a dealer in Madhya Pradesh worth Rs. 1,00,000. The GST rate is 18% comprising of CGST rate of 9% and SGST rate of 9%. In such case the dealer has to charge Rs. 18000 as IGST. This IGST will go to the Centre. There will no longer be any need to pay CGST and SGST.⁶

EXAMPLE 2 (Input - Output Tax Credit, Cascading Effect and Cenvat Credit)

XYZ Ltd. was engaged in the business of producing refills for the pens in Delhi. The total cost of producing a refill was Rs. 100. The same refill was sold to the manufacturer of pen i.e. ABC Ltd in Delhi for 100 + 18 = 118 (18% GST on 100). The tax collected by the XYZ company will be paid to the Government. 9% to the State Govt. as SGST and 9% to the Central Govt. as CGST.

The amount paid by the ABC Ltd as tax will be available to them as input credit.

ABC Ltd made the complete pen and cost of the same was Rs. 150. They sold the same pen to a retailer PQR in Delhi at Rs. 177 (150+27). Rs. 27 collected is the GST. Now ABC Ltd is liable to pay only Rs. 9 to the

Government because they will avail the benefit of their input credit. i.e Rs. 18.

The amount paid by the PQR as tax will be available to them as input credit.

PQR Ltd sold the pen to the Consumer in Delhi for Rs. 236 (200 + 18% GST). Now PQR Ltd is liable to only Rs. 9 to the Government because they will avail the benefit of their input credit i.e Rs. 27.

At the end of this example, we came to a conclusion that Total GST on the Pen was Rs. 36. (18% of 200). The burden of the whole tax was borne by the Consumer only. Businessmen were provided with the benefit of input credit.

In the case of Goods and Services Tax, there is a way to claim credit for tax paid in acquiring input. What happens in this case is, the individual who has paid a tax already can claim credit for this tax when he submits his taxes.

Impact of goods and service tax

Impact upon the economy

The step to introduce Goods and Service Tax was taken to bring reform in the existing indirect tax system of India. There were many drawbacks of the earlier indirect tax system like leakage of taxes, tax evasion, cascading effect, unable to receive input credit, double taxation and lot more. Goods and Service Tax will merge the large No. of indirect taxes of the State and Centre government. This new tax system will unify the Indian market. Collection and distribution of tax will be an easy task. this is a new hassle free tax system. Goods and Service Tax is supposed to bring the transparency in the Indian economy. The expected increase in the revenue is estimated at 43% of the existing collection of taxes.

This new system will also enhance the relation between the State and Centre government. Both the Governments will coordinate with each other for the collection of taxes.

Goods and Service Tax holds a great promise in terms of Sustainable growth for the Indian Economy.

⁶ Cleartax.in, *What is GST Law in India? Goods & Services Tax Law Explained*, CLEAR TAX (July. 03, 2017, 12:41PM), <https://cleartax.in/s/gst-law-goods-and-services-tax>.

Goods and Service Tax is expected to have a favorable outcome on the economy

Economies of scale in production and efficiency in the supply chain can be achieved with the removal of tax barriers with seamless credit. Reduction in the cost because of the removal of cascading effect.

Single Tax will help in the ease of doing business. Transparency will be increased. Cost of transaction and tax compliance will be significantly reduced

Increase in foreign investment because of stable and predictable tax regime. Creation of job opportunities for new aspirants.

To Safeguard States interests, few items which contributes for the major portion of tax collection had been kept out of the purview of Goods and Service Tax like, Liquor, Petroleum and Electricity

Impact upon Second Hand Goods

ABC Ltd a dealer in the second-hand goods procured goods from a registered dealer PQR under Goods and Service Tax, for such transaction, there would be no impact as laws are same which apply to new goods dealer.

ABC Ltd. a second-hand dealer procures goods from unregistered dealers PQR, would fall under the provisions of reverse charge mechanism and have to pay taxes on behalf of unregistered dealers and later, claim such tax as input tax credit. So, more procedures need to be followed by such dealers.

If a dealer procures goods directly from the end users, then it would carry low tax burden i.e. no tax on purchases. It would increase their profitability because the tax will be charged on the margins.

There is no distinction between the second hand goods and the new goods under the new Goods and Service Tax law passed, hence the Goods and Service Tax rates will be applied to used goods would be in the same manner if they were like the new goods.⁷

Benefit of Goods and Service Tax

For business and industry

Transparency: All the services related to Goods and Service Tax will be available online like registration, returns, payment etc. This will make the compliance easy and transparent. Therefore a strong and Comprehensive Information Technology is foundation of this new Tax

Uniform tax rates: Dividing goods and services under the slab rates and providing fix percentage for the same will increase the uniformity of the taxes and ease of doing business. People will be attracted to the business sector.

Removing cascading effect of Taxes: 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.

Improved competition: Reduction in transaction costs and compliance cost of doing business would eventually lead to an improved competitiveness for the trade and industry. It will attract foreign investors as well.

Benefit to manufacturers and exporters: The merger of major Central and State taxes in Goods and Service Tax, 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 value 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.⁸

For Central and State Governments

For the Government, Goods and Service Tax will serve as a new mechanism to make sure that tax is being properly collected and there is no Tax evasion on the part of the tax payer. Not only this, the single tax system between the State and Center Government will increase the cordial relationship between both of them.

⁷ Dhruve, *GST: Impact on Second Hand Goods Industry (an undiscussed theory)*. TAX GURU. (July. 04, 2017, 04:55PM), <http://taxguru.in/goods-and-service-tax/gst-impact-hand-goods-industry-undiscussed-theory.html>.

⁸ Gstindia.com. (2017), *About – GST India-Goods and Services Tax in India*. GST INDIA, (July. 08, 2017, 06:21PM), <http://www.gstindia.com/about/>.

Revenue collected from the taxpayers will be equally divided among State and Center Government except IGST which will go only to the Centre Government.

Introducing this system was important on the part of government was because, they were unable to motivate people to invest in the business sector. Now this easy to comply GST will motivate the people open more businesses, which will ultimately boost the 'Make In India' Campaign.

This system will also increase the credibility of people towards the Government.

For the consumer

Single 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 were 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.

Overall relief from tax burden: Due to efficiency gains and prevention of leakages, the overall tax burden on most commodities will come down, which will benefit consumers.⁹

Drawbacks of Goods and Service Tax

In the infant stage of Goods and Service Tax it is very difficult to understand the concept completely. All the compliance and procedures seems to be a bit tricky.

Moreover at the present time we do not have the proper platform to implement Goods and Service Tax. Mere website and online processes cannot fulfill all the required purposes.

In India more than 30% people do not have the internet access and many of the people do not know how to use computer, in such circumstances, the success of this Goods and Service Tax bill is in doubt.

Under previous tax system, State government had the liberty to decide the tax rates according to their will,

but now since the tax rates are fixed by the Central Government, many states might be on the losing side in terms of revenue.

Every company will be forced to change their business software¹⁰, which lead to the heavy installation cost.

Most importantly Goods and Service Tax is passed in the middle of year, making it complex to file returns and payment of taxes.

One the one side Government is promoting digital payment and on the other side, making the banking services more expensive.

Analysis of goods and service tax

Public view towards goods and service tax

After the launch of Goods and Service Tax during the midnight session of the parliament on 30th June 2017, a questionnaire as a part of research work was sent to many scholars, businessmen, local shopkeepers, households, and government officials.

Following observations were made during the research work

QUESTION-1 How do you rate the Goods and Service Tax Bill passed by the Government?

PERCENTAGE	OPTIONS
70%	Excellent
15%	Very good
5%	Good
10%	Bad

QUESTION-2 Will Goods and Service Tax overcome the defects of earlier indirect tax system?

PERCENTAGE	OPTIONS
65%	Definitely
10%	May be
12%	Not sure
13%	Not at all

QUESTION-3 Will Goods and Service Tax simplify the Indirect Tax System of India?

⁹Company, *GST India - GST Benefits and Impact on Indian Economy*, DESKARA INDIA, (July. 05, 2017, 02:12PM), <http://www.deskera.in/gst-benefits-and-impact-on-indian-economy>.

¹⁰Cleartax.in, *Drawback and Demerits of GST*, CLEAR TAX, (July. 03, 2017 12:41PM), <https://cleartax.in/s/disadvantages-gst>.

PERCENTAGE	OPTIONS
87%	Yes
13%	No

Conclusion/observation

The 101st Amendment made by the Government in the name of Goods and Service Tax Act, is a step towards a new India. This new indirect tax system will not only simplify the taxation system in India, but also help in curbing corruption and other mal practices like tax evasion. This new law has been widely accepted by the general people.

This is the first time that we are moving towards goods and services regime and the whole purpose is to create an all India Market. How this is going to really work in practice we will have to wait and see. It is an unknown terrain and nobody is clear of the consequences, implications and the outcome.

Although Goods and Service Tax is in its infant stage and people are finding it difficult to understand the concept, but they are willing to learn about it.

During the research work, it was observed that people are excited towards the new change in the tax system of India and they whole heartedly accepted the same.

With the view that 'Goods and Service Tax will help us achieve *one nation one tax*' I wish for the success of this Goods and Service Tax Act.

May India become one of the Leading Economy in the coming time.

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