

Goods and Service Tax - GST versus Current Taxation System

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Abstract

The proposed implementation of the Goods and Service Tax in India has generated a significant amount of discussion and debate in the industry. Marking a sea change in the way tax will be levied, the GST, when introduced, will have an impact on businesses, organizations, and their operations. The current article calculates difference in the cost of product and taxes charged under both the systems of taxation and it is evident that GST is going to be beneficial for both companies and the customers. The article also highlights the differences between the current structure of taxation and the proposed tax structure under the GST model.

Key Words: Good and Service tax, taxation, new tax regime, GST in India

Introduction

Today's businesses have become externally dynamic because of the way they operate and extensive use of technology. This has resulted into execution complex transactions. Presently in India, services attract service tax, manufacturing attract excise duty, imports attract custom duty, and sale of goods attract sales tax (VAT). Service tax, excise duty and custom duty are levied by central government and the value added tax is levied by the state government.

The proposed implementation of the Goods and Service Tax in India has generated a significant amount of discussion and debate in the industry. Marking a sea change in the way tax will be levied, the GST, when introduced, will have an impact on businesses, organizations, and their operations. Simply put the GST is a comprehensive value added tax on goods and services. It is levied and collected on value addition at each stage of sale or purchase of goods or supply of services with applicable set-offs in respect of the tax paid at previous stages. The GST mechanism has no distinction between taxable goods and taxable services and they are taxed at a single rate in a supply chain of goods and services till the goods or services reach the consumer. It is basically intended as a tax on final consumption.

Current Taxation System

The Constitution of India (COI) has given power to levy tax to central and state government under seventh schedule. The taxation in India is either charged by the state government or central government. In basic scheme of taxation in India, it is conceived that central government will levy and collect tax revenue from income tax (Exception agricultural income), Excise (Except alcoholic drinks etc), and customs while state government will get tax revenue from Local sales tax, Excise on liquor and tax on agricultural income and the municipalities will get tax revenue from Octroi and Property tax.

What is GST ?

'G' – Goods

'S' – Services

'T' – Tax

“Goods and Services Tax is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level. GST is tax on goods and services with value addition at each stage having comprehensive and chain set off benefits from the producers/ service provider point upto the retailer's level where only the final consumer should bear the tax.”

GST is to replace the existing multiple tax structure of Centre and state taxes is not only desirable but imperative in the emerging the economic environment. Increasingly, services are used or consumed in production and distribution of goods and vice versa. Separate taxation of goods and services often requires splitting of transaction values into value of goods and services for taxation, which leads to greater complexities, administration and compliance costs. Integration of various taxes into GST system would make it possible to give full credit for inputs taxes collected. GST, being a destination-based consumption tax based on VAT principle, would be greatly help in removing economic distortions and will help in development of a common national market. In the GST system, both Central and State taxes will be collected at the point of sale. Both components (the Central and State GST) will be charged on the manufacturing cost. This will benefit individuals as prices are likely to come down. Lower prices will lead to more consumption, thereby helping companies.

“IGST Model” will be in place for taxation of interstate transaction of Goods and Services. The scope of IGST Model is that centre would levy IGST which would be CGST on all inter State transactions of taxable goods and services with appropriate provision for consignment or stock transfer of goods and services. The GST paid on the purchase of goods and services, to be paid on the supply of goods and services. There should be no distinction between raw materials and capital goods in allowing input tax credit. The tax base should comprehensively extend over all goods and services up to final consumption point on value addition. Assessable value for all the taxes will be same. Items which are not charged under GST are Alcohol, tobacco, and petroleum products

Present tax structure Versus GST – Tax savings under GST at various stages

Stage 1: Manufacturing Stage

Particulars	Current Tax system	GST
Cost of raw material (including tax on purchases Rs10)	Rs 100	Rs 100
Manufacturing Cost	Rs 40	Rs 40
Total cost (without VAT)	Rs 140	Rs 140
Tax at 10%	Rs 14	Rs 14
Tax set off against Tax paid for purchase of raw material	Cannot set off tax paid for raw material	Rs 100
Effective Tax	Rs 14	Rs (14-10) = Rs 4
Total cost of product at manufacturer stage	Rs (140+14)= Rs 154	Rs (140+4) = Rs 144

Stage 2: Manufacturer to Wholesaler

Particulars	Current Tax system	GST
Wholesaler purchased product prom manufacturer at	Rs 154	Rs 144
Wholesaler Margin	Rs 20	Rs 20
Total without adding tax	Rs 174	Rs 164
Tax at 10%	Rs 17.4	Rs 16.4
Tax set off against tax paid to manufacturer	Cannot set off tax paid to manufacturer	Rs 14
Effective Tax	Rs 17.4	Rs (16.4-14)= Rs 2.4
Total cost of product at Wholesaler stage	174+17.4= Rs191.4	164+2.4=Rs166.4

Stage 3: Wholesaler to Retailer

Particulars	Current Tax system	GST
Retailer purchased product from Wholesaler at	Rs 191.4	Rs 166.4
Retailer Margin	Rs 10	Rs 10
Total without adding tax	Rs 201.4	Rs 176.4
Tax at 10%	Rs 20.14	Rs 17.64
Tax set off against tax paid to manufacturer	Cannot set off tax paid to manufacturer	Rs 14
Effective Tax	Rs 20.14	Rs (17.64-16.4)= Rs 1.24
Total cost of product at Retailer stage	201.4+20.14= Rs221.54	176.4+1.24=Rs177.64

From the above calculations it is evident that there is substantial difference in the cost of product and taxes charged under both the systems of taxation. And clearly GST is going to be beneficial for both companies and the customers.

Advantages of GST

1. Increased tax collections due to wide base speeds up economic of India
2. Better compliance and revenue buoyancy
3. Replacing the cascading effect (tax on tax) created by existing indirect taxes
4. Tax incidence for consumers may be fall
5. Lower transaction cost for final consumers
6. By merging all levies on goods and service into one, GST acquires a very simple and transparent character
7. Efficiency in tax administration
8. Many widen tax base
9. Improvement in cost competitiveness of goods and service and services in the international market

Conclusion

In less than 12 months, India is set to embrace the most significant reform in the indirect taxes. Concurrent taxation of goods and services by both Centre and state call for path breaking changes in the structure of indirect taxes existing hitherto. A joint working group from the Centre and the states is accepted to make recommendations on the model tax law and the statutory changes. Indeed a fine balance has to be achieved to maintain the fiscal autonomy of the states and yet provide uniform that such reform calls for. The direction that the government is providing the efforts to empowered committee of state finance ministers is taking a laudable, but surely that consensus seems to be building and GST structures including rates seems to be agreed amongst the states.

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Fig 1. Present Tax Structure in India

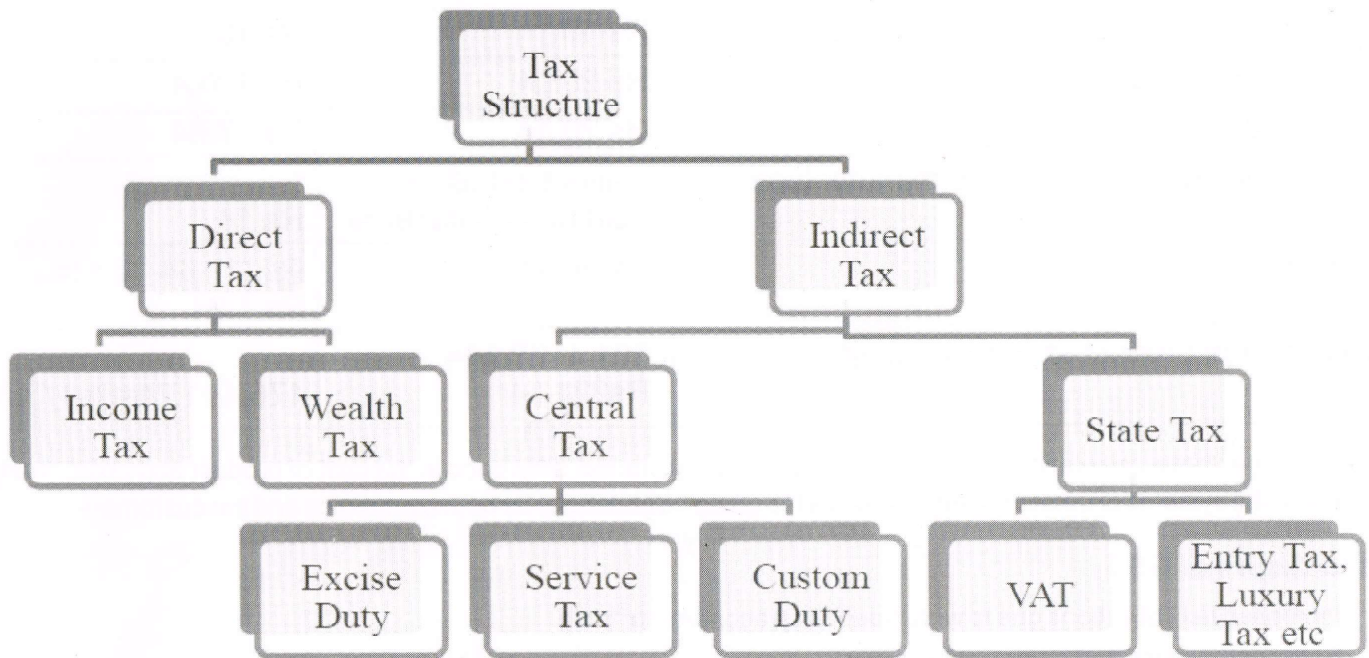


Fig 2. Proposed Structure of GST in India

