

Goods and services tax



GST:

Goods and Services Tax (GST) is part of the proposed tax reforms that centre round evolving an efficient consumption tax system in the country.

Presently, there are parallel systems of indirect taxation at the central and state levels.

In the Union Budget for the year 2006-2007, Finance Minister proposed that India should move towards national level Goods and Services Tax that should be shared between the Centre and the States. He proposed to set April 1, 2010 as the date for introducing the goods and service tax (GST).

GST is proposed to be an indirect tax levied on manufacture, sale and consumption of goods and services at a national level concurrently by Central and State Governments. This Integration of goods and services taxation would end the distortions of differential taxation treatments of manufacturing and service sector.

The Central and State governments both charge a multitude of indirect taxes at present. The Central government charges tax Customs duty, Excise duty, Central sales tax (CST) and Service tax. The State governments charge Sales tax or Value Added Tax (VAT), Entry tax, Octroi, Stamp duty and taxes on transportation of goods and services. The introduction of goods and services tax will lead to the abolition of these taxes. This will eliminate effect of multiple taxation layers.

The first step towards introducing GST is to progressively converge the service tax rate and the CENVAT rate at the same tax rate. It aims to replace Service tax, CENVAT and VAT from April, 2010. For this, the parallel taxation

<https://assignbuster.com/goods-and-services-tax-essay-samples/>

system needs to be reformed to introduce the goods and service tax. Excise duty and VAT have multiple rates as present. The central excise duty should be converted into a manufacturing stage VAT on goods and services and the states sales tax systems should be transformed into a destination based VAT so that the two can be integrated. The rate of central sales tax (CST) has been decreased to 2 per cent. The general rate of central value added tax (CENVAT) has been decreased from 16 per cent to 14 per cent across all goods.

With the advent of the GST, the statute on services and for goods will be framed such that there will be mutual exclusivity and hence the problem of double taxation will be obviated. Therefore, the problem of double taxation present now will change to single transaction to both the goods tax and the service tax.

Another significant benefit of GST would be reduction in disputes on categorisation and classification of services as presently services are not uniformly classified. Under GST, it is likely that all services will be similarly taxed except a few essential public services.

GST is expected to provide a significant boost to investment and growth of the economy and will have a far reaching impact on virtually all aspects of businesses operating in the country. The GST is proposed to apply to both goods and services, covering virtually all sectors and industries. It will replace the complex system of levies on goods and services at the Central and State levels.

GST will not only bring simplicity in the tax structure, but also increase compliance. This will help broaden the tax base and consequently increase overall revenue. However, introduction of GST in India would require a redistribution of taxation powers amongst the Centre and States, which is a huge challenge.

The Goods and Services Tax has already been introduced in few countries like Canada, Australia, New Zealand, and Singapore.

New Zealand first introduced the GST in the year 1986 at the rate of 10% which was further increased to 12.5% in 1989. End users pay this tax on all liable goods and services directly, in that it is included in the purchase price of goods and services. GST registered organizations only pay GST on the difference between GST-liable sales and GST-liable supplies (ie pay GST on the difference between what they sell and what they buy: income less expenditure). Unlike most similar taxation regimes, there are few exemptions – all types of food are taxed at the same rate, for example. Exceptions that are present include rents collected on residential rental properties, donations and financial services.

The Canadian Goods and Services Tax is a multi-level tax introduced in Canada on January 1, 1991. The GST replaced a hidden 13.5% Manufacturers' Sales Tax (MST) which hurt the manufacturing sector's ability to export. The introduction of the GST was very controversial. As of January 1, 2009, the GST rate across all Canadian provinces is 5%. The tax is a 5% tax imposed on the supply of goods and services that are made in Canada, except certain items that are either "exempt" or "zero-rated". Common

zero-rated items include basic groceries, prescription drugs, inward/outbound transportation and medical devices.

In Australia the GST is levied at 10% on most goods and services transactions. It was introduced on 1 July 2000, replacing the previous Federal wholesale sales tax system and designed to phase out a number of various State and Territory Government taxes, duties and levies such as banking taxes and stamp duty. Critics have argued that the GST is a regressive tax, which has a more pronounced effect on lower income earners, meaning that the tax consumes a higher proportion of their income, compared to those earning large incomes. The preceding months before the GST became active saw a spike in consumption as consumers rushed to purchase goods that they perceived would be substantially more expensive with the GST. Once the tax came into effect, consumer consumption and economic growth declined such that by the first fiscal quarter of 2001, the Australian economy recorded negative economic growth for the first time in more than 10 years. Consumption soon returned to normal however.

GST was introduced in Singapore on April 1, 1994, at 3%, but later increased to 4% on 1 January 2003, and 5% on 1 January 2004. It was raised again to 7% on 1 July 2007. Singapore's GST is a broad-based consumption tax levied on import of goods, as well as nearly all supplies of goods and services. The only exemptions are for the sales and leases of residential properties and most financial services. Export of goods and international services are zero-rated.

Hong Kong government recently failed to introduce the Goods and Services Tax. It was proposed in 2006 and stirred a lot of controversy. It launched a fierce debate amongst local taxpayers, lawmakers, journalists, politicians, who hotly debated the need for the tax, and the shape any taxes should take. The Government argued that Hong Kong's tax base was narrow; thus, a single-rate GST was a viable option for Hong Kong in order to broaden the tax base and secure the sustainability of tax revenues base and the capacity to meet public expenditure needs in the long run. However it was doubtful that the people with not high income could pay this very high tax which helped the opposition to gain popular support in protesting against the implementation of GST. The plan to levy GST was dropped in the same year.

The implementation of GST in India is also going to have its own challenges & problems. We should not forget our experience with introduction of Value Added Tax, which in itself was a complex and challenging task. VAT covered only goods but GST will cover both goods and services. Therefore, VAT covered less than 50 per cent of our economic activity; GST will ultimately embrace almost the entire spectrum of our economic activities. Hence, GST will have twice the reach and complication of VAT.

Setting GST rates is also a fundamental challenge. The big question here is whether the GST rate on goods at the federal and state levels ought to be a single or a multiple one. It is most likely that the GST on goods would comprise at least of two nominal rates and a zero rate would also be present for exports and for specified goods. It would, thus, be a three-rate structure, at the least. Hence, adding to complexity. With regard to the federal and the state GST rate on services, the GST rate on services will be at par with that

on goods. Given that there is no state service tax at the moment, this would mean a significant enhancement in the aggregate incidence of taxation of services.

Another challenge is with regard to the statute. The GST law needs to be written from first principles and the present indirect tax laws such as the Central Excise Act, 1944, the Finance Act, 1994 as well as various state VAT Acts need to be replaced by a new legislation relating to the GST. In addition, various amendments/modifications to the Constitution would also be required, based on the particular dual GST model that will be finally adopted. Given the time frame available, this looks like a daunting task.

In GST, the taxation of inter-state supplies of goods and services will also be a key challenge. Since after GST, present excise & VaT taxes will become irrelevant, It would be essential to draw up comprehensive rules for identifying the time and the place of ‘supplies’ of goods and services in order to tax them appropriately. The problem is limited to the state GST on such inter-state supplies since the federal GST would, in any event, be charged and collected by the federal government. Since the Central Sales Tax, which is relevant for inter-state sales of goods, is scheduled to go down to zero with the introduction of the GST, and since there is presently no service tax at the state level, the final model of taxation of inter-state supplies of goods and services under the GST would need to evolve through a mature give-and-take approach between the Centre and the states in the EC. This consensual approach is key to resolve this issue.

GST has been criticized for taking larger share of income from households & small businesses. Consequently, it is the universal practice to not extend the GST to taxpayers below a certain size. Hence, a key decision needs to be taken with respect to the threshold of turnover for dealers which would determine the cut-off for inclusion within the ambit of the GST. In India, this discussion is made complex because of the present varying levels of exemption threshold that exist under the federal excise and service tax as also under the state VAT regimes. The relevant threshold under excise is Rs 1.5 crore and that under service tax is Rs 10 lakh. As regards the state VAT, varying threshold exist ranging from Rs 10 lakh to Rs 20 lakh. Also, the fact remains the final decision on threshold will inevitably be influenced by political compulsions.

It is, by now, quite clear that a successful implementation of the dual GST is based on substantive IT capability both at the tax administration level and at the taxpayer level. While efforts are going on to implement an all-India VAT data exchange and validation model called the TINSYS, significant additional investment required in either scaling up this system to cater to the GST or, alternatively, to put in place an entirely independent IT infrastructure to administer the tax.

Finally, since the dual GST is considerably different from the present indirect tax regime, a massive training initiative would be required at both federal and state levels to familiarize the respective administrations with the concepts and procedures of the dual GST. The knowledge and awareness of the GST, at both federal and state levels, at the staff and operational levels

at present is almost non-existent and the challenge in regard to training is, thus, perhaps the most formidable of all that have been discussed here.

Therefore, while it is now universally acknowledged and recognized that the GST, in whatever form, should be introduced at the earliest as a fundamental fiscal reform measure, it appears unlikely that the dual GST will be introduced by April 2010. If we are really serious about the April 2010 deadline, policy makers, as also the tax administrations at the federal and state levels, need to be immediately put into action under a clearly laid-out timetable for implementation.