

## GST with multiple tax rates – boon or bane?

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### Introduction:-

- **GST** is a very important tool for the purpose of tax collection because it is a very dynamic concept which is also accepted by many large numbers of countries and now in INDIA , time comes when it is very necessary to decide for implementation of this tax system.
- On the other hand we can say that **GST** means **ONE TAX FOR ALL** it means there is no need various type of taxes on any goods and services.
- Goods and service tax is unified tax system in so many countries it means a **single tax rate is required** all over the country

### Goods and Services Tax (GST):-

- The Goods and Services Tax (GST) is an unified and single tax administration across the nation on Goods and Services. Under the GST system tax levied only on the value of the goods and services added at each stage. It is a single tax system collected at multiple points.
- The Goods and Services Tax (GST) came into effect from first of July 2017 with 101st amendment by the Government of India.

### Constitutional Amendment:-

While the Centre is empowered to tax services and goods upto the production stage, the States have the power to tax sale of goods. The States 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. Thus, the Constitution does not vest express power either in the Central or State Government to levy a tax on the 'supply of goods and services'. Moreover, the Constitution also does not empower the States to impose tax on imports. Therefore, it is essential to have Constitutional Amendments for empowering the Centre to levy tax on sale of goods and States for levy of service tax and tax on imports and other consequential issue

**What is GST?****‘G’ – Goods****‘S’ – Services****‘T’ – Tax**

“Goods and Service Tax (GST) is a comprehensive tax levy on manufacture, sale and consumption of goods and service at a national level under which no distinction is made between goods and services for levying of tax. It will mostly substitute all indirect taxes levied on goods and services by the Central and State governments in India.

GST is a tax on goods and services under which every person is liable to pay tax on his output and is entitled to get input tax credit (ITC) on the tax paid on its inputs (therefore a tax on value addition only) and ultimately the final consumer shall bear the tax”.

**OBJECTIVES OF GST:-**

One of the main objective of Goods & Service Tax (GST) would be to eliminate the doubly taxation i.e. cascading effects of taxes on production and distribution cost of goods and services. The exclusion of cascading effects i.e. tax on tax till the level of final consumers will significantly improve the competitiveness of original goods and services in market which leads to beneficial impact to the GDP growth of the country. Introduction of a GST to replace the existing multiple tax structures of Centre and State taxes is not only desirable but imperative. Integration of various taxes into a single system would make it possible to give full credit for inputs taxes collected. GST, being a destination-based consumption tax based on VAT principle.

**Worldwide GST:**

France was the first country to introduce GST in 1954. Worldwide, Almost 150 countries have introduced GST in one or the other form since now. Most of the countries have a unified GST system. Brazil and Canada follow a dual system vis-à-vis India is going to introduce. In China, GST applies only to goods and the provision of repairs, replacement and processing services. GST rates of some countries are given below:-

| <u>Country</u> | <u>Rate of GST</u> |
|----------------|--------------------|
| Australia      | 10%                |
| France         | 19.6%              |
| Canada         | 5%                 |
| Germany        | 19%                |
| Japan          | 5%                 |
| Singapore      | 7%                 |
| New Zealand    | 15%                |

### Rate of GST:-

There would be two-rate structure – a lower rate for necessary items and items 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. For goods in general, government is considering pegging the rate of GST from 20% to 23% that is well above the global average rate of 16.4% for similar taxes, however below the revenue neutral rate of 27%.

### Model of GST with example:

- The GST shall have two components: one levied by the Centre (referred to as Central GST or CGST), and the other levied by the States (referred to as State GST or SGST). Rates for Central GST and State GST would be approved appropriately, reflecting revenue considerations and acceptability.
- The CGST and the SGST would be applicable to all transactions of goods and services made for a consideration except the exempted goods and services.
- Cross utilization of ITC both in case of Inputs and capital goods between the CGST and the SGST would not be permitted except in the case of inter-State supply of goods and services (i.e. IGST).
- The Centre and the States would have concurrent jurisdiction for the entire value chain and for all taxpayers on the basis of thresholds for goods and services prescribed for the States and the Centre.

### **GST Regime:-**

GST is one of the biggest indirect tax reforms in the country. GST is expected to bring together state economies and improve overall economic growth of the nation.

GST is a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. It will replace all indirect taxes levied on goods and services by states and Central.

There are around 160 countries in the world that have GST in place. GST is a destination based tax where the tax is collected by the State where goods are consumed. India is going to implement the GST from July 1, 2017 and it has adopted the Dual GST model in which both States and Central levies tax on Goods or Services or both.

**SGST** – State GST, collected by the State Govt.

**CGST** – Central GST, collected by the Central Govt.

**IGST** – Integrated GST, collected by the Central Govt.

### **Need for GST in India:-**

Introduction of GST is considered to be a significant step in the reform of indirect taxation in India. Amalgamating of various Central and State taxes into a single tax would help mitigate the double taxation, cascading, multiplicity of taxes, classification issues, taxable event, and etc., and leading to a common national market.

VAT rates and regulations differ from state to state. On the other hand, GST brings in uniform tax system across all the states. Here, the taxes would be divided between the Central and State government.

### **REASON BEHIND GST**

- In India there are strict rules and regulations regarding taxation system and union government have much more laws regarding the imposition of taxes which are different type of taxes which will be more difficult to calculate.
- In India there is no uniformity in taxation laws which show that there is lot of multiplicity of indirect taxes which results so much complex situation for collection in

tax.

### **GST COUNCIL:-**

**As per Article 279A of the amended Constitution, the GST Council which will be a joint forum of the Centre and the States shall consist of the following members: -**

**(a)** Union Finance Minister - Chairperson

**(b)** The Union Minister of State, in-charge of Revenue of finance - Member

**(c)** The Minister In-charge of finance or taxation or any other Minister nominated by each State Government - Members

As per Article 279A (4), the Council will make recommendations to the Union and the States on important issues related to GST, like the goods and services that may be subjected or exempted from GST, model GST Laws, principles that govern Place of Supply, threshold limits, GST rates including the floor rates with bands, special rates for raising additional resources during natural calamities/disasters, special provisions for certain States, etc.

Other Benefits of Goods And Services Tax:

- Will prevent cascading of taxes as Input Tax Credit will be available across goods and services at every stage of supply.
- Harmonization of laws, procedures and rates of tax.
- More efficient neutralization of taxes especially for exports thereby making our products more competitive in the international market and give boost to Indian Exports.
- Improve the overall investment climate in the country which will naturally benefit the development in the states.
- Average tax burden on companies is likely to come down which is expected to reduce prices and lower prices mean more consumption, which in turn means more production thereby helping in the growth of the industries . This will create India as a “Manufacturing hub”.
- Will improve environment of compliance as all returns to be filed online, input credits to be verified online, encouraging more paper trail of transactions.

- Common procedures for registration of taxpayers, refund of taxes, uniform formats of tax return, common tax base, common system of classification of goods and services will lend greater certainty to taxation system.
- Timelines to be provided for important activities like obtaining registration, refunds, etc.
- GST will be beneficial with more transparency, efficient compliance, ramp up in GDP growth to the Centre, states, industrialists, manufacturers, the common man and the country at large.

### **Models of GST (India):-**

#### **Goods and Services Tax (GST) consist of three prime models-**

- (a) Central Goods and Services Tax (CGST) Goods and Services Tax (GST) to be levied and collected by centre.
- (b) State Goods and Services Tax (SGST) Goods and Services Tax (GST) to be levied and collected by state.
- (c) Integrated Goods and Services Tax (IGST) The tax is levied on any supply of goods and/or services in both cases of import into India and export from India. Under this, exports would be rated zero and the tax distributed between the Central and State Government.

### **Rate(s) of GST (India)**

#### **▪ On Goods-**

Goods have been organized rate-wise in List I to VII which are as follows –

- i. LIST I: LIST OF GOODS AT NIL RATE.
- ii. LIST II: LIST OF GOODS AT 0.25% RATE.
- iii. LIST III: LIST OF GOODS AT 3% RATE.
- iv. LIST IV: LIST OF GOODS AT 5% RATE.
- v. LIST V: LIST OF GOODS AT 12% RATE.
- vi. LIST VI: LIST OF GOODS AT 18% RATE.
- vii. LIST VII: LIST OF GOODS AT 28% RATE.

▪ **On Services-**

Services have been organized rate-wise in List I to V which are as follows-

- i. LIST OF SERVICES AT NIL RATE
- ii. LIST OF SERVICES AT 5% RATE
- iii. LIST OF SERVICES AT 12% RATE
- iv. LIST OF SERVICES AT 18% RATE
- v. LIST OF SERVICES AT 28% RATE

**GST with multiple tax rates – Is boon or bane.**

GST is a revolutionary step taken by the Government of India to fulfill the loop holes in the earlier taxation system.

**Advantages of GST-**

**Citizens:**

- a) Simpler and easy tax system.
- b) Fall in prices of goods and services.
- c) Uniform prices throughout the country.
- d) A clear taxation system.
- e) Increase in employment opportunities.

**Trade and Industry:**

- a) Deduction in multi-level of taxes.
- b) Mitigation of dual taxation system.
- c) More efficient system mainly for exports.
- d) Growth of common national market.
- e) An easier and simpler tax regime.

**Central/State Governments:**

- (a) A unified common national market to boost Foreign Investment and “Make in India” campaign
- (b) Boost to export/manufacturing activity, generation of more employment, leading to reduced poverty and increased GDP growth
- (c) Improving the overall investment climate in the country which will benefit the development of states Uniform SGST and IGST rates to reduce the incentive for tax evasion
- (d) Reduction in compliance costs as no requirement of multiple record keeping

### **Dis-advantages of GST-**

- VAT and Service tax on some products may be higher than the current levels. A rise in overall prices has been experienced in many countries when GST is implemented.
- Most of the developed economies use a single GST and not a dual GST. A dual system in India, will be very complicated.
- Since the mechanism is still complicated, it cannot completely eliminate black money and tax evasion.
- In a country like India, with huge inequalities of income, a uniform tax rate would spell disaster for small businesses which are exempt from tax in current regime, leading to their eventual shut down.

### **Conclusion:-**

Thus we can conclude that, GST is worldwide accepted system. GST is framed with the object to eliminate the cascading effects of tax in India and upward the tax base. It will be beneficial for the growth of the country. It can also be said that there shall be dual effect of GST both gain and loss. But only well-designed and planned GST is the best way to get rid of distortions of the existing process of multiple taxation.