

Goods and Service Tax (GST): India's New Journey towards Indirect Taxation

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Abstract: *The present paper deals with the implementation and impact of Goods and Service Tax (GST) in India. Goods and Service tax (GST) is single regime tax system which makes India One Nation One Tax by subsuming both Indirect tax levied by Central government and State government. Currently Concept of Dual GST is implemented in India with Slab rates of 0%, 5%, 12%, and 18% and 28% respectively. Total 160 countries in the world have already implemented GST/VAT out of which France was the first country to implement GST and India being 161 countries to implement Goods and service tax (GST). The research paper explores the concept of GST and analysis of data shows that GST makes the necessary goods cheap while making luxurious goods costlier.*

Keywords: Goods and Service Tax (GST), tax reform, Indirect Tax, Tax, Vat

1. Introduction

Goods and Service Tax (GST), India's biggest indirect tax reform in Seventy (70) years of Independence, was launched at midnight of 30th June 2017 by Prime Minister Narendra Modi. It was introduced as the Constitution (one Hundred and First Amendment) Act 2017, following the passage of Constitution 122nd Amendment Bill. The GST is governed by GST council and its chairman is the Finance Minister of India.

GST reform is believed to be biggest ever tax reform since independence. In India, the Indirect tax is being imposed both by Central as well as State government. Both the Central and State government have multiple Kinds of taxes. Many of the Taxes have in existence from pre-independence days. Central Exercise duty is being imposed since more than 75 years .Sales tax is being levied by some States prior to the independence .Most of the taxation system have been there since decades. The youngest among the lost is fastest growing-the Service tax. Even this is being imposed since 1994 and it has been almost 21 years. With the introduction of Goods and Service tax (GST), GST will bring in "ONE NATION ONE TAX" by replacing various taxes levied by Central and State government as well as local authorities.

2. Objective of Study

- 1) To study the concept of Goods and Service Tax (GST)
- 2) To Study the GST model-Internationally
- 3) Finally to study the Positive and negative impact of GST on different goods and Commodity.

3. Research Methodology

The study focuses on extensive study of secondary data collected from various books, governments reports, international and national journals, publications and from various websites which focuses on various aspect of goods and service tax.

4. Literature Review

Dr. R. Vasanthagopal (2011)¹⁰ studied "GST in India: A Big Leap in Indirect taxation system "and concluded that switching to seamless GST from current complicated tax system in India will be positive Step in booming Indian Economy. Success of GST will lead to its acceptance by more than 130 countries in world and new preferred form of indirect tax system in Asia also.

Pinki et. al. (July 2014)¹² studied "Goods and Service tax-Panacea for Indirect Tax system in India "and concluded that new NDA government is positive towards implementation of GST and its beneficial for central government, state government and well as for consumers in long run if its implementation is backed by strong IT infrastructure.

Kumar (2014)¹¹ Studied, "Goods and Service tax-Away Forward" and concluded that implementation of GST in India help in removing economic distortion by current indirect tax system and expected to encourage unbiased tax structure which is indifferent to geographical locations.

Mawuli (May 2014)⁹ studied "Goods and Service Tax-An appraisal "and found that GST is not good for low-income Countries and does not provide broad based growth to poor countries. If still these countries want to implement GST then rate of GST should be less than 10% for growth.

Ahmed et. al. (2009)¹³ studied, "Goods and service Tax reform and Intergovernmental Consideration in India and found that GST introduction will provide simpler and transparent tax system with increase in out and productivity of economy in India. But the benefits of GST are critically dependent on rational design of GST.

Chronological Events that have led to the Introduction of Goods and Service tax (GST)

- 1) In 2003, the Kelkar Task Force on indirect tax had suggested a comprehensive Goods and Services Tax (GST) based on VAT principle.

- 2) A proposal to introduce a National level Goods and Services Tax (GST) by April 1, 2010 was first mooted in the Budget Speech for the financial year 2006-07.
- 3) Since the proposal involved reform/ restructuring of not only indirect taxes levied by the Centre but also the States, the responsibility of preparing a Design and Road Map for the implementation of GST was assigned to the Empowered Committee of State Finance Ministers (EC).
- 4) Based on inputs from Govt. of India and States, the EC released its First Discussion Paper on Goods and Services Tax in India in November, 2009.
- 5) In order to take the GST related work further, a Joint Working Group consisting of officers from Central as well as State Government was constituted in September, 2009.
- 6) In order to amend the Constitution to enable introduction of GST, the Constitution (115th Amendment) Bill was introduced in the Lok Sabha in March 2011. As per the prescribed procedure, the Bill was referred to the Standing Committee on Finance of the Parliament for examination and report.
- 7) Meanwhile, in pursuance of the decision taken in a meeting between the Union Finance Minister and the Empowered Committee of State Finance Ministers on 8th November, 2012, a 'Committee on GST Design', consisting of the officials of the Government of India, State Governments and the Empowered Committee was constituted.
- 8) This Committee did a detailed discussion on GST design including the Constitution (115th) Amendment Bill and submitted its report in January, 2013. Based on this Report, the EC recommended certain changes in the Constitution Amendment Bill in their meeting at Bhubaneswar in January 2013.
- 9) The Empowered Committee in the Bhubaneswar meeting also decided to constitute three committees of officers to discuss and report on various aspects of GST as follows:-
 - (a) Committee on Place of Supply Rules and Revenue Neutral Rates;
 - (b) Committee on dual control, threshold and exemptions;
 - (c) Committee on IGST and GST on imports.
- 10) The Parliamentary Standing Committee submitted its Report in August, 2013 to the Lok Sabha. The recommendations of the Empowered Committee and the recommendations of the Parliamentary Standing Committee were examined in the Ministry in consultation with the Legislative Department. Most of the recommendations made by the Empowered Committee and the Parliamentary Standing Committee were accepted and the draft Amendment Bill was suitably revised.
- 11) The final draft Constitutional Amendment Bill incorporating the above stated changes was sent to the Empowered Committee for consideration in September 2013.
- 12) The EC once again made certain recommendations on the Bill after its meeting in Shillong in November 2013. Certain recommendations of the Empowered Committee were incorporated in the draft Constitution (115th Amendment) Bill. The revised draft was sent for consideration of the Empowered Committee in March, 2014.
- 13) The 115th Constitutional (Amendment) Bill, 2011, for the introduction of GST introduced in the Lok Sabha in March 2011 lapsed with the dissolution of the 15th Lok Sabha.
- 14) In June 2014, the draft Constitution Amendment Bill was sent to the Empowered Committee after approval of the new Government.
- 15) Based on a broad consensus reached with the Empowered Committee on the contours of the Bill, the Cabinet on 17.12.2014 approved the proposal for introduction of a Bill in the Parliament for amending the Constitution of India to facilitate the introduction of Goods and Services Tax (GST) in the country. The Bill was introduced in the Lok Sabha on 19.12.2014, and was passed by the Lok Sabha on 06.05.2015. It was then referred to the Select Committee of Rajya Sabha, which submitted its report on 22.07.2015.
- 16) Finally, the GST amendment bill got Parliament's nod in August, 2016. The GST roll out was now only the matter of time
- 17) The GST council was formed. Approval from requisite number of states was secured. In January, 2017, Arun Jaitley announced that GST would be rolled out on July 1, 2017.
- 18) June 30 2017 Midnight: GST set to roll out.

5. GST Model-Internationally

Total 160 countries in the world have already implemented Goods and Service tax (GST). India is 161 countries to implement Goods and Service tax (GST). France was the first country to implement GST in 1960. Some of the countries with GST include Canada, Brazil, Singapore, UK, Monaco, Spain, Italy, Vietnam, Australia and South Korea. Most countries have single unified GST system which means that single tax –rate is applied throughout the country. A country with a unified GST platform merges Central tax (E.g. Sales tax, Excise duty, and service tax) with State – level taxes (e.g. entertainment tax, entry tax, transfer tax, Sin tax and luxury tax) and collect them as one single tax. These countries tax virtually everything at a single tax rate.

Only handful such as Canada & Brazil has dual GST. Currently India is having Dual GST model like Canada and Brazil.

A brief glance at few of them:-

France: - The Western European Country was the first one to implement GST in year 1954. Today GST rate is 19.6 %

Canada: - The Goods and Service tax (GST) is a Multi-Level value added tax introduced in Canada on January 1, 1991. It replaced a hidden 13.5% Manufacturer Sales Tax (MST). The GST rate is 5 %, effective from January 1, 2008. Canada has single federal GST but it also has State sales tax that actually make it dual.

Japan: - Japan introduced consumption tax in 1989 at the rate of 3%. In the year 1997 this was increased to 5% and the Asian country went into recession. In 2012, it doubled to 10% but delayed the tax increase to October 2019.

Singapore: - It was introduced on 1st April, 1994, at 3% .It was increased to 4% on 1st January, 2003 and to 5% on 1st January, 2004.GST was increased to its current rate of 7% on 1st July, 2007.In Singapore, GST is a single GST system which has broad based value added tax levied on nearly all supplies of goods and services, as well as on import of goods. The only exemptions are for the sales and leases of residential properties and most financial services. Export of goods and international services are Zero-rated.

Australia:-Australia has single federal GST .The GST in Australia is value Added tax of 10% on most goods and services sales. One most transaction GST is levied in the production process, but refunded to all parties in the chain of production other than the final consumer.

New Zealand: - GST is a value added tax in New Zealand. It is single system which is levied by the Central Government .It is broad based system with few exemptions.

GST was introduced by the Fourth Labor Government of New Zealand on 1st October, 1986 at a rate of 10 % on most goods and services and it replaced existing sales tax. The existing rate is 15% effective from 1st October, 2010.Since 1986, there had been two countries increases firstly on 1st July, 1989 the rate was increased to 12.5% and secondly on 1st October, 2010 it further increased to 15%.

6. Concept of GST

GST stands for Goods and Service Tax. It is tax on supply of goods and services, or both. Basically it is a destination tax on consumption of goods and services. It will be levied at all the stages right from manufacturing up to the final consumption with credit of taxes at earlier stages available as set off.

However Alcohol for human consumption, Petroleum Products viz. petroleum crude, motor spirit, high speed diesel, natural gas and aviation turbine fuel (ATF) and electricity are outside the purview of GST.

Three types of GST are there:

1. Central Goods and Service Tax (CGST)
2. State Goods and Service Tax (SGST)
3. Integrated Goods and Service Tax (IGST)

Central Goods and Service tax (CGST) is levied by the centre on intra-state supply. It will subsumes various Central indirect taxes and levies such as Central Excise Duty, Additional Excise Duty, Excise duties levied under Medicinal and Toilet Preparation (Excise Duties) Act, 1955 Service Tax, Additional custom duty commonly known as Countervailing Duty, Special Additional Duty on Customs and Central surcharges and Cesses so far as they relate to the supply of goods and services.

State Goods and Service tax (SGST) is levied by the state on intra-state supply. It will subsumes various state tax such as State Value added Tax/Sales tax, Entertainment tax (Other than the tax levied by the local bodies) Central Sales tax, Octroi and Entry tax, Purchase tax, Luxury tax, taxes on lottery betting and gambling and state cesses and surcharge insofar as they relate to supply of goods and services.

Integrated Good and Service Tax (IGST) is levied on the goods and services in the course of interstate trade or commerce. Interstate trade or commerce will include supply of goods/services in the course of a) Inter-state trade or commerce, b) Import into Indian Territory (deemed or to be deemed), c)Export (deemed to be inter –state)

7. Taxable Person in Goods and Service Tax

GST registration is mandatory for-

- 1) Any business whose turnover in a financial year exceeds Rs 20 lakhs (Rs 10 lakhs for North Eastern and hill states). If your turnover is supply of only exempted goods/services which are exempt under GST, this clause does not apply.
- 2) Every person who is registered under an earlier law (i.e., Excise, VAT, Service Tax etc.) needs to register under GST, too.
- 3) When a business which is registered has been transferred to someone/demerged, the transferee shall take registration with effect from date of transfer.
- 4) Anyone who drives inter-state supply of goods
- 5) Casual taxable person
- 6) Non-Resident taxable person
- 7) Agents of a supplier
- 8) Those paying tax under the reverse charge mechanism
- 9) Input service distributor
- 10) E-commerce operator or aggregator
- 11) Person who supplies via e-commerce aggregator
- 12) Person supplying online information and database access or retrieval services from a place outside India to a person in India, other than a registered taxable person

8. GST Rates in India

GST rates in India are 0%, 5%, 12%, 18% and 28% with 12% and 18% being standard rate. The lowest rate of 5% is for common use item. The government has kept large no of items under 18% slab rate. And the peak rate of 28% will apply to luxury goods. The Centre and States have agreed to impose cess on demerit and luxury goods under GST, over and above peak rate of 28%. Gold and rough diamond does not fall under the current rate slab ambit and will be taxed at 3% and 0.25% respectively. The GST council has fixed the tax rate for 1211 items. The following table will show comprehensive list of item and services that will be taxed under different slab rate of GST.

Table 1: GST rates on Goods and Services

Tax Rate	Goods	Services
0% [nil] Exempted Goods	Jute, Fresh meat, fish chicken, eggs, milk, butter milk, curd, natural honey, fresh fruits and vegetables, flour, besan, bread, prasad, salt, bindi. Sindoor, stamps, judicial papers, printed books, newspapers, bangles, and handloom. Bones and horn cones, bone grist, bone metal etc, Hoof meal, horn meal, cereal grained hulled, palmyra jiggery, salt all types, kaja, children's picture, drawing and colouring books, human hair.	Hotels and lodges with traffic below Rs 1000, grandfathering services has been exempted under GST
5%	Apparels below Rs 1000, packaged food items, footwear below rs 500, cream, skimmed milk powder, branded paneer, frozen vegetables, coffee, tea, spices, pizzabread, rusk, sabudana, kerosene, medicines, stent, lifeboats, cashew nut, cashew nut in shell, raisin, ice and snow, bio gas, insulin, agarbatti, kites, postage or revenue stamps, stamp-post marks, first day covers.	Transport services (Railways, Air transport), small restaurants will be under 5 % category because their main input is petroleum, which is outside GST ambit.
12%	Apparel above Rs 1000, frozen meat products, butter, cheese, ghee, fruits in packaged form, animal fat, sausage, juices, bhujia, namkeen, Ayurvedic medicine, toothpowder, agarbatti, colouring books, picture books, umbrella, sewing machine, cell phones, ketchup and sauces, All diagnostic kits and reagents, exercise book and note books, spoons, fork, ladles, skimmers, cake server, fish, Spectacles, corrective, playing cards, board, and other board games, like ludo.	State-run lotteries, on Ac hotels, Business class air tickets, fertilizers, work contract
18%	Flavored refined sugar, pasta, cornflakes, pastries and cakes, preserved vegetables, jams, sauces, soups, ice cream, instant food mixes, mineral water, tissues, envelopes, tampons, note books, steel products, printed circuits, camera, speakers and Monitors, Kajal Pencil Sticks, Headgear and parts thereof, Aluminum foil, Weighing Machinery, Printers, Electrical Transformer, CCTV, Optical Fiber, Bamboo Furniture, Swimming pools and padding pools, curry paste, mayonnaise and salad dressings, condiments and mixed seasonings.	AC hotels that serve liquor, telecom services, IT services, branded garments and financial service, Room traffic between Rs 2500-and Rs 7500, restaurants inside five-star hotels.
28%	Chewing gum, molasses, chocolate not containing cocoa, waffles and wafers coated with chocolate, pan masala, aerated water, paint, deodorants, shaving creams, after shave, hair shampoo, dye, sunscreen, Wallpaper, ceramic tiles, water heater, dishwasher, weighing machine, washing machine, ATM, vending machines, vacuum cleaner, shavers, hair clippers, automobiles, motorcycles, aircraft for personal use, and yachts.	Private-run lotteries authorized by the states, hotels with room tariffs above Rs 7500, 5-star hotels, race club betting, cinema

Positive and Negative Impact of GST on different Goods and Services

Fruits & Vegetables: - Fruits and vegetables, fresh and unprocessed fruits and vegetables will attract 0% GST which will have a positive impact on agriculture Industry. However, Dry fruits fresh or dried, peeled or shelled, juices from fruits and vegetables will come under 12% GST which was earlier taxed at 5% making the purchase price higher. While preparation from fruits and vegetable will be taxed at 18% which was earlier taxed under various VAT acts at a rate of 5% making the purchase higher again.

Air Fare:-Under the new tax regime, domestic air travel will become cheaper while business class is going to cost little higher.

Table 2: Rates under Old and New Tax regime

Tickets	Rate of Service Tax	GST rate	Differences in (%)
Economy Class	5.6%	5%	+6
Business Class	8.4%	12%	-3.6%

Railways Tickets:-GST rate on rail transport is 5%. Under the old tax regime service tax was applicable to goods and passengers'. The railways also enjoyed the abatement of 70% which means only 30% of value was taxable under service tax. Thus effective rate is 30% of 15 % = 4.5% of the total fare. After Implementation of GST tickets price will

increase slightly due to slight increase in tax rate. However, passengers travelling for business purpose can claim ITC on rail tickets thus helping business man to reduce their expenses.

Hotels: - GST on hotel service will attract different GST rate on basis of Room Tariff

Table 3: Room Tariff and GST rates

Rooms traffic(INR)	GST rate
Less than 1000	0%
1000-2499	12%
2500-7499	18%
More than 7500	28%

Cereals and other:-GST on wheat, rice and other cereals, pulses, flour of pulses, natural honey, chena, and paneer other than those put in a unit container and bearing a registered brand name will be nil. While branded cereals which are put in a unit container bearing a registered brand name under register of trade mark will attract 5% GST.

Electrical appliances: - Electrical appliances such as fridge, washing machines, vacuum cleaner will attract 28% GST thus increase in tax burden by 2%-3% as compared to earlier tax regime.

Cars/bikes: GST has positive impact car and bikes

Table 4: Comparison of taxes under GST and old regime in (%)

Segment	Excise	CST	VAT	Infrastructure Cess	Luxury Cess	Total Pre GST rate	GST	Cess	Effective GST	Change
Two/Three Wheelers	12.5	2	13.5	NA	NA	30.2	28	0	28	-2.2
Small cars(Length<4m)	12.5	2	13.5	1	NA	30.2	28	1	29	-1.2
Mid segment Cars	24	2	13.5	4	NA	47.3	28	15	43	-4.3
Large Cars(engine>1500CC)	27	2	13.5	4	1	49	28	15	43	-6
Sports Utility vechines	30	2	13.5	4	1	55.3	28	15	43	-12.3
Commercial vehicles	12.5	2	13.5	NA	NA	30.2	28	0	28	-2.2

Life –Saving Drugs and other formulation:-Life saving drugs will attract GST at 5% while other formulation will attract GST at rate of 12 % thus making it more expensive.

- [14] <http://www.indiataxes.com>
 [15] <http://www.taxmanagementindia.com>
 [16] www.goodsandservicetax.com
 [17] <http://www.wikipedia.org>

9. Conclusion

Goods and service tax is a biggest indirect tax reform in India. It has replaced various types of Indirect tax such as VAT, Service tax, Excise duty, Additional Custom Duty, SAD, Luxury tax etc thus leading to simplified tax regime as compared to earlier complicated tax structure comprising numerous taxes. It is expected that GST will boost economic growth by 2% which will in turn will reduce budget deficit and help the government to allocate more funds for development projects.

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