GST : A Threat or A Boon

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India is a federal country made up of various units known as States. Some of these states are larger than most medium sized countries of the world in terms of population. These states elect governments with an expectation of implementation of the political priorities of their societies. The GST implemented promise to streamline the multiple layers of taxes and deliver India as one market, at the other hand it snatches the financial autonomy of the States. States owe tax structure autonomy to pay for priorities and to transform society. The GST destroys that transformative possibility at the state level. A federal structure considers states to be policy laboratories. These labs cannot really work with policy experiments if they do not have the power to raise revenue and pay for it themselves.

Implementation of GST is a situation where States would have surrendered their fiscal autonomy to the Central government. In such a situation, a State would be barred from texturing its laws in a manner befitting the necessities of its people. Now a debate with a doubt has geared up that whether the GST is going to be equally beneficial to all the states and their sovereignty as for the Centre. The financial autonomy of the state is going to get suppressed by the GST burden or going flourish by its flawless colours?

Introduction

Goods & Services Tax Law in India is a **comprehensive**, **multi-stage**, **destination-based tax** that is levied on every **value addition**.

In simple words, Goods and Service Tax is an indirect tax levied on the supply of goods and services. GST Law has replaced many indirect tax laws that previously existed in India.

GST is **one indirect tax** for the **entire country**.

So, before Goods and Service Tax, the pattern of tax levy was as follows:

Under the GST regime, the tax will be levied at every point of sale. In case of interstate sales, Central GST and State GST will be charged. Intra-state sales will be chargeable to Integrated GST.

Now let us try to understand the definition of Goods and Service Tax – "GST is a comprehensive, **multi-stage**, **destination-based tax** that will be levied on every **value addition**."(1,2)

Multi-stage

There are multiple change-of-hands an item goes through along its supply chain: from manufacture to final sale to the consumer.

Let us consider the following case:

Purchase of raw materials

Production or manufacture

Warehousing of finished goods

Sale to wholesaler

Sale of the product to the retailer

Sale to the end consumer

Goods and Services Tax will be levied on each of these stages, which makes it a multi-stage tax.

Value Addition

The manufacturer who makes biscuits buys flour, sugar and other material. The value of the inputs increases when the sugar and flour are mixed and baked into biscuits.

The manufacturer then sells the biscuits to the warehousing agent who packs large quantities of biscuits and labels it. That is another addition of value after which the warehouse sells it to the retailer.

The retailer packages the biscuits in smaller quantities and invests in the marketing of the biscuits thus increasing its value.

GST will be levied on these value additions i.e. the monetary worth added at each stage to achieve the final sale to the end customer.

Destination-Based

Consider goods manufactured in Maharashtra and are sold to the final consumer in Karnataka. Since Goods & Service Tax (GST) is levied at the point of consumption, in this case, Karnataka, the entire tax revenue will go to Karnataka and not Maharashtra.(3,4)

Journey of GST in India

The GST journey began in the year 2000 when a committee was set up to draft GST Law. It took 17 years from then for the Law to evolve. In 2017 the GST Bill was passed in the Lok Sabha and Rajya Sabha. On 1st July 2017 the GST Law came into force.

15 minutes through ClearTax GST

Advantages Of GST

GST will mainly remove the Cascading effect on the sale of goods and services. Removal of cascading effect will directly impact the cost of goods. The cost of goods should decrease since tax on tax is eliminated in the GST regime.

GST is also mainly technologically driven. All activities like registration, return filing, application for refund and response to notice needs to be done online on the GST Portal. This will speed up the processes.

- **Removing cascading tax effect**
- **Higher threshold for registration**
- **Composition scheme for small businesses**
- **Online simpler procedure under GST**
- **Lesser compliances**
- **Defined treatment for e-commerce**
- **Increased efficiency in logistics**
- **Regulating the unorganized sector**

components of GST

There are 3 taxes applicable under GST: CGST, SGST & IGST.

- **CGST:** Collected by the Central Government on an intra-state sale (Eg: Within Maharashtra)
- **SGST:** Collected by the State Government on an intra-state sale (Eg: Within Mahaashtra)
- **IGST:** Collected by the Central Government for inter-state sale (Eg: Maharashtra to Tamil Nadu)(5,6)

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

Transaction	**New Regime**	**Old Regime**	
Sale within the State	CGST + SGST	VAT + Central Excise/Service tax	Revenue will be shared equally between the Centre and the State
Sale to another State	IGST	Central Sales Tax + Excise/Service Tax	There will only be one type of tax (central) in case of inter-state sales. The Center will then share the IGST revenue based on the destination of goods.

Illustration:

Let us assume that a dealer in Gujrat had sold the goods to a dealer in Punjab worth Rs. 50,000. The GST rate is 18% comprising of only IGST.

In such case, the dealer has to charge Rs. 9,000 as IGST. This IGST revenue will go to the Central Government.

- The same dealer sells goods to a consumer in Gujrat worth Rs. 50,000. The GST rate on the good is 12%. This rate comprises of CGST at 6% and SGST at 6%.

The dealer has to collect Rs. 6,000 as Goods and Service Tax. Rs. 3,000 will go to the Central Government and Rs. 3,000 will go to the Gujarat government as the sale is within the state.(7,8)

Tax Laws before GST

In the pre-GST regime, there were many indirect taxes levied by both state and center. States mainly collected taxes in the form of Value Added Tax (VAT). Every state had a different set of rules and regulations.

Interstate sale of goods was taxed by the Center. CST (Central State Tax) was applicable in case of interstate sale of goods. Other than above there were many indirect taxes like entertainment tax, octroi and local tax that was levied by state and center.

This lead to a lot of overlapping of taxes levied by both state and center.

For example, when goods were manufactured and sold Excise Duty charged by the center was charged by the center. Over and above Excise Duty, VAT was also charged by the State. This lead to a tax on tax also known as cascading effect of taxes.

The following is the list of indirect taxes in the pre-GST regime:

Central Excise Duty

Duties of Excise

Additional Duties of Excise

Additional Duties of Customs

Special Additional Duty of Customs

Cess

State VAT

Central Sales Tax

Purchase Tax

Luxury Tax

Entertainment Tax

Entry Tax

Taxes on advertisements

Taxes on lotteries, betting, and gambling

All these taxes have been replaced with Central GST, State GST, and Integrated GST.

Changes has GST brought

In the pre-GST regime, tax on tax was calculated and paid by every purchaser including the final consumer. This tax on tax is called Cascading Effect of Taxes.

GST avoids this cascading effect as the tax is calculated only on the value-add at each stage of transfer of ownership. Understand what the cascading effect is and how GST helps by watching this simple video:

GST will improve the collection of taxes as well as boost the development of Indian economy by removing the indirect tax barriers between states and integrating the country through a uniform tax rate.(9,10)

Illustration:

Based on the above example of biscuit manufacturer along with some numbers, let's see what happens to the cost of goods and the taxes in a pre GST and GST scenarios.

Tax calculations in Pre GST regime:

Action	**Cost**	**10% Tax**	**Total**
Manufacturer	1,000	100	1,100
Warehouse adds label and repacks @ 300	1,400	140	1,540
Retailer advertises @ 500	2,040	204	2,244
Total	1,800	444	2,244

Along the way, the tax liability was passed on at every stage of the transaction and the final liability comes to rest with the customer. This is called the **Cascading Effect of Taxes** where a tax is paid on tax and the value of the item keeps increasing every time this happens.

Tax calculations in GST regime:

Action	Cost	10% Tax	Actual Liability	Total
Manufacturer	1,000	100	100	1,100
Warehouse adds label and repacks @ 300	1,300	130	30	1,430
Retailer advertises @ 500	1,800	180	50	1,980
Total	1,800		180	1,980

In the case of Goods and Services Tax, there is a way to claim credit for tax paid in acquiring input. What happens in this case is, the individual who has paid a tax already can claim credit for this tax when he submits his taxes.

In the end, every time an individual is able to claim input tax credit, the sale price is reduced and the cost price for the buyer is reduced because of a lower tax liability. The final value of the biscuits is therefore reduced from Rs. 2,244 to Rs. 1,980, thus reducing the tax burden on the final customer.

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