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An overview of goods and services tax regime in India

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Abstract
The VAT and GST are used reciprocally; France was the first country to implement VAT, in 1954 and at present, more than 160 countries have implemented GST / VAT in some form or other. The GST regime in practice varies from one country to another, however, it has one common principle; it is a destination-based consumption tax. The VAT/ GST in global practices, VAT structures are very centralized where tax is levied and administered by the Central government, it resembles Germany and Switzerland. A dual GST structure wherein both Centre and States levy and administer tax independently like Canada since, it is a federal country in which certain provinces have joined with federal GST system. In India, the dual structure model of GST regime, in place of VAT, is introduced on 1st July, 2017 by making constitutional amendments and with the hope of cascading effect could be eradicated completely as it was there at certain level in overall framework of VAT regime.
With this backdrop, it highlights, how dual structure GST model works in India for eliminating the cascading effect which was in previous VAT regime at certain level due to non-inclusion of several indirect taxes at Central and State level in indirect taxation.

Keywords: VAT and GST, destination, consumption, dual structure and cascading effect

1. Introduction

The Goods and Services Tax (GST) regime was introduced on 1st July, 2017 in India in the place of Value Added Tax (VAT) regime at indirect taxation. The main objective behind the introduction of GST system is to overcome from the cascading effect which was there in certain level at overall framework of previous VAT system. In spite of success with VAT, the cascading effect was the major shortcoming in indirect taxation. The cascading effect was being created in VAT due to not merging the following indirect taxes in to one tax at central and state level. There were several indirect taxes at Central level not subsumed to one tax with central excise duty such as Duties of Excise levied under the Medicinal and Toilet Preparations; Additional Duties of Excise on Goods of Special Importance; Additional Duties of Customs (commonly known as Countervailing Duty CVD) and Special Additional Duty of Customs (SAD); Central Surcharges and Cess. Similarly, in the state level, several indirect taxes in nature were not merged in to one tax such as Sales Tax; Central Sales Tax; Purchase Tax; Luxury Tax; Entry Tax (All forms); Entertainment Tax (except those levied by the local bodies); Taxes on advertisements; Taxes on lotteries, betting and gambling; State Surcharges and Cess in the VAT system.

2. Review of Literature

Dasgupta Asim Kumar, (2009) [7] the empowered committee of State Finance Ministers coordinated with the Central Government and worked for preparing a road map for introduction of GST. It briefs the system of VAT and highlights the precise points where there is a need for further improvement and how the improvement could be taken place through the GST model with this background it has given need and justifications for introduction of GST. Further, it presents in detail the comprehensive structure of the GST model with how to cope up the shortcomings of cascading effect. It also highlights the following significant factors of dual structure of operational GST model, subsuming of several indirect taxes at central and states for GST regime, set off of tax on services with tax on goods, GST rate and slabs, phasing out of CST, input tax credit provisions, IT infrastructure for filling of GST returns. Finally, Acts of CGST, IGST, SGST, UTGST and GST compensation for states along with taxation system for alcoholic, tobacco and petroleum related products.

Thirteenth Finance Commission (2009) the impact of implementation of Goods and Services Tax (GST) including its impact on the country's foreign trade had been considered. State Governments expressed their views on the GST related aspects. Industry associations also communicated with the Commission to convey their concerns on design and implementation of GST regime. To address all these issues and other GST related issues, the National Council for Applied Economic Research (NCAER) was sponsored to study the impact of GST on international trade; and another study, Task Force (TF) was sponsored to examine the whole gamut of GST related issues from design to implementation, both studies made suitable recommendations.

Modi Arbind, *et al*. (2009) [12] a study conducted for making recommendation on various issues relating to the design and implementation of GST. It highlighted that the GST should be dual structure and levy imposed concurrently by the Centre and States and a destination-based consumption type of GST. The computation of the CGST and SGST liability should be based on the invoice credit method with input tax credit and credited to the Centre and States separately. The study also suggested for treatment of interstate transactions, administrative structure, rates of tax and revenue performance of GST.

Mukherjee Sacchidananda (2015) [14], the study states that the motive behind the introduction of GST regime. The GST system would remove the cascading effect completely in indirect taxation and it will provide a common nationwide market for goods and services. The central and state governments will have concurrent taxation power to levy tax on supply of goods and services with harmonization of indirect tax structure as uniform tax rate and tax base across states. It is destination-based consumption type and it would be implemented with a few exemptions of goods and services. It is envisaged that the GST regime might improve the tax collection and minimize the leakage. The study highlights the challenges in designing and administration of GST system with possible scope. The study also suggests that it needs coordination between centre and states in radical reform in the indirect tax system to implement GST regime to achieve the forecasted objectives.

Reserve Bank of India (2017) the study has given the cross-country experience and empirical evidence on efficiency gains from the Value Added Tax (VAT) with analytical model of 'Stochastic Frontier Analysis' in the Indian context. It was concluded that the immediate impact of GST on governmental finances is considered to be insignificant that the GST rate structure emphasises based on Revenue Neutral Rate (RNR) and implementation of GST is likely to ensure higher tax buoyancy and an improvement in government finance over the medium or long term.

3. Statement of the Research Problem

There was a certain level of cascading effect in previous overall framework of VAT regime due to non-inclusion of several indirect taxes at central and state level along with due to not bringing up of services tax with goods tax. The GST regime is introduced for eliminating the cascading effect completely in indirect taxation by subsuming all indirect taxes in to one tax as CGST and SGST at central and state level along with integrating the services tax in to goods tax in the present system of GST regime. It is required to know how do cascading effect is eradicated completely in the structure and operational model at GST regime. Apart from that how the dual structure of GST model does different than previous VAT regime.

4. Objectives of the Study

To study the system and operational model at latest and current GST regime

To know the cascading effect is eradicated completely through GST system

5. Methodology

The literature, the Government reports and Acts which are concerned to present research topic and research articles from professional journals relating to GST system has been collected from secondary sources. The literature was reviewed and made a notional presentation about the system and operational model of GST regime and along with how do cascading effect is eradicated completely through the novel and existing GST system in India.

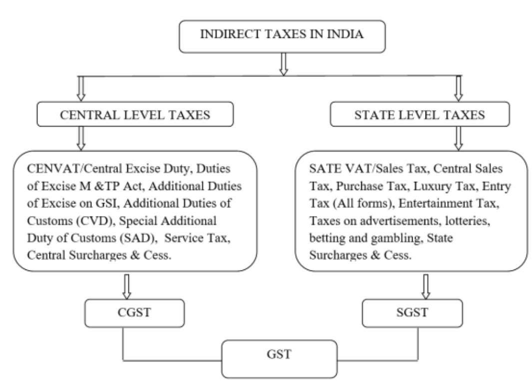
6. Shortcomings in the VAT system

- In the central level several indirect taxes were lies in non-inclusion in to one tax and in the states also similar many indirect taxes in nature were not subsumed in to one tax.
- The CENVAT load on the goods remained in the value of goods which was taxed under State VAT, in such case; there was a provision for contributing to that extent of cascading effect on account of CENVAT element.
- Any commodity for instance, was produced on the basis of physical inputs as well as services; there was not integration of CENVAT on goods with services tax this lead to create a cascading effect.

7. The Need and Justification for GST

The cascading effect is removed completely at central and state level in indirect taxation through following techniques in GST regime. At present in GST system all indirect taxes mentioned over at central and state level are subsumed in to one tax as CGST at Central level taxes, SGST at States level taxes or UGST at union territory level taxes of indirect taxation. In India GST model would be in dual nature, specifically, Central GST in central and State GST in states like this in case of union territory then it is UGST. Since India is a federal system of central and state governance, the dual structure of GST is implemented as Central, Sate GST and both the central and state GST would be integrated in to one as IGST in case of interstate supply. However, total amount of IGST is equal when it integrated together of central and state GST component, so the total rate of tax in GST would be same whether a supply of goods and services are transacted within the State or outside the State. Hence, when all indirect taxes are subsumed in to one tax at central, state and union territory level and levying together of both taxes on any supply of goods and services in such case there are no provisions of creating a cascading effect in GST system. The services tax in VAT system was charged separately because it was not incorporated in the VAT and also it was levied only by central governance but in GST, it is made combination with goods tax and also it is extended to the State governance along with central level in the indirect taxation system. Hence, there is no provision of creating cascading effect of services tax in GST system.

Chart: All indirect taxes at the Centre and State level are brought in to one tax in GST regime.



In all sectors of manufacturing and trading through the reformed indirect taxation with goods and services tax for making benefit to various sectors of business industries and traders with the provision of seem less flow of input tax credit and moreover, significantly making more benefit to the consumers with lower price of commodities and services due to completely wiped out of cascading effectiveness. it is essential that the States are given the power of levy services tax for services according to the 101st Constitutional amendment act 2016, through article 246A, The power of levy of service taxes had long been only with the Centre and the burden of Central Sales Tax (CST) is abolished in GST through the article 269A. The GST system is easy to understand the lay man and simple in the indirect taxation procedural system in India. Therefore, GST is called "one tax, one nation and one market".

8. Features of Goods and Services Tax

- The Indian GST model it is in dual structure which will have two components of Central GST (CGST) and State GST (SGST) and in case of union territory then its an Union Territory GST (UGST) in place of SGST. In "Intrastate" transactions; the CGST and SGST would be incorporated and levied as integrated GST (IGST).
- On every supply of goods and services, the CGST and SGST would be levied concurrently and paid to the central and states government respectively as CGST to the central government and SGST to the state governments and in case of union territory, the UGST to the union territory governments. In "Inter State" transaction, the IGST would be levied and paid to the central government then they would collect and perform the bifurcation of IGST to the belongings of central and states portions proportionately. The central portion of IGST would be retained with them and states portion would be transferred to concerned states.
- The Indian GST is a destination-based consumption of tax. This destination tax principle appears the goods or services should be taxed at the stage where their consumption takes place rather than the place where their origin or production place and the state tax revenue relating to the goods or services should accrue in the jurisdiction where goods and services are being ultimately consumed. Therefore, the destination-based consumption of tax, where the goods are finally consumed and not to the state where the goods are manufactured or originated.
- The is no provision of cascading effect in GST regime since all the indirect taxes are subsumed in to one tax at central as CGST, at states as SGST and at union territory as UGST. Both the CGST and SGST are levied concurrently on every supply of goods and services with set off of central and state GST in to one single GST. Therefore, the possibility of cascading effect in indirect taxation under the GST regime is not arising and it is eliminated completely from manufacturing stage to until the last stage of trader.
- The Input Tax Credit (ITC) provision is given to all industries and traders in the present GST regime and there is a provision to claim ITC in every stage of business transaction. The tax paid at every stage the recipients can avail the input tax credit on procurement of goods and services which are used or intended to be used in the course or furtherance of business subject to certain conditions and restrictions of the GST Act. A continuous and seamless chain of input tax credit (ITC) is one of the special features of Goods and Services Tax regime.
- The every business enterprises are compulsorily moved through the registration in GST Network (GSTN). The Registration is necessary for entitling the input tax credit on sales and purchases and makes a payment of tax liability to the both governments. When the business enterprises are registered with GSTN then that would be given a GST Identification Number (GSTIN) and became a legally recognized supplier of goods and services.
- The GST regime would result in reduction of compliance burden under reformed indirect taxation. Goods and Services Tax's acts and rules are uniform across the country. There will be minimal interface of taxpayer with the tax authority. Simplified and automated procedures for various processes such as registration, returns, refunds, tax payments, credit of input tax etc. Since multiple records for book keeping for a variety of taxes are reduced in present GST system.

9. Centre and States cooperation in the GST regime

Before advent of GST in India, fiscal powers were distinguished between the Centre and States and no powers were extended beyond the union and states provinces as per the Indian Constitution. The Centre has the powers to levy tax on the manufacture of goods and States have the powers to levy tax on sale of goods. In case of inter states sales, the Centre has the powers to levy a Central Sales Tax (CST) on supply of goods but CST was collected and retained entirely by the originating States in VAT regime. Regarding the services tax the Central Government had alone been empowered to levy a services tax on specified services and it was not included in VAT system in indirect taxation. With advent of GST regime it is made to amendments in the Indian Constitution for empowering the indirect taxes concurrently by Centre and the States on all goods including services.

The 101st Constitution Amendment Act was incorporated in 2016 and article 246A is amended as 'Special provision with respect to Goods and Services Tax'. That article 246A provides for levying GST on supply of goods and services except alcohol for human consumption and the GST would be levied as a dual structure concurrently by the Union and States. Earlier the power of levying tax on services was with only central government after that it is extended to the states as well in the GST regime by making amendment in the 101st Constitution Amendment Act 2016 through omitting article 268A. For interstate trade and commerce, the 101st Constitution Amendment Act 2016 through article 269A, as 'Levy and collection of goods and services tax in course of inter State trade or commerce'. In the course of interstate trade transaction IGST would be levied on supply of goods and services and collected by the Central Government and the same would be apportioned between the Union and the States in the manner as may be provided by Parliament by law on the recommendations of the Goods and Services Tax Council.

To make a decision for levying indirect tax on goods and services jointly by means of union and state governments, it needs a exclusive institutional mechanism as a memorandum of council, therefore, through the article 279A as 'Goods and Services Tax Council' in the 101st Constitution Amendment Act, the Goods and Services Tax Council (GSTC) is constituted. The GSTC is functioning and taken decisions jointly with the Union and all states governments together and it ensures the decisions about GST systems, rate structure, design and other operational GST related issues. Regarding sin or demerit goods, the alcoholic liquor for human consumption is kept outside preview of GST because it provides fiscal boost to States, hence, it was agreed to keep alcohol completely out of the GST domain. The five petroleum products viz., crude petroleum, high speed diesel, motor spirit or petrol, aviation turbine fuel and natural gas were proposed to be brought under GST from a date to be recommended by the GST Council. The Central Government has retained its power to tax on tobacco and tobacco products.

10. Goods and Services Tax Council

The Goods and Services Tax Council (GSTC) is a constitutional body this is established through the article 279A of the Indian constitutional 101st amendment act 2016 and GSTC was notified with effect from 12th September, 2016 for regulating the goods and services tax system in India. It constitutes the Union Finance Minister as a chairman, the Union Minster of State in charge of revenue or finance along with the Minister in charge of finance or taxation or any other Minister nominated by each State Government as members of the council, the GST Council members must choose one amongst themselves to be the Vice-Chairman of the Council for specific period. The GST Council has set up the procedure for performance of its functions and every decision regarding to the goods and services tax regime must be approved in the council meetings. One half of the total figure of members of the GST Council should constitute a quorum[1] for conducting a meeting and for getting approval of any decision in the council that a majority of not less than three fourths of the weighted votes of the members present. The voting method in the council would be in accordance with the principle of one third of the weighted votes from the Central Government and two third of the weighted votes from the State Governments. All the procedures and proceedings of GSTC must be valid and the GSTC could establish a mechanism to adjudicate[2] on any dispute between the Government of India and one or more States; or between the Government of India and any State or States on one side and one or more other States on the other side; or between two or more States, arising out of the decisions of the Council.

11. The functions of GST Council

- The taxes, cesses and surcharges levied by Union, States and local bodies which may be subsumed under GST.
- Goods and services may be exempted to the subject of goods and services tax.
- GST laws, models, principles, apportionment of IGST and principles of levy could be counseled and administrated.
- The determination of threshold turnover limit, below which, goods and services may be exempted from GST.
- The GST rates including floor rates with groups or bands of goods and services for GST could be recommended.
- Any special rate or rates could be decided for a specified period to raise additional resources during any natural calamity or disaster.
- Special provision could be given with respect to the North East States, Jammu and Kashmir, Himachal Pradesh and Uttarakhand.
- The Council may take a decision on any other matter relating to the GST.

In the beginning, the GST Council has recommended five GST Acts Viz., CGST Act, UTGST Act, IGST Act, SGST Act and GST Compensation Act for paving the way for implementation of GST regime. Subsequently, rules and guidelines are made for the following GST operational activities: Registration and Threshold, Composition Scheme, E-way Billing System, Tax Administration, Reverse Charge Mechanism (RCM), Payment of Tax, Exemption of Tax on particular goods and services, Refund of tax, GST Returns and compliance, Input Tax Credit (ITC) provisions and its utilization for payment of tax, TDS/TCS, Rate of Interest and late fees for delay in tax payment by the corporate, Electronic Invoicing System, Appeals and Revision, Transitional Provisions, National Anti-Profiteering Authority (NAA), Recovery, Offences, Penalties, Etc,.

12. Conclusion

All indirect taxes are subsumed in to one tax at central and state level as CGST and SGST for eliminating cascading effect and comprehensive setoff of input goods and services along with a continuous chain of set-off from the producer‘s point to the retailer‘s point would lead to reduce in the production and distribution cost for goods and services. The tax paid at every stage the recipients can avail the input tax credit and it would be available as set-off for payment of output tax. A continuous and seamless chain of input tax credit (ITC) is one of the special features of Goods and Services Tax regime. The mechanism of ITC is completely avoiding cascading effect in the indirect taxation system.

In GST regime there is no need of multiple records or books keeping for a variety of taxes and the uniform tax rates and procedures across the country. Moreover, phasing out of Central Sales Tax (CST) and the services tax is incorporated with goods tax, hence, it is called Goods and Services Tax (GST) which is not just VAT plus services tax but there is an improvement over previous indirect taxation regime with all these features in GST regime as a result, it will lead a way in reducing the compliance cost and make a lower price for goods and services in the market along with it may enhance the competitiveness in the international market. GST system may enhance indirect tax revenue to the Central and States since, there is no way for pool of indirect tax because of GST Network which would help to avoid the tax pool from the tax payers and intermediates and keeping transparency in taxation system.

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