

GOODS AND SERVICE TAX MECHANISM - AT A GLANCE

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Introduction

The present structure of indirect taxes is that Central Government is empowered to impose Excise Duty on manufacture and Service Tax on value of services. State Government is empowered to levy sales tax on sale of goods. Even in case of Central Sales Tax (CST), the revenue goes to State Government. Thus, presently, Central Government cannot impose tax on goods beyond state of manufacture. State Government cannot impose tax on services. The present structure of Indirect Taxes is based on three tests such as List I Union List, List II - State List, List - III - Concurrent List as contained in seventh schedule of Indian Constitution

In India the vast historical changes in this Indirect tax system at August 2016, that is the Goods and Service Tax Bill will get panel in Rajya Sabha in monsoon session of Parliament. The Bill has to be passed by Rajya Sabha with two-third majority and by fifty percent of the total strength of members of that house. After that, it should be ratified by at least fifteen State Legislatures.

Objective of the Study

- To study the theoretical background of Goods and Service Tax.
- To analyze the Tax Mechanism of Goods and Service Tax

Methodology

In this research article based on Secondary sources such as various Books, Journals, and Websites does not considered Primary sources.

Meaning of Goods and Service Tax

Goods and Service Tax means a tax on supply of goods or services, or both, except taxes on supply of alcoholic liquor for human consumption [Proposed Article 366 (12A)] of Constitution of India.

(Note: That the word used is 'supply' and not 'sale'.)

'Services' means anything other than goods. [Proposed Article 366(12A)] of Constitution of India.

Four Tier Goods and Service Tax (GST) Structure

Moving swiftly on the road to formalizing the biggest reform of the Indirect tax regime, the GST Counsel on November 3, 2016, decided a four tier Goods and Service Tax

structure of 5 percent, 12 percent, 18 percent and 28 percent, with Zero rate for essential items and the highest for luxury and demerits goods which are also expected to attract an Additional Cess.

Another rate of zero percent is decided to cover the essential items including food, which presently constitute roughly half of the consumer inflation basket. Luxury cars, tobacco, pan masala and aerated drinks would also be levied with an additional cess on top of the highest tax rate. The interest of common man has been duly taken care of which is evident from finalization of 5 percent tax rate on common use items, as against 6 percent proposed earlier. However, no clarity has been provided by Goods and Service Tax (GST) Counsel regarding the expected GST Rate for Jewellery.

Expected Rates of Goods and Service Tax (GST)

SGST plus CGST Total Rate % [The same rate for IGST]	Goods and Services
0	Natural and un-processed produces in unorganized sector, goods having social implications e.g. national flag and items which are legally barred from taxation (e.g. newspapers).
0	Basic education services, medical services, statutory activities of Government, Services in present negative list, Infrastructure related services, Personal services.
0	Export of goods and services, Services provided to SEZ.
2 %	Gold and silver ornaments, precious and semi-precious stones.
10 %	Goods of basic necessities (including medicines and drugs), all industrial and agricultural inputs and capital goods. Goods and passenger transport services.
Around 18 %	Normal rate on all goods and services, other than those mentioned elsewhere.
Goods and Services without restrictions on rate	Cigarettes, other tobacco products, lottery tickets, luxury services, entertainment, betting and gambling.
Will be brought in GST at a later stage	Aviation Turbine Fuel (ATF) and petroleum products (petrol, diesel and motor spirit)
Out of GST	Alcoholic Liquor.

Sources: *Guide to GST Model Law, Taxmann Publications, June 2016.*

CGST and IGST rates will be common all over India. However, SGST rates will be decided by each State and will vary from State to State.

GST Rates in Other Countries

In Europe, the EU VAT System is regulated by various European Union (EU) Directives. The most important is Sixth VAT directive. GST was introduced in Singapore in

April, 1994. Initially, the rate was 3 percent. GST rate is 7 percent in Singapore with effect from 1st July 2007. GST rate in Japan is 5 percent. In New Zealand, GST was introduced in October, 1986. The rate with effect from October 2010 is 15 percent.

Dual Goods and Service Tax (GST)

There will be dual GST such as,

- State Goods and Service Tax (SGST)
- Central Goods and Service Tax (CGST)

Proposed Article 246(A) of Constitution of India.

Both CGST and SGST will be on supply of goods and services within the state.

SGST and CGST will be on same value. There will be on tax on tax as at present, that is SGST will be payable on Net Value with and addition of CGST in the value. Amount payable on SGST/CGST, but paid as Integrated Goods and Service Tax and Vice Versa. There can be situation where amount payable as SGST/CGST but paid as IGST and Vice Versa. In such cases provision for refund has been made, which is quite clumsy. There should be provision for adjustment among Central and States.

Principle of Input Tax Credit: Goods and Service Tax (GST) is consumption based tax, that is tax will be payable in the State in which Goods and Services are to be consumed. Goods and Service Tax (GST) will work at VAT principle, that is Input Tax credit of taxes paid on input goods and services and capital goods will be available. That credit can be utilized for payment of taxes on output goods or services.

Exemption Limit of Goods and Service Tax (GST): At its initial meeting held on 22nd, 23rd September 2016, GST Counsel decided that the basic threshold exemption limit may be upheld at Rs.10,00,000/- for North Eastern States and Rs.3,00,000/- for all other States as against the limit mentioned earlier in the draft model GST Law as Rs..5,00,000/- for North Eastern States and Rs.10,00,000/- for all other States.

Conclusion

One Nation - One Tax System would be followed through Goods and Service Tax Act. In this Act, invite, support and promote the corporate, foreign and multinational companies to start the business in our country. Government of India earned a sufficient tax earned from GST, and it's helpful to avoid the tax evasion problem. The tax payers and tax assessors faced some problems for computing and understanding in previous provisions this problems are rectified with help of Goods and Service Tax (GST).

Reference

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