# A Prospective Tax System: Goods and Service Tax

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**Abstract**

At present VAT system exists in our country which covers tax on goods only. In India, the Finance Minister Mr. P. Chidambaram has also declared that Goods and Service Tax will be introduced in India. Consequently, it may boost our economy and enable us to compete at the global front. We focuses on working of such tax system and discuss the problems expected to face by the Government at the time of introduction of this tax system.

**What Is GST?**

Goods and Service Tax is a tax on goods and services, which is leviable at each point of sale or provision of service, in which at the time of sale of goods or providing the services the supplier of goods or service provider can claim the input credit of tax which has been already paid at the to,e pf purchasing the goods or procuring the service.

On most of the goods and services the rate of tax remains the within some specific tax slabs but as per the requirement of the country some goods or services can be declared as "exempted" or "Zero rated". The whole system is developed in such a way that it avoids the cascading effect and the final consumer bears the burden of all the tax. Generally, in such a system Exports are zero rated and all the taxes paid while purchasing and manufacturing the goods including the taxes paid on raw material and services are returned to the exporter to make the exports competitive.

The supplier of goods or service providers collect the tax from their customer, who may or may not be the ultimate customer, and deposit the same after deducting the tax which has been already paid. This is simply very similar to VAT which is at present applicable in most of the states and can be termed as Central System of VAT on Goods and Services with only one difference that in this system not only goods but also services are involved and the rate of_tax on goods and services are generally the same.

**Working of GST Tax System**

Normally the dealers registered under GST (Manufacturers, Wholesalers and retailers and service providers) charge GST on the price of goods and services from their customers and claim credits for the GST included in the price of their own purchases of goods and services used by them. While GST is paid at each step in the supply chain of goods and services, the paying dealers don't actually bear the burden of the tax because GST is an indirect tax and ultimate burden of the GST has to be taken by the last customer.

This is because they include GST in the price of the goods and services they sell and can claim credits for the most GST included in the price of goods and services they buy. The cost of GST is borne by the final consumer, who can't claim GST credits, i.e. input credit of the tax paid. The GST can be divided into following sections to understand it better:

1. **Tax Collection liability:**

The dealers registered under GST (Manufacturers, Wholesalers and Retailers and Service Providers) are required to charge GST at the specified rate of tax on goods and services that they supply to customers. The GST payable is included in the price paid by the recipient of the goods and services. The supplier must deposit this amount of GST with the Government.

2. **Set-off against Credit of GST:**

If the recipient of goods or services is a registered dealer (Manufacturers, Wholesalers and Retailers and Service Providers), he will normally be able to claim a credit for the amount of GST he has paid, provided he holds a proper tax invoice. This "input tax credit" is setoff against any GST (Out Put), which the dealer charges on goods and services, which he supplies, to his customers.

3. **Conclusive Burden of Tax on Ultimate Customer:**

The net effect is that dealers charge GST but do not keep it, and pay GST but get a credit for it. This means that they act essentially as collecting agents for the Government. The ultimate burden of the tax falls on the last and final consumer of the goods and services, as this person gets no credit for the GST paid by him to his sellers or service providers.

4. **Registration:**

Dealers will have to register for GST. These dealers will include the suppliers, manufacturers, service providers, wholesalers and retailers. If a dealer is not registered, he normally cannot charge GST and cannot claim credit for the GST he pays and further can not issue a tax invoice.

5. **Tax Period:**

The tax period will have to be decided by the respective law and normally it is monthly and/or quarterly. On a particular tax period, which is applicable to he dealer concerned, the dealer has to deposit the tax if his output credit is more than the input credit after considering the opening balance, if any, of the input credit.

6. **Refunds:**

If for a tax period the input credit of a dealer is more than the output credit then he is eligible for refund subject to the provisions of law applicable in this respect. The excess may be carried forward to next period or may be refunded immediately depending upon the provision of law.

7. **Exempted Goods and Services:**

Certain goods and services may be declared as exempted goods and services and in that case the input credit cannot be claimed on the GST paid for purchasing the raw material in this respect or GST paid on services used for providing such goods and services.

8. **Zero Rated Goods and Services:**

Generally, export of goods and services are zero-rated and in that case the GST paid by the exporters of these goods and services is refunded. This is the basic difference between Zero rated goods and services and exempted goods and services.

9. **Compulsion of Issuance of Tax Invoice:**

Tax invoice is the basic and important document in the GST and a dealer registered under GST can issue a tax invoice and on the basis of this invoice the credit (Input) can be claimed. Normally a tax invoice must bear the name of supplying dealer, his tax identification nos., address and tax invoice nos. coupled with the name and address of the purchasing dealer, his tax identification nos., address and description of goods sold or service provided.

**Systems of GST**

Globally, there are three systems in trend:

1. Invoice System
2. Payment System
3. Hybrid System

**1. Invoice System:**

As per invoice system, the GST (Input) is claimed on the basis of invoice and it is claimed when the invoice is received, it is immaterial whether payment is made or not. Further the GST (Output) is accounted for when invoice is raised. Here also the time of receipt of payment is immaterial. One may treat it as mercantile system of accounting. At present, system of sales tax on goods is an invoice system of VAT and here it is immaterial whether the taxpayer is following the cash basis of accounting or mercantile basis of accounting.

The advantage of invoice system is that the input credit can be claimed without making the payment. The disadvantage of the invoice system is that the GST has to be paid without receiving the payment.

**2. Payment System:**

Under Payment system of GST, the GST (Input) is claimed when the payment for purchases is made and the GST (Output) is accounted for when the payment is made. In this system, it is unworthy whether the assessee is maintaining the accounts on cash basis or mercantile basis.

The advantage of cash invoice system is that the Tax (output) need not be deposited until the payment for the goods and/or services is received. The disadvantage of the payment system is that the GST (input) cannot be claimed without making the payment. The Taxes on services in India are based on this payment system since service tax is payable on receipt basis and further Cenvat credit is only allowable when payment of the service is made. In some countries, this system is also adopted for small traders to keep them away from the complexities of the Invoice system, which is purely a mercantile system.

**3. Hybrid System:**

In hybrid system the GST (Input) is claimed on the basis of invoice and GST (Output) is accounted for on the basis of payment, if allowed by the law. In some countries the dealers have to put their option for this system or for a reversal of this system before adopting the same.

It depends on the law of the country, which decides the system of GST to be followed by the dealers.

**GST and Present System of VAT**

Theoretically, there is no difference between present tax structure under VAT and GST as far as the tax on goods is concerned because GST is also a form of VAT on Goods and services. At present the sales tax, with an exception of CST, is a VAT system and in case of service tax the system also has the CENVAT credit system hence both sales tax and service tax are under VAT system in our country. At present the goods and services are taxed separately but in GST the difference will be nullified. The overall system of GST is very much similar to the VAT, which can be considered as first step towards GST. Due to the fact that the taxpayers are already using the vatable sales tax and service tax system there may be a possibility that GST will be a matter of settlement between the Centre and the states and like VAT, the possibility of any resistance from the tax payers is somewhat less.

**Emphasis on a Centralized System**

The GST will work only as a centralized taxation system with collection of all the Tax going to the Central Government and then shared by the states. And this will be a big problem when GST will be introduced in India because the country has the federal system of economy in which the states also have the power to collect tax and that is the main base of their economic autonomy.

This particular peculiarity of the GST has made it totally different from the VAT and this can only be a national level tax and can be successfully managed by the central power and the total collection of the same can be shared by the states.

**Reasons to adopting GST**

When we have VAT in almost the whole country and the system of central excise and service tax is well equipped with the Cenvat credit, then why is there a need of GST? Well, this is needed to match the international phenomenon. It is needed to reduce the burden of Central excise. The introduction of GST will certainly change the Federal system of Governance in our country in which states also have the right to collect taxes on goods.

**Acceptance of The GST by states**

As and When GST will be introduced it will replace the Central excise, services tax, VAT and CST. Till date the Centre has the monopoly power of the tax on services and states have the power to tax the sale of goods. Now the states will have to surrender their power to tax the goods and share the central tax and certainly this will be a very tough bargain for them.

The states are demanding that they should be given power to tax the services also but in GST they will actually lose their power to tax even the goods. The tax will be collected at Central level and then it will be shared by the states.

The large the collection of tax by a state, the more difficult to acceptance the GST by State. This will be a major problem, which will be solved by central government at the time of introducing the GST Tax System.

**Advantages**

It is evident that GST Tax System may boost our economy and enable us to compete at the global front. Some of the following advantage from GST:

- **S**peeds up economic union of our country.
- **Better** compliance and revenue flexibility;
- **Replacing** the cascade effect [tax on tax] created by existing indirect taxes;
- **Tax** incidence for consumers may fall;
- **Lower** transaction cost for final consumers;
- **By** merging all levies on goods and services into one, GST acquires a very simple and transparent character;
- **U**niformity in tax administration with only one or two tax rates across the supply chain as against multiple tax structure as of present;
- **Efficiency** in tax administration;
- **May** widen tax base;
- **Increased** tax collections due to wide coverage of goods and services;

- **Improvement** in cost competitiveness of goods and services in the international market.

**Problems in Implementation of GST**

Bringing about an integration of all taxes levied on goods and services in a federal polity with sharp distribution of legislative powers is a complicated task. The Constitution of India, 1950 demarcates taxing powers in a two-tier structure wherein levies on production and international imports are with the Union and post- production levies rest with the states. The Centre levies duties of excise on manufactures and import/countervailing duties on international imports apart from levying a tax on services under various taxing and the residuary entry in the Union List. The states levy VAT on goods sold or entering in the state under various entries of the state list. Even if all Union-level levies are integrated into a single levy and all state level levies culminate in a single State level levy; this may still have two levies and the resultant cascading and administrative burdens may nevertheless remain to an extent, though this may go a long way in harmonising levies. A harmonised, integrated and full fledged GST calls for the following:

**(1)** **i**mplementation of GST calls for effecting widespread amendments in the Constitution and the various constitutional entries relating to taxation. Such amendments may virtually transform the Indian federation into an economic Union much along the lines of the European Union. The various levies of the Union and the states are also to be harmonised. In the current scenario it is difficult to visualise constitutional amendments of such far reaching implications going through, more so in view of the fact that sharing of legislative powers is such an essential element of our federal polity and it may be perceived to be a basic feature of the Constitution;

**(2)** **s**ervices have to be appropriately integrated in the tax network;

**(3)** **c**onstitutional amendments required for implementing GST is just one of the major road blocks. No less significant is the issue of an appropriate design and structure of GST. For instance, how the issue of inter-state movement of goods and services may be addressed. The phasing out of CST may go a long way in addressing the issue of inter-state trade and commerce in goods but the crucial issue regarding services originating in one state and being consumed in other state still remains;

**(4)** **a**nother contentious issue that is bound to crop up in this regard is the manner of sharing of resources between the Centre and the states and among the states *inter se* as also the basis of their devolution;

**(5)** Apart from all these, there has to be a robust and integrated MIS dedicated to the task of tracking flow of goods and services across the country and rendering accurate accounting of levies associated with such flow of goods and services; and

**(6)** **f**inally, the contentious issue of taxing financial services and e-commerce is to be appropriately addressed and integrated.

**Conclusion**

From the above discussions, the advantages may be evidently laid out that is the increasing closeness of our tax system to the global tax system. In a way, it may boost our economy and enable us to compete at the global front. As a result, even our system may match the international phenomenon. This is the biggest advantage of such a system. But every system has its own ins and outs embedded at the initial stages. Lower incidence of tax, reduced prices, a move towards the global concept, reducing cost of tax compliance, better revenue collection, an efficient and harmonized consumption tax system in the country all this looks good on the card, but is it really so easy to implement? Keeping the various constitutional, technological, procedural and political barriers, the job seems easier said than done. Few critics do not even hesitate in remarking that such a system is the old wine served in a new bottle. Thus, the careful appraisal of the recommendation is needed. Various scholars must roll their think tank towards the future system, as it may play a crucial role.

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