A study on Understanding Goods and Service Tax (GST) and its Significance

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Abstract

GST – Goods and Services tax is expected to be launched from the 1st of July 2017. The vision of Prime minister being One Nation One tax. It is a single tax right from the suppliers of the products to the consumers of the products or services. The main idea behind introducing GST is to consolidate the multiple indirect taxes that are existing now which will help the Indian economy by improved competitiveness for trade and industry. The benefit of GST is to bring in uniformity in tax structure by applying uniform rates across the country. GST is simple to administer by the central and state government.

Key words : *Uniformity in Taxes, value addition, Input tax credit*

Introduction :

The Goods and Services Tax or GST is expected to be launched on the 1st of July 2017 and it is set to transform the way we execute our taxes. This perspective is to understand the concept of GST and how it will impact and transform the reform the current tax structure.

We begin with the definition of Goods & Services Tax as, it is a **comprehensive**, **multi-stage**, **destination-based tax** that will be levied on every **value addition**.

Value Addition and Multi Stage :

We define the concept of value addition and multi stage in elaborate manner by understanding, the entire manufacturing process any product which comprises of several stages and thus it can be called as multi stage. The entire manufacturing process consists of several stages starting from the raw material stage of reaching the final product stage. The first stage being purchase of raw materials, next stage is the actual manufacturing or production where the processing is done on the raw materials which are converted into final product. There is value addition once the raw materials are converted into final product. These Finished products have to packed and stored in warehouses till they are sold in the actual market. Thus at packing stage there is value addition The sales process begins with transferring these products to the wholesaler, and the retailer. The packing of individual products, marketing, Branding of the products / advertising etc carried out thus adding further value before it reaches the final stage, when it reaches the consumer which is the end of completion of the life cycle of a Product. At every stage of manufacturing there is value addition

Thus Goods and Services Tax will be levied on each of these manufacturing stages, which makes it multi stage thus called as multi stage tax where at every, manufacturing stage there is value addition.

Thus GST will be levied on these value additions – the monetary worth that is added at every stage to achieve the final sale to the end customer.

Significance of GST :

Introducing GST in India will transform the tax structure of the Indian Economy. The Existing tax structure mainly comprises of Direct Taxes and Indirect Taxes.

Direct Taxes are those which are levied to an individual on the income earned by the concerned individual and cannot be transferred to someone else. Example Income Tax - where every individual is liable to pay taxes on the amount of income earned during the financial year.

Indirect Taxes are those taxes where the liability can be borne by some other person normally the customers. Example VAT. Here the customers pay VAT for availing the benefit of product or service. Such VAT collected from the customers is deposited into Government Account.

Therefore effectively, the customer pays the price of the product purchased or the service availed as well as the VAT on it so the service provider or the seller can deposit the VAT to the government. Thus customer must pay not just the price of the product, but he also pays the tax liability, and therefore, he has a higher outlay when he buys an item. This takes place because the seller or the service provider had already paid a tax when to wholesaler or the company from whom they purchase the services to be provided. To recover this amount, as well as to make up for the VAT he must pay to the government, the seller passes the liability to the customer who has to pay the additional amount.

Goods and Services Tax addresses this aspect and has a system of Input Tax Credit which will allow sellers to claim the tax already paid, so that the final liability on the end consumer is reduced.

Working of GST :

GST is classified into mainly three categories. They are

- CGST : where the revenue will be collected by the central government
- SGST : where the revenue will be collected by the state governments for intra-state sales
- IGST : where the revenue will be collected by the central government for inter-state sales

In most cases, the tax structure under the new regime will be as follows :

Transaction	New Tax regulations applicable	Old Tax Regulations	Justification
Any Sale that takes place within a particular state	CGST + SGST	VAT + Central Excise / Service tax	The tax is collected by the Central Government and thereof the Revenue sharing will be by the Central and the State
Any Sale that takes place between two State	IGST	Central Sales Tax + Excise / Service Tax	Only one type of Tax is applicable where the revenue will be collected by the Central government due to inter state sales.

This has been explained with the help of the following Case :

A trader in Maharashtra sells Products to a customer in Maharashtra worth Rs. 50, 000. The Goods and Services Tax rate is 18% comprising CGST rate of 9% and SGST rate of 9%, Since this is a transaction that has taken place intra state within Maharashtra state. In Such circumstances the trader will collect collects Rs. 9, 000 and of this amount, Rs. 4, 500 will paid to the central government and Rs. 4, 500 will paid to the state Government that is Maharashtra government.

Now, let us assume the trader in Maharashtra had sold goods to a trader in Gujarat worth Rs. 50, 000. The GST rate is 18% comprising of CGST rate of 9% and SGST rate of 9%. In such circumstances, this transaction being an interstate transaction the trader has to charge Rs. 9, 000 as IGST. This IGST is paid to Centre. Thus there will be no need to pay CGST or SGST.

Benefits to Common Man – Working of Input Tax Credit :

At every stage of manufacturing process and the value addition chain, the business has an opportunity to obtain the amount of tax that is already paid in the previous transaction to the government. This is called as the **Input tax credit.** This is an amount of credit that any individual obtains for the tax paid on various input factors that are used in the entire manufacturing process. These input factors are purchased to be utilized in manufacturing process on which tax is paid to the Government.

The working of the same is explained with the help of following example given in 2 situations that is pre GST – existing tax structure and Post GST when GST is implemented. In the First situation where the existing tax regulations and thereby the tax applicable on the transactions is calculated at the rate of 10% whereas in the second situation the new GST is applicable is calculated @ 10%. This being a hypothetical situation, tax is assumed at 10%.

If a manufacturer of a product purchases Raw material worth Rs. 10, 000. Tax rate is 10%, he has to pay Rs. 11000 as the total cost of raw materials which are processed i. e. (Rs. 10, 000+ Rs. 100|). After Adding a profit of Rs. 1000, the material is converted in to finished product which is sold by the manufacturer to the wholesaler at Rs. 12000/- The Wholesaler adds expenses of the Product an amount of Rs. 3000 in addition he has to pay 10% tax, thus Tax will be Rs. (12000 +3000)+ 10% = 1500 thus final price after value additions is Rs. 16500/-. Thus the retailer has to pay Rs. 16500/- to purchase the product. The retailer purchases the product inclusive of tax adds certain value by marketing, packaging plus profit Rs. 3000 etc and also pays VAT to the Government which is Rs. 16500 + Rs. 3000 +10%

Tax = 19500. Thus the final cost the customer pays is Rs. 21, 450/- whereas the manufacturing cost was only Rs. 12000/-. We observed that the value of the tax increases every time the transaction takes place thus increasing the net value of the product.

In the second scenario, where GST is paid. Assumption is GST rate is 10%. When GST is applicable, there is a way to claim the credit for the tax that has been paid for acquiring the raw materials and other input factors. Manufacturer has purchased raw materials worth Rs. 10000 and GST applicable @ 10% is Rs. 1000. After adding an amount of Rs. 1000 profit The net cost is 12000 sells it to wholesaler at Rs 12000 plus GST at 10%. Thus the billed amount to the wholesaler will be (Rs. 12000 + 1200) = RS. 13200. Thus the manufacturer collects Rs. 1200 towards GST from the wholesaler, but he has already paid GST of Rs. 1000 at the time of purchasing the raw materials. Therefore out of the total Rs. 1200/- manufacturer can claim a credit paid for inputs and deposit the difference to the government that is Rs. 200. This product is now sold further by the wholesaler. Wholesaler would add some amount of profit of Rs. 1000 on the product, thus increasing the cost price increases to Rs. 14200 + GST which is the price at which it is purchased by the retailer. As the tax has to be borne by the retailer, the wholesaler collects Rs. 15620 (Rs. 14200 +Rs. 1420) inclusive of GST from the retailer. Here the wholesaler has already borne an amount of Rs. 1200 towards GST and collects Rs. 1420 from the Retailer. The wholesaler can claim input credit to an extent of 1200 and deposit the difference of Rs. 220 with the government This input Tax credit is further available by retailer and the retailer also can claim the input tax credit. This credit is expected to reduce the overall tax that is paid on a product thereby reducing the final cost of the product paid by the consumer

Conclusion :

The perspective of this paper is to understand the basic aspects of Goods and Service Tax (GST) and its classification. The significance of GST has been explained in detail. The concepts of Value addition and Input credit has been elaborated in detail supported by an example.

The main advantage of introducing GST is it will reduce. cascade effect of taxes, and by allowing input tax credit, it will reduce the burden of taxes and hopefully Final price to be borne by the customer.

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