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CHAPTER: 8

“GOODS AND SERVICE TAX” (GST)

8.0) INTRODUCTION:

Indirect taxes on goods and services at the state level constitute 85% of own tax revenue of the state governments of which sales tax alone accounts for 61%. A change in regime in recent times from cascading types sales taxes to taxes based on input-tax credit within taxation of goods, as well as the adoption of a uniform rates of tax, has resulted in buoyant revenues. However, the reform agenda is far from completion. The proposed GST regime constitutes the next step towards comprehensive reforms of indirect taxes in India. It would be the final step or a step in the right direction, depending on how the country chooses to define the constituents of this new regime.

8.0.1) GOODS AND SERVICE TAX:

GOODS AND SERVICE TAX (GST) is a comprehensive value added tax on Goods and Services. It is collected on value added at each stage of sales and purchased in the supply chain without state boundaries. It would integrate all taxes currently levied in India by central and state governments on goods and services like excise duty, service tax, state VAT/Sales tax, entry tax/octroi, state excise duty, countervailing custom duty, luxury tax, tax on consumption/sale of electricity, entertainment tax etc.

GST is a unified tax on goods and services aimed at replacing the multiple tax system currently being followed by the Centre and States. GST is a multi-stage consumption tax imposed on a broad range of goods and services. It is
a tax on transactions and end-customers who consume the goods or services bear the final cost of the tax. The underlying principle is that the GST will have a simple structure and goods as well as services will be taxed at a uniform rate. It is aimed to be a simple, nation-wide.

GST is a tax on goods and services with comprehensive and continuous chain of set-off benefits from the producer’s point and service provider’s point up to the retailer’s level. It is essentially a tax only on value addition at each stage and a supplier at each stage is permitted to set-off through a tax credit mechanism.

**8.1) GST – A BACKDROP:**

In India, VAT was introduced at the Central level to select commodities in terms of MODVAT with effect from March 1, 1986 and in a step-by-step manner for all commodities in terms of CENVAT in 2002-03. Subsequently, after Constitutional Amendment empowering the Centre to levy taxes on services, these service taxes were also added to CENVAT in 2004-05. The concept of Goods and Services Tax or GST was mooted by Dr. Vija Kelkar, former Finance Secretary in 2004. The Kelkar Task Force had suggested a comprehensive Goods and Services Tax (GST) based on VAT (Value Added Tax) principle. VAT was introduced in India from April 1, 2005 with a view to substituting sales tax with many falling states in line from that date onwards. Afterwards, the remaining states had fallen in line. Now, all States and Union Territories implemented Value Added Tax in lieu of sales tax and VAT has been an unqualified success in raising the tax revenue for the States. The rate of growth of tax revenue has nearly doubled from the average annual rate of growth in the pre-VAT five-year period after the introduction of VAT.
After VAT, the next logical step is GST. GST is an improvement over VAT. The implementation of GST is a step towards a comprehensive indirect tax reform in the country. The groundwork for implementation of GST with effect from April 1, 2010 was started way back in 2007 after the then Finance Minister, P. Chidambaram, announced GST rollout while presenting the Union Budget 2007-08 in Parliament. France introduced GST in 1954 being the first country to introduce it. As of now, it is prevalent in more than 150 countries, including Australia, New Zealand and Singapore. Most countries introduced a single GST while Canada has a dual GST.

8.2) HIGHLIGHTS OF THE GST IN INDIA:

The following are the highlights on Goods and Services Tax in India” announced by the Empowered Committee on State Finance Minister in New Delhi on November 10, 2009 in the presence of Union Finance Minister, Pranab Mukherjee (the committee’s chairman and West Bengal’s finance minister Asim Dasgupta released the document in New Delhi):

1. The Empowered Committee has agreed to phase out CST (Central Sales Tax at present at a rate of two percent) upon introduction of GST (Goods and Services Tax) on understanding that the States would be adequately compensated, by the Centre for any revenues loss on account of phasing out of CST.

2. **DUAL GST**: A dual GST structure is recommended. The two components are: Central GST (CGST) to be imposed by the Centre and State GST (SGST) by the States. Rates of GST would be decided later.

3. The date of implementation of GST will also be decided later.

4. Separate acts will be enacted at the Centre and the States to implement CGST and SGST respectively.
5. Since the Central GST and State GST are to be treated separately, taxes paid against the Central GST shall be allowed to be taken as input tax credit (ITC) for the Central GST and could be utilized only against the payment of Central GST. The same principle will be applicable for the State GST.

6. Cross utilization of ITC between the Central GST and the State GST would not be allowed except in the case of inter-State supply of goods and services under the IGST (Integrated GST) model. IGST would consist of both the Central GST (CGST) and the state GST (SGST).

7. A uniform threshold of annual gross turnover of Rs. 10 lakh is proposed for all goods and services for SGST is applicable for all States and Union Territories. Below this threshold limit, State GST is not applicable. The threshold limit for Central GST may be kept at Rs. 1.5 crore for goods and Central GST may be kept at higher levels for services.

8. Each taxpayer would be allotted a PAN-linked taxpayer identification number.

9. The following Central Taxes should be, to begin with, subsumed under the Goods and Services Tax:
   
a. Central Excise Duty
b. Additional Excise Duties
c. Excise Duty levied under the Medicinal & Toiletries Preparation Act
d. Service Tax
e. Additional Customs Duty, also known as Countervailing Duty (CVD)
f. Special Additional Duty of Customs - 4% (SAD)
g. Surcharges, and
h. Cesses.

10. Following State taxes and levies would be, to begin with, subsumed under GST:
a. VAT / Sales tax
b. Entertainment tax (unless it is levied by the local bodies).
c. Luxury tax
d. Taxes on lottery, betting and gambling.
e. State Cesses and Surcharges in so far as they relate to supply of goods and services.
f. Entry tax not in lieu of octroi

11. Some Taxes kept out of GST purview:
   a. Alcoholic Beverages: They will be kept out of GST.
   b. Crude oil, diesel, petrol and ATF: They will be kept out of GST. States will be free to levy taxes on them.

12. Decision is yet to be taken on certain taxes:
   a. Purchase Tax: (Usually imposed by Punjab and Haryana on buyers of food grains.) The decision to subsume this under GST will be decided later in consultation with GOI.
   b. Natural Gas: A final view will be taken later in consultation with GOI.

13. Tobacco Products: They will be subjected to GST with input tax credit (ITC).

14. Taxation of Services: Both the Centre and States will have concurrent power to levy tax on all goods and services. For inter-State transactions, an innovative model of Integrated GST will be adopted by appropriately aligning and integrating CGST and SGST.

15. GST Rate Structure: It has been decided to adopt a two-rate structure, a lower rate for necessary items and goods of basic importance and a standard rate for goods in general. There will also be a special rate for precious metals and a list of exempted items. The GST rates will be decided later.
16. **Exports**: They would be zero-rated, meaning exporters of goods and services need not pay GST on their exports. GST paid by them on the procurement of goods and services will be refunded. Exports are “zero rated” as in competitive international markets one cannot export taxes.

17. **Imports**: Both CGST and SGST will be imposed on imports of goods and services into the country.

18. The administration of GST shall be divided into states and Centre with a proposition to have uniform compliance procedures across states under the respective laws.

19. **Constitutional Amendments**: The implementation of GST requires some legal and constitutional changes. The government may have to bring out an Integrated Goods and Services Act, replacing the existing acts governing a plethora of taxes. A Joint Working Group (JWG) was set up on 30th September 2009 to address these issues and prepare the necessary draft constitutional amendments. The States, at present, do not have the powers to levy a tax on supply of services; while the Centre does not have power to levy tax on the sale of goods. For the GST to be introduced at the State level, it is essential that the States should be given the power of levy of taxation of all services. This power of levy of service taxes has so long been only with the Centre. A Constitutional Amendment will be made for giving this power also to the States.

20. **Adequate compensation to States**: It would be essential to provide adequately for compensation of loss that might emerge during the process of implementation of GST for the next five years. This issue may comprehensively be taken care of in the recommendations of the Thirteenth Finance Commission.
21. **IT Infrastructure**: This has to be expedited at the level of Centre and States.

22. The spirit of fiscal federalism must be kept in mind always. This spirit of cooperative federalism is the essence of GST and the only feature that would ensure that a national market with free movement of goods and services across State boundaries developed in the true sense.  

### 8.3) THREE SYSTEMS OF GST:

1) Invoice System
2) Payment System
3) Hybrid System

1) **INVOICE SYSTEM:**

In this type of system, the GST (Input) is claimed on the basis of invoice and it is claimed when the invoice is received. Under this system, there is no concern whether payment has been made or not. Further the GST (Output) is accounted for when invoice is raised. Here also the time of receipt of payment is immaterial. In other words we can treat it as mercantile system 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:**

In the 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. Under this system, it is immaterial whether assesses is

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1. [www.google.com](http://www.google.com)
maintaining the accounts on cash basis or not. This is similar to the system adopted as regards Service Tax in India.

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.

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. This system is adopted in some countries around the world. Under this system, the dealers have to put their option for this system or for a reversal of this system before adopting the same.

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

Presently, in India the system of sales tax on goods is an invoice system of VAT, whereas the system of Service Tax is a Payment system. Thus, this issue is yet to be unveiled, whether the Payment system or Invoice system will be adopted under GST. Moreover it may be stated that Government may issue a Hybrid system wherein the choice of system is left on the dealer himself.²

8.4) GST MODEL AROUND THE WORLD AND IN INDIA:

There are several models of GST, each with its own merit and demerit. A look at some of the models in circulation around the world is as under:

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²First Discussion Paper on “Goods and Service Tax in India”
- **Australian Model:** In Australia, GST is a federal tax collected by the Centre and distributed to the states. But India is a heterogeneous country and there is no chance that states may allow the Centre to collect all the taxes while they become just spending institutions.

- **Canadian Model:** The GST in Canada is dual between the Centre and the states and has three varieties:
  - Federal GST and provincial retail sales taxes (PST) administered separately-followed by the largest majority;
  - Joint federal and provincial VATs administered federally (Harmonious Sales Tax-HST); and
  - Separate federal and provincial VAT administered provincially (QST) - only for Quebec as it is a breakaway province.

- **Kelkar-Shah Model:** This model of a unified GST model which is based on a grand bargain to merge central excise, service tax and state VAT into one common base. Two different rates of tax are to be levied by the Centre and the states. The collection may be by the Centre. This is like the HST model in Canada.

- **Bagchi-Poddar Model:** This model, just like Kelker-Shahs, envisages a combination of central excise, service tax and VAT to make it a common base of GST to be levied both by the Centre and the states separately. This means that the Central Excise Act 1944 may be abolished and the goods tax may be only on the sale of goods. It may merge in the service tax.

  In India, a dual GST is being proposed wherein a Central Goods and Services Tax (CGST) and a State Goods and Services Tax (SGST) will be levied on the taxable value of a transaction. The Centre and the State will each legislate, levy and administer the Centre and State GST separately.
8.5) SALIENT FEATURES OF THE GST MODEL BEING WORKED OUT BY THE EMPOWERED COMMITTEE:

Keeping in view the report of the Joint Working Group on Goods and Services Tax and the views received from the States, a dual GST with defined functions and responsibilities of the Centre and the States is recommended. Salient features of the proposed model are as follows:

1) The GST shall have two components: One levied by the Centre (hereinafter referred to as Central GST) and the other levied by the States and Union Territories (UTs) (hereinafter referred to as State GST). Rates for Central GST and State GST should be prescribed separately, reflecting revenue considerations and are acceptable.

2) The Central GST and the State GST should be applicable to all transactions of goods and services. HSN classification for goods should be used both for the Central GST and the State GST. A classification for services should be evolved by examining international practices keeping, at the same time, in view the particular characteristics of India's services sector.

3) The Central GST and the State GST should be credited to the accounts of the Centre and states separately.

4) Since the Central GST and State GST are to be treated separately, taxes paid against the Central GST shall be allowed to be taken as input tax credit (ITC) for the Central GST could be utilized only against the payment of Central GST. The same principle will be applicable for the State GST.

5) Cross utilization of ITC between the Central GST and the State GST should not be allowed.
6) Ideally the problem related to credit accumulation on account of refund of GST, in the particular cases where input tax exceeds output tax, should be avoided both by the Centre and the States.

7) Procedures for collection of both the Central GST and State GST should be uniform.

8) Under the proposed model, the productive / distribution chain for goods with regard to manufactures having gross turnover of more than Rs. 1.5 crores would belong to both the Centre and the State. However keeping in view, the prevailing tax payer bases and the availability of the administrative machinery with the Centre and States, the remaining tax payers for goods will be assigned exclusively to the States for the purposes of registration, collection, ITC matters etc. for both the Central GST and the State GST.

9) The present thresholds prescribed in the state VAT Acts below which VAT is not applicable (which varies from state to state), may also be adopted under the GST.

10) The taxpayer would need to submit one periodical return (i.e., the same document) with one copy given to the Central GST authority, the other to the State GST authority concerned.

11) Each taxpayer should be allotted a PAN based taxpayer identification number, with two additional digits to distinguish between states and another digit to distinguish between the Central GST and the State GST, i.e., a total of 13 digits. This would bring the GST PAN based system in line with the prevailing PAN based system for Income tax, Excise duty and Service tax, facilitating data exchange and tax payer compliance.

12) Keeping in mind the need of tax payer’s convenience, functions such as assessment, enforcement, scrutiny and audit should be undertaken by the
authority which is collecting tax with information sharing between the Centre and the States.

13) Composition/Compounding Schemes for the purpose of GST should be designed keeping in view the present threshold limits followed by different states under VAT.

8.6) ISSUES TO BE DECIDED YET:

One interpretation from the First Discussion Paper of November 10, 2009 is that Octroi seems to have been kept out the GST diluting the spirit behind introduction of GST. Many experts infer that octroi, which is at present applicable on entry of goods in specified areas, may not be subsumed into GST and would continue to be levied by local bodies.

- The rates of CGST and SGST have not been specified in the discussion paper.
- Also, the probable date of implementation has also not been specified in the discussion paper. Many experts feel that the date may get postponed to April 1st, 2011 instead of the original April 1st, 2010.
- The discussion paper has not suggested any threshold limit of annual gross turnover (below which GST will not be made applicable) for Central GST on services; while the threshold limit for CGST on goods has been kept at Rs. 1.5 crore.
- The process of consensus build-up is underway on GST rates and compensation formula for possible revenue loss for states.

8.7) ADMINISTRATION OF THE TAX:

If the tax bases are successfully harmonized even with some variation in the tax rates across states, it is possible to pool the resources of the tax
administrations so as to improve tax administration. There is no significant advantage in implementing two completely disjoined tax administrations for such a tax regime. The important question, however, is to what extent can and should there be unification of administration. To begin with, it is important to understand the gains from unification or integration. Dealing with two tax administrations adds to compliance costs for the tax payer two returns, two sets of officials and potentially two audits. Some unification therefore would make the transition more acceptable. From the point of view of tax administration, the information flowing from the taxpayer to a unified administration would be more reliable than to two separate administrations. Resources can be conserved by not duplicating routine tasks like registration and returns processing.

Having made a case of some unification in administration, it is useful to discuss what extent of unification is feasible and/or desirable. In principle, it is possible to imagine a single tax administration for this new regime. The regime can be in the form of an independent revenue administration which implements the tax laws of both levels of government. Or it could be a part of either level of government which takes responsibility to collect revenues on behalf of the other and transfers the same. Such regimes exist in Canada for instance.

The minimum desirable level of integration is one covering registration, returns filling, database generation and management. This level of integration would allow the tax administrations to function efficiently and gain from each other’s expertise. A further degree of integration could be one where there is a common audit for both the taxes. This has argued earlier, would ensure that the compliance cost for the tax payer is minimized. Since the revenue interests of different tax administrations would be different. It is possible that some state governments would perceive a given case as a significant revenue risk which the
central tax administration might not. To allow for these differences, the tax departments could have the autonomy to choose cases for audit, subject to the condition that the audit would cover both taxes and would therefore apply for both levels of government. A common procedure for choosing case for audit therefore would need to be developed.

**8.8) IMPACT OF GST ON INDIA:**

It is debatable whether India Inc. is ready for a rollout of GST by April 1, 2011. The implications for India Inc. are enormous. Overall, GST is expected to reduce tax incidence for several goods and services in the country. Lesser taxes and cost means higher demand for goods and services. GST is expected to bring in uniform indirect tax system across the country which is easy to understand and implement. Its effective implementations will have beneficial impact on Indian companies in the form of lower working capital, needs better supply chain management, reduction in warehouse costs and the others. Reduced working capital requirement would result in less interest costs.

- A company, like, Maruti Suzuki is readying itself for GST rollout. The company thinks with GST, the tax incidence on their cars will come down substantially which means the car will be dearer and demand for their cars would go up.
- Tax experts are of the opinion that GST will result in reduced taxes for many goods and services.
- GST is going to change the way FMCG and other manufacturing companies do business in India. Companies have to be better prepared for its rollout and make their processes (IT, business, etc.) stronger well before GST implementation.
Industries, like, cement, aluminum, copper, VFY, telecom, FMCG suffer from not only heavy taxation but also multiple taxation and various slabs. Once GST is implemented these sectors will be relieved of the twin problems of higher and multiple-taxation. It will have a salutary impact on the operations of these companies.

The impact on FMCG sector will be from a different perspective also. After GST, the need for maintaining several warehouses across the states will be removed. This is big scope for FMCG companies to re-structure their operations, logistics and ERP systems in a big way.

In the existing regime, companies set up several warehouses in many states to avoid certain taxes. With the introduction of GST, companies need not resort to such practice of setting up warehouses in many states.

Once GST is introduced, several bottlenecks in the supply chain can be removed and companies will save substantial costs.

A corollary of the reorganization on the part of FMCG sector will be felt on the logistics sector. This entire supply chain will undergo a thorough overhaul and this will create huge opportunities, for integrated logistics players in India. The dynamics involved in this massive exercise are yet to be fully appreciated or analyzed in the investor community. However, industry veterans like, Adi Godrej, have been expressing the readiness of their companies for the GST rollout.

The implementation of GST across the Centre and States and UTs presupposes the existence of a robust information technology (IT) services. This is a great opportunity for IT and IT-related companies, especially in the medium-sized IT players.
The operations of NBFCs too will undergo as they too suffer from various forms of service taxes. It is hoped that the GST rollout will create tremendous scope for NBFCs to ease their burden of multiple taxes.

**BENEFICIARIES AFTER GST:**

The effective implementation of GST is expected to benefit the government, industry, traders, companies, end-consumers, lawyers, accountants, IT service providers, etc.

**8.9) IMPACT OF GST ON ECONOMY:**

Finance Commission, says the introduction of GST would be the single biggest measure after the elimination of licensing in 1991. In fact, this could also provide the requisite stimulus to the economy during the present economic slowdown. GST once introduced will create a common market across the length and breadth of the country. Effective implementation of a unified GST with minimum exemptions will give a fillip to the GDP growth. As per the rough estimates of Dr. Vijay Kelkar, the economic value of the GST reforms in India will to be an extent of USD 500 billion, or roughly 50% of India’s GDP. The introduction of GST is expected to have a salutary impact on total tax collections, employment and fiscal deficit. The 13th Finance Commission that was set up in November 2007 (award period: 2010-15), is reviewing the GST structure and deciding on the sharing of taxes between the Centre and States. State finances would be shaped by the recommendations of the Commission.
8.10) GST WORK AT THE GROUND LEVEL:

Table No.8.1 GST work at the ground level

<table>
<thead>
<tr>
<th>Stage of supply chain</th>
<th>Purchase value of input</th>
<th>Value addition</th>
<th>Value at which supply of goods and services made to next stage</th>
<th>Rate of GST</th>
<th>GST on output</th>
<th>Input tax credit</th>
<th>Net GST = GST on output–input tax credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturer</td>
<td>Rs. 200</td>
<td>Rs. 80</td>
<td>Rs. 280</td>
<td>10</td>
<td>Rs. 28</td>
<td>Rs. 20</td>
<td>Rs. 8 (28–20)</td>
</tr>
<tr>
<td>Wholesaler</td>
<td>Rs. 280</td>
<td>Rs. 60</td>
<td>Rs. 340</td>
<td>10</td>
<td>Rs. 34</td>
<td>Rs. 28</td>
<td>Rs. 6 (34–28)</td>
</tr>
<tr>
<td>Retailer</td>
<td>Rs. 340</td>
<td>Rs. 30</td>
<td>Rs. 370</td>
<td>10</td>
<td>Rs. 37</td>
<td>Rs. 34</td>
<td>Rs. 3 (37–34)</td>
</tr>
</tbody>
</table>

(Source: www.wikipedia.com)

As shown in the above example, let us assume a manufacturer buys raw materials at a cost of Rs. 200. While buying she pays a GST of Rs. 20 at the assumed rate of 10%. During the manufacturing process, she adds value to the tune of Rs. 80 and converts the raw material into a finished good and sells it for Rs. 280 and pays a GST of Rs. 28 on the finished product at the rate of 10%. Effectively, here her net GST would be only Rs. 8 (28 – 20) as she avails Rs. 20 as input tax credit (which she is entitled while buying raw materials). Likewise in the entire chain till retailer the same principle applies down the line. The wholesaler buys the finished product for Rs. 280 and adds value Rs. 60. And sells it for Rs. 340 to the retailer and pays GST of Rs. 34 on the product; however, the wholesaler’s net GST
would only be Rs. 6 (34 – 28) after deducting the input tax credit. In the case of retailer, he buys it for Rs. 340 and adds a value of Rs. 30 and sells it for Rs. 370 and in the process, his effective GST would be only Rs. 3 (37– 34). To put it simply, the tax payer is only paying tax on the value addition and not on the entire value of finished product; except the end-consumer.³

8.11) HOW GST WILL WORK IN MAHARASHTRA:

Generally, the dealers registered under GST (Manufacturers, wholesalers, 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. Charging Tax:

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.

³www.wikipedia.com
2. Getting 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 set off against any GST (Output) which the dealer charges on goods and services which he supplies to his customers.

3. Ultimate Burden of Tax on Last 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 cannot 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 the 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. 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.⁴

- Sectoral Composition of the State Income and GST:

The Sectoral Composition of the State Income (at current prices) in 2009-10 indicates that the share of agriculture and allied activities, industries and Service sector 10.5%, 28.9% and 60.6% respectively. During the period 1960-61 to 2010-11, the share of service sector has increased from 45.7% to 60.6%. As the share of service sector in state income has been increased. It can be said that, the revenue collection from GST will be increased if it will be implemented from the next year.

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⁴ The Chartered Accountant, April 2007(Page No. 1595)
### Table 8.2: Comparative View on VAT & GST

<table>
<thead>
<tr>
<th>Sr. No</th>
<th><strong>Meaning</strong></th>
<th><strong>VAT</strong></th>
<th><strong>GST</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Value Added Tax is a general consumption tax assessed on the value added to goods.</td>
<td>GST is a tax on goods and services with comprehensive and continuous chain of set-off benefits from the producer’s and service provider’s point up to the retailer’s level.</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Charging Tax</td>
<td>Manufacturers, Wholesalers and Retailers</td>
<td>Manufacturers, Wholesalers and Retailers, Service Providers</td>
</tr>
<tr>
<td>3</td>
<td>Getting Credit</td>
<td>Registered dealer will claim a credit for the amount of VAT he has paid, provided he holds a proper tax invoice.</td>
<td>Registered dealer will claim a credit for the amount of GST he has paid, provided he holds a proper tax invoice.</td>
</tr>
<tr>
<td>4</td>
<td>Burden of Tax on Last Consumer</td>
<td>Dealers charge VAT but do not keep it and pay VAT but get a credit for it. This means that they act essentially as collecting agents for the Government.</td>
<td>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.</td>
</tr>
<tr>
<td>5</td>
<td>Registration</td>
<td>Register for VAT Manufacturers, Suppliers,</td>
<td>Manufacturers, Wholesalers and</td>
</tr>
</tbody>
</table>

**Note:** The table provides a comparative view on Value Added Tax (VAT) and Goods and Services Tax (GST) highlighting their meaning, charging tax, getting credit, burden of tax on last consumer, and registration requirements.
<table>
<thead>
<tr>
<th></th>
<th>Wholesalers and Retailers</th>
<th>Retailers, Service Providers</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td><strong>Tax Period</strong></td>
<td>On a particular tax period, which is applicable to the dealer</td>
</tr>
<tr>
<td></td>
<td></td>
<td>On a particular tax period, which is applicable to the dealer</td>
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<tr>
<td>7</td>
<td><strong>Refund</strong></td>
<td>If for a tax period, the input credit of a dealer is more than the output credit then he is eligible for refund</td>
</tr>
<tr>
<td></td>
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<tr>
<td>8</td>
<td><strong>Exemption</strong></td>
<td>Commodities are exempted</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Goods and services are exempted</td>
</tr>
<tr>
<td>9</td>
<td><strong>Export</strong></td>
<td>Export of commodities are zero-rated and in that case the VAT paid by the exporters of these goods and services is refunded</td>
</tr>
<tr>
<td></td>
<td></td>
<td>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</td>
</tr>
<tr>
<td>10</td>
<td><strong>Tax Invoice</strong></td>
<td>Tax invoice is the basic and important document in the VAT and a dealer registered under VAT can issue a tax invoice and on the basis of this invoice the credit can be claimed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>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 can be claimed</td>
</tr>
</tbody>
</table>
8.12) MERITS OF GST:

- Only the incremental value added at each stage of value addition gets taxed.
- The producer gets input tax credit except at the hands of the final consumer.
- It avoids tax on tax and tax incidence is reduced for all players involved.
- It reduces transaction costs for tax payers benefiting the traders and industry.
- More players will come under tax net as it gets widened with GST ensuring better compliance.
- Due to the input tax credits, the prices for end-consumers may come down as traders and service providers may pass on the benefit of lower taxes to end-users.
- GST may cleanse the present tax system of red tape, delays, corruption and leakages.
- The effective rollout of GST is expected to usher in a single and common market across the country.\(^5\)

8.13) PRE–REQUISITES FOR SUCCESSFUL IMPLEMENTATION OF GST:

The following are the pre-requisites for an effective rollout of GST:

- It needs to have minimum number of GST rates and minimum exemptions so as to achieve widest possible tax base.
- The rates of CGST and SGST are needed to be moderate.
- The rates of tax of SGST and exemptions from SGST are uniform throughout the country.

\(^5\) “Vikrikar Darpan” June 2009 Sales Tax Department
- The input credit chain is seamless, covering the entire value chain from manufacturing to retail without breaks regardless of whether goods or services are supplied within a State or across State boundaries.
- The tax treatment of goods and services is similar.
- The Central and State levies are fully neutralized in the case of exports (out of India).
- The procedures are simple and harmonized between the Centre and the States.
- Removal of distorting state taxes such as entry tax, octroi and high stamp duties etc. by subsuming them in the GST.
- Amongst the administrative actions that are critical for the success of GST is the creation of a strong Information Technology Infrastructure both for the Centre and the States.

8.14) Hurdles in Implementation of GST in India:

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. A harmonized, integrated and fully fledged GST calls for the following hurdles in its successful implementation in India:

- Implementation of GST calls for effecting widespread amendments in the Constitution and the various constitutional entries relating to taxation. In the current scenario, it is difficult to visualize 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.

- Services have to be appropriately integrated in the tax network.
- One of the other major issues concerned is the appropriate designing and structuring of GST in India. The issue involved includes, how the issue of inter-state movement of goods and services may be addressed, taxes on services originating in one state and being consumed in other state etc.
- Another contentious issue that 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 see as also the basis of their devolution.
- Finally 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.

8.15) GST–EXPECTATIONS:

1. Withdrawal of Check Post
2. Limited number of rates of taxes
3. Abolition of Works Contract Tax
4. Input Tax credit may be available on Invoice system like CENVAT and VAT
5. Adjustment of Input tax credit on Central GST against output tax of State GST and Vice versa
6. Cross utilization of credits between Goods and Services
7. Carry forward of accumulated Input Tax Credit (VAT) and CENVAT Credit under GST system on the day of introduction of GST
8. Exporters may be allowed to procure materials without payment of GST—Abolition of Refund System.

9. Existing exemptions be continued;

10. The tax benefits already enjoying by the EOU, SEZ and Software Technology Park would continue to be available in the GST regime as well.

11. All area based exemptions schemes already in force may be converted into post-tax cash refund schemes.

12. Introduction of self-assessment system under dual GST

13. Single Return system to cover both Central and State GST.

14. Simple legislation for both State GST and Central GST—Uniform legislation for State GST

15. Special Additional Duty (SAD) on imports may be replaced by State GST and Central GST

16. **Dispute Resolution:** The disputes with regard to questions of facts at the first stage may be undertaken by the respective authority. Further stages of appeal and issues relating to questions of law may be dealt with by a joint entity comprising the Centre and states. This would ensure uniformity and fairness in decision making.

17. Units in Special Economic Zones may be relieved of the burden of all embedded taxes, whether central or states. Supplies made to SEZ units may also be kept outside the purview of GST.

18. There should be a common and uniform threshold limit of exemption for small tax payers applicable to all states.

19. There should be a common and uniform threshold limit of exemption for availing composition scheme amongst all states.

20. The authority to amend the common exempted list and the common composition scheme, uniform threshold limit may be rest with a joint
authority of Central and State Governments to ensure that no single State or Central Government amends either to these unilaterally.

21. There should be a common and uniform list of exempted goods.

22. Octroi and Entry tax should be brought within the ambit of GST.

23. Taxes on Tobacco products should be subjected to GST with Input Tax Credit facility.

24. Alcoholic beverages should be brought under GST with ITC benefits. Petroleum products should be subjected to GST with ITC benefits. If there is specific administrative problem, all products excepting Crude, Motor spirit and HSD, all petroleum products including ATF should be brought within the limit of GST.

8.16) EFFECTIVE DATE OF GST ROLLOUT:

Government of India originally proposed to introduce the new tax system from April 1, 2010. The Finance Minister had expressed government’s commitment to implement the GST regime, however, due to some practical difficulties which are yet to be addressed the Finance Minister reinforcing his commitment to bring the regime but due to issues raised by some of the state governments pertaining to compensation for the revenues, the states which may have to forego as a result of the rollout of GST. However, some experts are suggesting the implementation date may get postponed till April 1st, 2012 due to various reasons. Even the Union Finance Minister, some days back, hinted at the possibility of a postponement by a few months.

8.17) EXPERIENCE OF GST IN OTHER COUNTRIES:

More than 150 countries have introduced GST in some form. It has been a part of the tax landscape in Europe for the past 50 years and is fast
becoming the preferred form of indirect tax in the Asian-Pacific region. It is interesting to note that there are over 40 models of GST currently in force, each with its own peculiarities. Goods and Service Tax is a Consumption Based Destination Tax. France was the first country which introduced a comprehensive goods and service tax Regime in 1954.

In Australia, the GST (Goods and Service tax) is 10% on most of the goods and Services transaction. It replaced the previous Federal wholesale system and designed to phase out a number of various States and Territory Government taxes, duties and levies such as banking taxes.

While countries, such as Singapore and New Zealand tax virtually everything at a single rate, Indonesia has five positive rates, a zero rate and over 30 categories of exemptions. Goods and Services Tax (GST) was introduced in Singapore on 1st April 1994, at a low rate, i.e., 3%. At the present time the rate of tax of GST in Singapore is 7% since 1st July 2007.

At the same time, it must be noted that GST is a more structured and transparent form of indirect taxation. It has proven itself as the most efficient and effective method of providing revenues that government need, while encouraging economic growth and efficiency.\(^6\)

**8.18) CONCLUSION:**

The implementation of GST in India in the form of a comprehensive Value Added Tax is contingent on several key decisions. While there is clarity that the tax would be in the form of a dual VAT is the only detail about the tax that is available in the public domain. Presuming that the country is going to witness

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\(^6\) [www.google.com](http://www.google.com)
considerable tax reform, it is only fair on the taxpayers that the details are worked out well in advance so that preparations for a smooth transition can be made.

Various numbers of Indirect type of taxes presently being levied by Central Government and State Government. The proposed date of Introduction of GST has been announced by the Government to be 1st April, 2011. Till now Government has not yet issued any Draft of GST model or various provisions to be applied, all we can do is to wait for the Draft to release. Till then we can only predict the outlook of the GST model in India and nothing can be said with utmost certainty.
References:

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3) www.wikipedia.com

4) The Chartered Accountant, April 2007 (Page No. 1595)

5) “Vikrikar Darpan” June 2009, Sales Tax Department

6) www.google.com