

Acc 2N5 - Goods and Services Tax

SYNOPSIS

One country one tax

- Dual government
- Integrated tax

Characteristics of Goods and Services Tax

Advantages of GST

Constitutional power for GST

One Country One Tax

GST is a destination-based tax on consumption of goods and services. It is proposed to be levied at all stages right from manufacture up to final consumption with credit of taxes paid at previous stages available as setoff. In a nutshell, only value addition will be taxed and burden of tax is to be borne by the final consumer. The concept of destination based tax on consumption implies that the tax would accrue to the taxing authority which has jurisdiction over the place of consumption which is also termed as place of supply.

Dual government: GST has a dual aspect with the Centre and States simultaneously levying on a common tax base. There are three main components of GST which are CGST, SGST, IGST. CGST means Central Goods and Services Tax. Taxes collected under CGST will constitute the revenues of the Central Government. The present central taxes like central excise duty, additional excise duty, special excise duty, central sales tax etc., will be subsumed under CGST. SGST means State Goods and Services Tax. A collection of SGST is the revenue of the State Government. With GST all state taxes like VAT, entertainment tax, luxury tax, entry tax etc, will be merged with GST. For

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example, Ramesh a dealer in Punjab sell goods to Seema in Punjab worth Rs 10,000. If the GST rate is 18%, i.e., 9% CGST and 9% SGST, Rs 900 will go to Central Government and 900 will go to Punjab Government.

**Integrated tax:** IGST means Integrated Goods and Services Tax. Revenue collected under IGST is divided between Central and State Government as per the rates specified by the Government. IGST is charged on transfer of goods and services from one state to another. Import of goods and services are also covered under IGST. For example, if the goods are transferred from Madhya Pradesh to Rajasthan then this transaction will attract IGST. Let's extend the above example to understand SGST. If Ramesh in Madhya Pradesh sell goods to Anand in Rajasthan worth Rs 1,000,000. Applicable GST rate is 18% i.e., 9% CGST and 9% SGST. In this case, the dealer will charge 18,000 as IGST and will go to the Central Government.

### **Characteristics of Goods and Services Tax**

- 1) GST is a common law and procedure throughout the country under single administration.
- 2) GST is a destination based tax and levied at a single point at the time of consumption of goods and services by the end consumer.
- 3) GST is a comprehensive levy and collection on both goods and services at the same rate with benefit of input tax credit or subtraction of value.
- 4) Minimum number of rates of tax does not exceed two.
- 5) There is no scope for levy of cess, resale tax, additional tax, turnover tax etc.

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- 6) There is no multiple levy of tax on goods and services, such as sales tax, entry tax, octroi, entertainment tax or luxury tax etc.

### **Advantages of GST**

- 1) Introduction of GST has resulted in the abolition of multiple types of taxes in goods and services.
- 2) GST widens the tax base and increased revenue to Centre and State thereby reducing administrative cost for the Government.
- 3) GST has reduced compliance cost and increases voluntary compliance.
- 4) GST has affected rates of tax to the maximum of two floor rates.
- 5) GST has removed the cascading effect on taxation.
- 6) GST will result in enhancing manufacturing and distribution system affecting the cost of production of goods and services and consequently the demand and production of goods and services will increase.
- 7) It will eventually promote economic efficiency and sustainable long term economic growth as GST is neutral to business processes, business models, organisational structure and geographical location.
- 8) GST would help to extend competitive edge in international market for goods and services produced in the country leading to increased exports.

### **Constitutional power for GST**

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India is a federal country where both the Centre and the States have been assigned the powers to levy and collect taxes through appropriate legislation. Both the levels of government have distinct responsibilities to perform according to the division of powers prescribed in the Constitution for which they need to raise resources. A dual GST will, therefore, be in keeping with the Constitutional requirement of fiscal federalism. Hence, Centre will levy and administer CGST & IGST while respective states will levy and administer SGST. The Constitution of India has been amended for this purpose. The Constitution (101st Amendment) Act 2017 was passed to effectuate the necessary changes in Indian Constitution for enabling GST.