

GST VS VAT

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Abstract

VAT (Value Added Tax) –

- Germany and France were the first countries to implement VAT, doing so in the form of a general consumption tax during World War I.
- VAT was introduced as an indirect tax in the Indian taxation system to replace the existing general sales tax. The VAT Act, 2005 and associated VAT rules came into effect beginning April 1, 2005 in many Indian states.
- VAT was applicable on goods only. There was a separate act for services i.e. Service Tax Act.
- VAT is a consumption tax placed on a product whenever value is added at each stage of the supply chain, from production to the point of sale. The amount of VAT that the user pays is on the cost of the product, less any of the costs of materials used in the product that have already been taxed.

Pros and Cons of VAT

- **Pros**
 - ✓ Substituting a VAT for other taxes would close tax loopholes.
 - ✓ A VAT provides a stronger incentive to earn more money than a progressive income tax does.
- **Cons**
 - ✓ VAT creates higher costs for businesses.
 - ✓ It conflicts with the ability of state and local governments to set their own sales tax levels.
 - ✓ Passed-along costs lead to higher prices – a particular burden on low-income consumers.
 - ✓ It encourages tax evasion.

GST (Goods & Service Tax)

Genesis of GST in India –

Year	Event
1954	France was the first country to implement GST in the year 1954.
2004	The idea of national GST in India was mooted by Kelkar Task Force in 2004.
2007	Union Finance Minister, Shri P. Chidambaram, while presenting the Central Budget (2007-2008), announced that GST would be introduced in India.
2014	NDA Government tabled the Constitution Bill.
2016	Constitution bill, 2014 received the assent of the President on 8 th September, 2016 and became Constitution Act, 2016, which paved the way for introduction of GST in India.
2017 (March)	GST bill, 2017 were introduced in Lok Sabha.
2017 (July)	Finally Government rolled out GST by 1 st July, 2017, by achieving consensus on all the issues relating thereto.

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What is GST –

GST is an indirect tax levied on the supply of goods and services excluding alcoholic liquor for human consumption. Supply can be intra state or interstate.

Goods – Any kind of moveable property.

Service – Anything other than goods.

An analysis of Pre and Post GST

Pre GST	Post GST
<ul style="list-style-type: none"> • Central excise duty, additional excise duty, excise duty on medicinal and Toilet Preparations • State level VAT • Central Sales tax • Entry tax/ Octroi • Purchase Tax • Service tax • CVD 3(1), CVD 3(5) • Tax on betting, gambling, lotteries • Luxury tax on hotels • Entertainment taxes levied by State Govt. • Various cesses 	<p>GST : [CGST + SGST, IGST]</p>

Need for GST in India/ Deficiencies in the old value added taxation

- **Multiple Taxes** – despite the introduction of the principle of taxation of value added in India – at the Central level in the form of CENVAT and at the State level in the form of State VAT – its application has remained piecemeal and fragmented on account of the following reasons:
 - Non-inclusion of several local levies in State VAT such as luxury tax, entertainment tax, etc.
 - Cascading of taxes on account of levy of non-vatable CST, inclusion of CENVAT in the value for imposing VAT.
 - No CENVAT after manufacturing stage.
 - Non-integration of VAT & service tax.
- **Cascading effect** – in the present regime, a manufacturer of excisable goods charges excise duty and value added tax on intra-state sale of goods. However, the VAT dealer on his subsequent intra-state sale of goods charges VAT on value comprising of basic value + excise duty charged by manufacturer + profit by dealer. Further, in respect of tax on services, service tax is payable on taxable services provided.

When the goods are manufactured and sold both central excise duty and state-level VAT are levied. Though CENVAT and state level VAT are essentially value added taxes, set off of one

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against the credit of another is not possible as CENVAT is a central levy and state level VAT is a State levy. Moreover, CENVAT is applicable only at manufacturing level and not at distribution levels.

- **Double Taxation**_ Double taxation of a transaction as both goods and services.
- **No Uniformity** – Multiple taxes – Multiple Procedure.

Finally 4 Pillers of GST

Earlier Regime	GST Regime
Multiple taxes	One Nation, One Tax, One Law
Multiple Procedure	One Procedure
Cascading Effect	No cascading effect
Double Taxation	No double taxation

Benefits of GST

GST brings benefits to all the stakeholders of industry, Government and the consumer. It will lower the cost of goods and services, give a boost to the economy and make the products and services globally competitive. GST is a win-win situation for the entire country. The significant benefits of GST are discussed hereunder:

- ✓ **NO MULTIPLE TAXES** : GST will subsume majority of existing indirect tax levies both at Central and State level into one tax i.e., GST which will be leviable uniformly on goods and services.
- ✓ **NO CASCADING EFFECT** : By subsuming most of the Central and State taxes into a single tax and by allowing a set-off of prior-stage taxes for the transactions across the entire value chain, it would mitigate the ill effects of cascading, improve competitiveness and improve liquidity of the businesses.
- ✓ **NO DOUBLE TAXATION** : GST will make doing business easier and will also tackle the highly disputed issues relating to double taxation of a transaction as both goods and services.
- ✓ **UNIFORMITY IN PROVISION** : GST aims to make India a common market with common tax rates and procedures and remove the economic barriers thus paving the way for an integrated economy at the national level.
- ✓ **Buoyancy to the Government Revenue** : GST is expected to bring buoyancy to the Government Revenue by widening the tax base and improving the taxpayer compliance.
- ✓ **BOOST TO 'MAKE IN INDIA' INITIATIVE** : GST will give a major boost to the 'Make in India' initiative of the Government of India by making goods and services produced in India competitive in the national as well as international market.

Example - (For VAT) A manufacturer printed the price of his goods as Rs. 12,000 per article. He allowed a discount of 30% to the wholesaler who in his turn allowed a discount of 20% on the printed price to the retailer. If the prescribed rate of VAT on the goods is 10% and the retailer sells it

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to the consumer at the printed price then find the value added tax paid by the wholesaler and the retailer. Assuming wholesaler paid Rs. 100 as service tax.

Answer – For the **manufacturer**, the price of the article at which it is sold = Printed price – discount of the wholesaler

$$\begin{aligned} &= \text{Rs. } 12000 - 30\% \text{ of } 12000 \\ &= \text{Rs. } 12000 - \text{Rs. } 12000 \times 30/100 \\ &= \text{Rs. } 12000 - \text{Rs. } 3600 \\ &= \text{Rs. } 8400 \end{aligned}$$

Therefore, input tax for the wholesaler = 10% of 8400 = $10/100 \times \text{Rs. } 8400 = \text{Rs. } 840$

For the **wholesaler**, the price of the article at which it is sold = Printed price – discount to the retailer

$$\begin{aligned} &= \text{Rs. } 12000 - 20\% \text{ of } 12000 \\ &= \text{Rs. } 12000 - \text{Rs. } 12000 \times 20/100 \\ &= \text{Rs. } 12000 - \text{Rs. } 2400 \\ &= \text{Rs. } 9600 \end{aligned}$$

Therefore, output tax for the wholesaler = 10% of 9600 = $10/100 \times \text{Rs. } 9600 = \text{Rs. } 960$

Therefore, VAT payable for the wholesaler = output tax – input tax

$$\begin{aligned} &= \text{Rs. } 960 - \text{Rs. } 840 \\ &= \text{Rs. } 120 \end{aligned}$$

⊗ Under VAT system, credit of input service tax was not available for seller.

For the **retailer**, the price of the article at which it is sold = printed price = Rs. 12000

Therefore, output tax for the retailer = 10% of 12000

$$\begin{aligned} &= 10/100 \times \text{Rs. } 12000 \\ &= \text{Rs. } 1200. \end{aligned}$$

Input tax for the retailer = output tax for the wholesaler

$$= \text{Rs. } 960$$

Therefore, VAT payable by the retailer = output tax – input tax

$$\begin{aligned} &= \text{Rs. } 1200 - \text{Rs. } 960 \\ &= \text{Rs. } 240 \end{aligned}$$

Therefore, VAT paid by the wholesaler is Rs. 120 and that paid by retailer is Rs. 240

Example - (For GST) A manufacturer printed the price of his goods as Rs. 12,000 per article. He allowed a discount of 30% to the wholesaler who in his turn allowed a discount of 20% on the printed price to the retailer. If the prescribed rate of GST on the goods is 10% (CGST and SGST) and the retailer sells it to the consumer at the printed price then find the value added tax paid by the wholesaler and the retailer. Assuming wholesaler paid Rs. 100 as GST on input service.

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Answer -

For the **manufacturer**, the price of the article at which it is sold = Printed price - discount of the wholesaler

$$\begin{aligned}
 &= \text{Rs. } 12000 - 30\% \text{ of } 12000 \\
 &= \text{Rs. } 12000 - \text{Rs. } 12000 \times 30/100 \\
 &= \text{Rs. } 12000 - \text{Rs. } 3600 \\
 &= \text{Rs. } 8400
 \end{aligned}$$

Therefore, input GST for the wholesaler

$$\begin{aligned}
 \text{CGST} &= 5\% \text{ of } 8400 = 5/100 \times \text{Rs. } 8400 &= \text{Rs. } 420 \\
 \text{SGST} &= 5\% \text{ of } 8400 = 5/100 \times \text{Rs. } 8400 &= \text{Rs. } 420 \\
 \text{Input Credit for GST paid on services} & &= \text{Rs. } 100 \\
 \text{Total} & &= \text{Rs. } 940
 \end{aligned}$$

For the **wholesaler**, the price of the article at which it is sold = Printed price - discount to the retailer

$$\begin{aligned}
 &= \text{Rs. } 12000 - 20\% \text{ of } 12000 \\
 &= \text{Rs. } 12000 - \text{Rs. } 12000 \times 20/100 \\
 &= \text{Rs. } 12000 - \text{Rs. } 2400 \\
 &= \text{Rs. } 9600
 \end{aligned}$$

Therefore, output tax for the wholesaler

$$\begin{aligned}
 \text{CGST} &= 5\% \text{ of } 9600 = 5/100 \times \text{Rs. } 9600 &= \text{Rs. } 480 \\
 \text{SGST} &= 5\% \text{ of } 9600 = 5/100 \times \text{Rs. } 9600 &= \text{Rs. } 480 \\
 \text{Total} & &= \text{Rs. } 960
 \end{aligned}$$

Therefore, GST payable for the wholesaler = output tax - input tax

$$\begin{aligned}
 &= \text{Rs. } 960 - \text{Rs. } 940 \\
 &= \text{Rs. } 20
 \end{aligned}$$

✓ Under GST system, credit of input GST on service is available for seller.

For the **retailer**, the price of the article at which it is sold = printed price = Rs. 12000

Therefore, output tax for the retailer

$$\begin{aligned}
 \text{CGST} &= 5\% \text{ of } 12000 = 5/100 \times \text{Rs. } 12000 = \text{Rs. } 600. \\
 \text{SGST} &= 5\% \text{ of } 12000 = 5/100 \times \text{Rs. } 12000 &= \text{Rs. } 600 \\
 \text{Total} & &= \text{Rs. } 1200
 \end{aligned}$$

Input tax for the retailer = output tax for the wholesaler

$$= \text{Rs. } 960$$

Therefore, GST payable by the retailer = output tax - input tax

$$\begin{aligned}
 &= \text{Rs. } 1200 - \text{Rs. } 960 \\
 &= \text{Rs. } 240
 \end{aligned}$$

Therefore, GST paid by the wholesaler is Rs. 20 and that paid by retailer is Rs. 240

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Summary		
Person	Tax under VAT	Tax under GST
Wholesaler	120	20
Retailer	240	240

As we can see, GST subsumed all taxes of India and providing integrated tax credit facility which was not available under old regime of tax. GST seriously created environment of 'One Nation, One Tax'.

Goods and Services Tax Network (GSTN)

The Goods and Services Tax Network (GSTN) is a not-for-profit, Non-government Company promoted jointly by the Central and State Governments, which will provide shared IT infrastructure and services to both central and state governments including tax payers and other stakeholders. The front-end services of Registration, Returns, Payments, etc. to all taxpayers will be provided by GSTN. It will be the interface between the government and the taxpayers.

GSTN will provide the following services through the Common GST Portal:

1. Registration (including existing taxpayer migration);
2. Payment management including payment Gateways and integration with banking systems;
3. Return filing and processing;
4. ITC (Input Tax Credit) matching, reversal of ITC
5. IGST settlement
6. Taxpayer management, including account management, notifications, information, and status tracking;
7. Tax authority account and ledger Management;
8. Computation of settlement (including IGST Settlement) between the Centre and States; Clearing house for IGST;
9. Processing and reconciliation of GST on import and integration with EDI systems of Customs;
10. MIS including need based information and business intelligence;
11. Maintenance of interfaces between the Common GST Portal and tax administration systems;
12. Provide training to stakeholders
13. Provide Analytics and Business Intelligence to tax authorities;
14. Carry out research and study best practices.

In the GST regime, the core services required by taxpayers, such as applying for registration, uploading of invoices, filing of return, making tax payments shall be hosted on GSTN. However, all the statutory functions (such as approval of registration, assessment of return, conducting investigation and audit etc.) shall be conducted by the tax authorities of States and Central governments.

Thus, the GST Portal services (frontend) shall be provided by GSTN. As regards the backend services (the modules for processing the applications/returns etc.) are being developed independently by 9 States (Model 1) and Central Government themselves. However, 27 states (termed as Model-2 states) have asked GSTN to also develop their backend modules.

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For the tax payers' convenience, GSTN will provide the taxpayer options of using third party applications, through GST Suvidha Providers (GSP), which can provide different kind of interfaces on desktop/mobile for them to be GST compliant. GSTN has empanelled 34 GSPs so far for benefit of trade and industry. The list of the empanelled GSPs can be seen here.

Benefits of GSTN

The GST portal (www.gst.gov.in) will be one single common portal for all GST related services such as Tax payer registration (new, surrender, cancelation, amendment etc.), Invoice upload, auto-drafting of Purchase details of buyer, GST Returns filing on stipulated dates for each type of return, Tax payment by creation of Challan and integration with agency Banks, Electronic Credit Ledger, Cash Ledger and Liability Register MIS reporting for tax payers, tax officials and other stakeholders and Business Intelligence /Analytics for Tax officials. GSTN will be accessible over Internet (by taxpayers and their CAs/Tax Advocates etc.) and Intranet by Tax Officials etc.

A common GST system will provide linkage to all State/UT Commercial Tax departments, Central Tax authorities, Taxpayers, Banks and other stakeholders. The GST system will include all stakeholders – taxpayers, tax professionals, tax officials, Banks and accounting authorities.

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