GST

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Manifest Pedagogy

GST is to be covered keeping the following aspects in mind:

1) Distribution of resources between Centre and states (POLITY)

2) Budgetory Reforms

3) LPG

GST is always in news due to periodic meetings of GST council and procedural aspects and rules may be a key focus in prelims. Moreover, mains would focus on the implications of GST as a whole and what needs to be done to keep it relevant.

In news

Meeting of GST council

Placing it in syllabus

Budgeting- Tax Reforms

Static dimensions

1. What is GST-why is it better
2. Effects of GST
3. Input tax credit
4. Ease of doing business (**read here**)

Current dimensions

1. Multiple slabs

2. Change in slabs

3. Sin goods and luxury goods

4. Single rate GST-why petroleum is excluded?

Content

What is GST?

Goods and Services Tax (GST) refers to the single unified tax created by amalgamating a large number of Central and State taxes presently applicable in India. The 101st constitution Amendment Act of September 2016 made in this regard, inserted a definition of GST in Article 366 of the constitution by inserting a sub-clause 12A.

As per that, GST means any tax on supply of goods, or services, or both, except taxes on supply of the alcoholic liquor for human consumption. And here, services are defined to mean anything other than goods. Goods & Services Tax Law in India is a **comprehensive**, **multi-stage**, **destination-based tax** that is levied on every **value addition**.

Why GST is better?

Adam Smith, father of economics, has laid down four canons of taxation which are equality, certainty, convenience and economy. A tax can be tested on these four criteria. The Good and Services Tax (GST) qualifies for these four canons in a better manner.

1. By amalgamating various taxes into a single tax**, GST would mitigate cascading or double taxation (tax upon tax situations) in a major way** and pave the way for a common national market.
2. If implemented rightly, it can ensure that there is a single rate for a particular commodity across the states thereby **increasing the ease of doing business**.

3. If the benefits are passed on fully, for **consumers,** this would mean 25%-30% **reduction in the prices they pay, as tax burden on goods comes down** This can **reduce the overall costs of production** and
4. Hence, introduction of **GST would also make Indian products more competitive** in the domestic and international markets, with beneficial effects on economic growth.
5. According to the implementing agency, Central Board of Excise and Customs (CBEC), this tax, because of its transparent character, would be **easier to administer**.
6. It is designed in such way that all tax payer services such as registrations, returns, payments, etc. would be available to the taxpayers online, which would make **compliance easy and transparent**.
7. Avoid harassment of the business and **result in higher revenue collection**, both for the Centre and the States.
8. GST also **helps in better tax collections, better tax compliance, less cases of tax evasion and litigation**.

GST council- Structure

As per Article 279A of the amended Constitution, the GST Council is a joint forum of the Centre and the States, and consists of the following members:

Union Finance Minister	Chairperson
The Union Minister of State, in-charge of Revenue, Min. of Finance	Member
The Minister In-charge of Finance or Taxation or any other Minister nominated by each State Government	Members

Effects of GST

- Reduces tax burden on producers and fosters growth through more production. The current taxation structure, pumped with myriad tax clauses, prevents manufacturers from producing to their optimum capacity and retards growth. GST will take care of this problem by providing tax credit to the manufacturers.

- Different tax barriers, such as check posts and toll plazas, lead to wastage of unpreserved items being transported. This penalty transforms into major costs due to higher needs of buffer stock and warehousing costs. A single taxation system will eliminate this roadblock.
- There will be more transparency in the system as the customers will know exactly how much taxes they are being charged and on what base.
- GST will add to the government revenues by extending the tax base.
- GST will provide credit for the taxes paid by producers in the goods or services chain. This is expected to encourage producers to buy raw material from different registered dealers and is hoped to bring in more vendors and suppliers under the purview of taxation.
- GST will remove the custom duties applicable on exports. The nation's competitiveness in foreign markets will increase on account of lower costs of transaction.

Input tax credit

Input tax credit means that when a manufacturer pays the tax on his output, he can deduct the tax he previously paid on the input he purchased. Here, while paying the tax on his output, he can deduct or take credit for the tax he paid while purchasing inputs.

Ease of doing Business (Read here)

Multiple slabs under GST

Goods and services are divided into five tax slabs for collection of tax – 0%, 5%, 12%, 18% and 28%. However, Petroleum products, alcoholic drinks, electricity, are not taxed under GST and instead are taxed separately by the individual state governments, as per the previous tax regime. There is a special rate of 0.25% on rough precious and semi-precious stones and 3% on gold. In addition a cess of 22% or other rates on top of 28% GST applies on few items like aerated drinks, luxury cars and tobacco products.

Recent Changes in GST slabs

Recently Government of India announced that approximately 99% of items attract goods and services tax (GST) at 18% (by merging 12% and 18% slabs) or lower leaving sin or luxury items only to be taxed at the highest rate of 28%.

Sin goods and luxury goods tax

A luxury tax is an ad valorem tax placed on products or services that are deemed to be non-essential or unneeded. The luxury tax is an indirect tax in that the tax increases the price of the good or service, a price inflationary burden which is only incurred by the end consumer who purchases or uses the product. For example tax on luxury cars.

A sin tax is an excise tax levied on goods and services deemed harmful to society, such as tobacco, alcohol, and gambling.

Single rate GST-why petroleum is excluded?

Finance minister recently said the next stage of reforms of the goods and services tax (GST) would see the standard rate converging to around 15%—the midpoint of the existing standard rates of 12% and 18%. If indeed this happens, India will have all but achieved the idea of "one nation, one tax".

Petroleum has been excluded from GST regime due to following reasons;

- To avoid double taxation by states and union government, States also earn major portion of their revenue from crude products. They wish to protect such revenue by

maintaining their power to increase (or decrease) tax rate. If it is brought in GST then states would lose such power.
- Volatility of crude oil prices in international market.

To increase compliance under GST regime the government introduced various initiatives such as E-way bill, invoice matching, annual return filing, relief for small taxpayers etc.

E-Way Bill

E-Way Bill is mandatory for Inter-State movement of goods of consignment value exceeding Rs.50,000/- in motorized conveyance. Registered GST Taxpayers can register in the e-Way Bill Portal using GSTIN.

Invoice matching

Invoice matching is a concept wherein all the taxable supplies procured by a buyer and supplied by a seller are **matched**. The Government, through this concept, seeks to ensure the accurate transfer of Input Tax Credit (ITC) between the states and the parties in a transaction.

Test Yourself: Mould your thought

Is the GST truly a landmark reform or is it beyond redemption and a GST 2.0 is required? Critically analyse.