Article No. 4

PRACTICES AND PERFORMANCE OF GOODS AND SERVICE TAX IN INDIA-STEPS TOWARDS REMOVAL OF THE CASCADING EFFECT

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Abstract: Goods and service tax is an indirect tax reform which ultimately aims to remove the taxation barriers between states. This helps create a unified market which is unprejudiced towards state boundaries and provides unrestricted access to the entire nation to buy, sell, import, and export within the country. India is a federal democracy, and its constitution clearly divides authorities, responsibilities, and tax collection between the states and the central government. The adoption of the Goods and Services Tax is the next logical step towards extensive indirect tax reforms in India (GST). The transition from a complex multi-layered indirect taxation system to a unified indirect taxation system would be triggered by the new GST regime. The GST (Products and Services Tax) is a consumption-based tax applied on goods and services at the point of ultimate or real consumption. The transition from a complex multi-layered indirect taxation system to a unified indirect taxation system would be triggered by the new GST regime. This article discusses how the GST was implemented in India. It focuses on the impact and consequences of GST on various stakeholders, such as customers, businesses, and the government.

Keywords: Business, Customers, Goods and Services, Revenue, Taxation.

Introduction: GST is a consumption-based tax applied on goods and services at the point of ultimate or actual consumption. It is gathered at each stage of the supply chain's sale or purchase of value-added goods and services. It's an indirect tax reform that attempts to eliminate state-to-state tax barriers and create a single market. It is suggested to be a national indirect tax on the production, sale, and consumption of goods and services.

The “Principle of Destination” underpins the GST. The destination principle is an international taxation concept that allows the country where the taxed goods is sold to keep the value added tax. They are charged on imports and then refunded on exports. This approach is used to various countries' Goods and Services Taxes, including India. The Goods and Services Tax (GST) is a broad-based consumption tax applied in Singapore on goods imports as well as practically all goods and service supplies. GST is also known as VAT or Value-Added Tax in other countries. It will be used to replace all indirect taxes levied by the Indian central and state governments on goods and services.

Evolution of GST

France was the first country to implement GST in 1954. Since then, about 150 nations have implemented GST in one form or another. The majority of countries use a unified GST system. Brazil and Canada use a dual system similar to the one that India will implement. GST is a value-added tax applied in Canada on the majority of products and services sold for domestic consumption. The tax is imposed to help the federal government raise funds. Only commodities and the supply of repairs, replacements, and processing services are subject to GST in China. It is a broad-based consumption tax charged in Singapore on the import of commodities, which is collected by Singapore customs, as well as practically all goods and services supplied in Singapore.

Origin Of Goods and Services Tax (GST) in India

India is a federal democracy, which means that its constitution clearly divides authorities, responsibilities, and tax collection between the states and the central government. For example, the state is in charge of law and order, while the Centre is in charge of national defence. To avoid overlapping, the GST must have explicit restrictions on what regions the Centre and states are allowed to collect income through taxing. While the federal government has the authority to tax services and goods up to the point of production, states have the authority to tax the sale of things. The states do not have the authority to charge a tax on the supply of services, and neither does the federal government.

The establishment of the Goods and Services Tax (GST) is one of the first stages towards a widespread indirect tax reform in India (GST). It was first proposed in 2000, but it took over 17 years to implement. The introduction of GST is seen as a critical step toward perfection. The Empowered Committee of State Finance Ministers, which met on November 10, 2009, clarified that both the Centre and the States have the authority to levy taxes on goods and services, and that India will have a "Dual GST."

The scheme was meant to take into effect on April 1, 2016, but it was postponed. Furthermore, Punjab and Haryana were adamant about keeping purchase tax, Maharashtra was adamant about keeping octroi, and all states wanted to retain petroleum and alcohol out of the GST. Gujarat and Maharashtra want the additional 1% charge to be prolonged beyond the two-year period and raised to 2%. Punjab wants a purchase tax separate from the GST. The governments of Madhya Pradesh, Chhattisgarh, and Tamil Nadu believe that information technology systems and administrative infrastructure are ready to adopt GST.

GST Plans to Improve Problems In The Current Taxation System

The cascading effect occurs when a product is subjected to two taxes. The purpose of the Goods and Services Tax (GST) is to remove double taxation. The elimination of tax-on-tax cascading effects until the level of final consumers will considerably improve the competitiveness of original goods and services in the market, resulting in a positive impact on the country's GDP growth. Manufacturing taxes are imposed on items created or produced in India, raising definitional questions over what constitutes manufacturing. The goods that must be included at the manufacturing stage are not obvious. A robust single taxation system that incorporates multiple federal and state statutes into a single comprehensive enactment. A single act addressing all aspects of indirect taxes would simplify the judicial decision-making process. Services remain beyond the purview of state taxes, and the GST would impose a tax on all such services for which states lack the authority to legislate.

Objectives Of GST

The new GST aims to usher in a transformation from a multi-layered, complex indirect taxing structure to a unified indirect taxation system. GST will also bring about a good shift by reducing tax cascading, resulting in manufacturing synergy in India. The primary motivation for implementing GST is to eliminate the tax cascade effect. A product that has been subjected to excise duty may also be subject to VAT. Assume that product A is produced at a plant. Excise duty must be paid to the central government as soon as it leaves the factory. When product A is sold in the same state, the state government must be paid VAT. In addition, no credit for excise duty paid can be used to output VAT. Because the same commodity is subjected to two taxes, this is referred to as a cascading effect. The purpose of the Goods and Services Tax (GST) is to remove double taxation.

The elimination of cascading effects, i.e. tax on tax till ultimate consumers, will considerably improve the competitiveness of original goods and services in the market, resulting in a positive influence on the country's GDP growth. The implementation of a GST to replace the existing numerous tax structures of the federal and state governments is not only desired, but also necessary. It would be conceivable to offer full credit for input taxes collected if multiple taxes were integrated into a GST system. GST, or Goods and Services Tax, is a destination-based consumption tax based on the VAT idea. The GST is being implemented to create a unified market across states, not just to mitigate the negative effects of indirect taxes, but also to improve tax compliance. GST will raise income in a more transparent and neutral manner.

Features of The Proposed Indian GST

India will replace its existing multi-layered indirect tax structure with a one-of-a-kind GST scheme. The planned Dual-GST will allow the Centre and States to impose taxes on "supply of goods or services or both" at the same time, on the same transaction, and for the same amount. After introducing the fundamental framework, the Dual-GST structure as described would essentially undergo further iterations in the future. When levied, the Central-GST (CGST) and State-GST (SGST) would be administered under distinct legislation, with no cross-credits possible. The Integrated-GST (IGST) is a fungible tax that will be levied under distinct legislation (viz cross credits available with CGST and SGST). At the moment, certain commodities (petroleum, liquor) and industries (real estate, small enterprises) are exempt from GST.

Model of GST

The planned tax structure will be in the form of a "Dual GST," which will be levied by both the federal and state governments at the same time. This will include:
• The Centre's GST (CGST), which will be charged

• State GST (SGST), which will be imposed by the individual states.
• Integrated GST (IGST) — a tax levied by the federal government on goods and services exchanged across states.

The GST is divided into two parts: the Central GST (CGST), which governs places where the Centre has authority, and the State GST, which governs areas where the State has taxing authority. The IGST, or Integrated Commodities and Services Tax, governs the flow of goods within the Indian Union's states. The union will collect this money, but it will be distributed to the states. As a result, it is critical that the GST be implemented across the country at the same time. The rates for the Central GST and the State GST would be approved in accordance with revenue considerations and acceptance. Except for exempted goods and services, the CGST and SGST would apply to all transactions of goods and services for a consideration. On the basis of thresholds for products and services set for the States and the Centre, the Centre and the States would have concurrent jurisdiction over the whole value chain and all taxpayers.

Existing CSTs (central state taxes or taxes on interstate goods transportation) will be phased down. All inter-State transactions of taxable goods and services would be subject to the IGST (cumulative rate for CGST and SGST), with suitable provisions for consignment or stock transfer of goods and services. The SGST and CGST input tax credits (ITC) will be allowed as needed. Because SGST ITC will be authorised, the Exporting State will pass the SGST credit utilised in IGST payment to the Centre. While discharging his SGST liability, the importing dealer will claim IGST credit (while selling the goods in state itself).

Rate of GST

There would be a two-tiered system.
1. A cheaper price for essential items and items of fundamental importance.
2. A general standard rate for products.
There will be an unique tariff for precious metals, as well as a list of things that are excluded. For products in general, the government is considering raising the GST rate from 20% to 23%, which is higher than the global average of 16.4% for similar taxes but lower than the revenue neutral rate of 27%.

For Intra State Transactions: In intra-state transactions, the seller collects both the CGST and the SGST from the buyer, with the CGST being deposited with the Central Government and the SGST being deposited with the State Government.

For Inter State Transactions: Inter-state transactions of goods and services that are based on the destination principle will be subject to the Integrated Goods and Service Tax (IGST). The tax is passed on to the importing state. Furthermore, an additional tax of not more than 1% on items supplied in the course of interstate trade or commerce is proposed, to be collected by the Central Government for a period of two years and assigned to the states where the supply originates. Stock transfer valuation will be determined. The value of exports and supplies to SEZ units will be zero.

The Various Stakeholders Will Be Affected by Gst As:

- Corporates – who pay the excise duty, GST replaces excise duty as well.
- Transporters – who pay Octroi/Entry tax, GST subsumes these taxes.
- Distributors – who pay VAT, GST replaces VAT.
- Retailers – who pay VAT and service tax, GST replace these taxes as well.
- Consumers – indirect taxes affects the prices of a product.

The Implementation of GST Will Lead To:

GST refers to the process of transitioning from one state or situation to another. It will result in considerable modifications in IT and accounting systems, such as master revisions, accounting for changes in output tax computation, and tax credit modules. There will be a lot of reworking on the tax-efficient company model in order to broaden the tax base and remove various exemptions. Seamless availability of credits across goods and services: The availability of finance has a huge impact on enterprises. The availability of credit, as well as the eligibility for exemptions and tax advantages, will assist businesses. Unavailability of credit for VAT already paid on inputs, notwithstanding the fact that commodities purchased for the firm must be subject to central sales tax or service tax.

As a result, tax cascading is avoided. Due to the possibility of combining multiple indirect taxes, a re-design of the organisational structure is required. Revisions to pricing policies due to changes in tax rates, as well as cash flow forecasts for working capital management structures due to tax rate increases, may be significant. The action or fact of carrying out a wish or instruction, as well as conformity in meeting official requirements, status, responsibility, and the ease with which routine compliances can be carried out in the future.

Availability of credit even for inter-state procurements: Reduce inter-state trade obstacles and establish a common national market. It will compensate providing merchants in their own state, provide seamless credit for purchases, increase tax outlays on products and services purchased, and move the taxable event. The rise in input tax credit of taxes paid on procurements, the elimination of tax barriers for interstate procurement of goods, and the lowering of tax cost are all benefits of a uniform and single taxable event for retailers. Harmonization of Centre and state taxes to achieve common market: A single market is a type of trade bloc in which most physical (borders), technical (standards), and fiscal (taxes) trade barriers are removed.

Benefits or Positive Aspects of GST In General

Reduces transaction costs and unnecessary wastages: For both the SGST and the CGST, a single registration and compliance will suffice if the government builds an effective IT infrastructure and integrates the states with the union.

Eliminates the multiplicity of taxation: The reduction in the number of taxes that apply in a chain of transactions would help to reduce paperwork and clean up the current situations that the existing indirect taxation rules are dealing with.

One-point single tax: There would be a greater emphasis on commercial activities rather than worrying about future taxation. This will assist businesses in determining their supply chain and pricing strategies. In the long run, it will aid customers in becoming goods competitive because price will no longer be determined by tax components, but rather by pure business intelligence and innovation.

Reduces average tax burdens: The tax load that consumers would incur will be predictable, and it is envisaged that GST will reduce average tax costs on consumers. GST benefits both the economy and businesses. The lower tax burden on businesses will lower production costs. Exporters will be more competitive as a result of this. Except for a few products and states, tax rates would be uniform throughout the states in all circumstances.

Simplified and cost saving system: Due to standard accounting for all forms of taxes, procedural costs will be lowered. Only three CGST, SGST, and IGST accounts must be kept. GST is designed to make the present indirect system easier to understand. It is a long-term approach that will result in more output, more job possibilities, and an economic boom.

Limitations Aspects of GST

1. Even though GST is referred to as a single taxing system, it is actually a dual tax in which the state and the federal government both collect different taxes on a single sale or service transaction.
2. The central excise is paid up until the point of manufacture, whereas the GST is now paid up until the point of sale. The main indirect tax mechanism used by the central government at the moment is central excise. The central excise does not cover all goods and commodities, and there is an exemption limit of Rs. 1.50 crores in the central excise, and dealers are not obligated to pay central excise.
3. "Central Goods and Service Tax" will be needed of all VAT merchants. The vast majority of merchants are not subject to central excise and instead pay just state-level VAT.
4. Calculating the RNR (Revenue Neutral Rate) is complicated, and the government wants to increase revenue, thus the tax rate will be an issue.
5. Improvements in the manufacture and distribution of goods and services, more exports, numerous reforms, reduced government control are only a few of the elements that have contributed to the country's economic success. A tax structure that can revolutionise a country's economy is the "rarest of the rare."

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