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What is GST (Goods & Service Tax)? Details, Benefits & Its Impact on common person

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Abstract- Goods & ServiceTax has been long pending issue to streamline all the different types of indirect taxes and implement a "single taxation" system. This system is called as GST (GST is the abbreviated form of Goods & Services Tax). The main expectation from this system is to abolish all indirect taxes and only GSTwould be levied. As the name suggests, the GST will be levied both on Goods and Services.

Introduction

GSTwas first introduced during 2007-08 budget session. On 17th December 2014, the current Union Cabinet ministry approved the proposal for introduction GST Constitutional Amendment Bill. On 19th of December 2014, the bill was presented on GST in Loksabha. The Bill will be tabled and taken up for discussion during the coming Budget session. The current central government is very determined to implement GST Constitutional Amendment Bill.

GST is a tax that we need to pay on supply of goods & services. Any person, who is providing or supplying goods and services is liable to charge GST.(www.relakhs.com/gst-goods-services-tax-in-india/)

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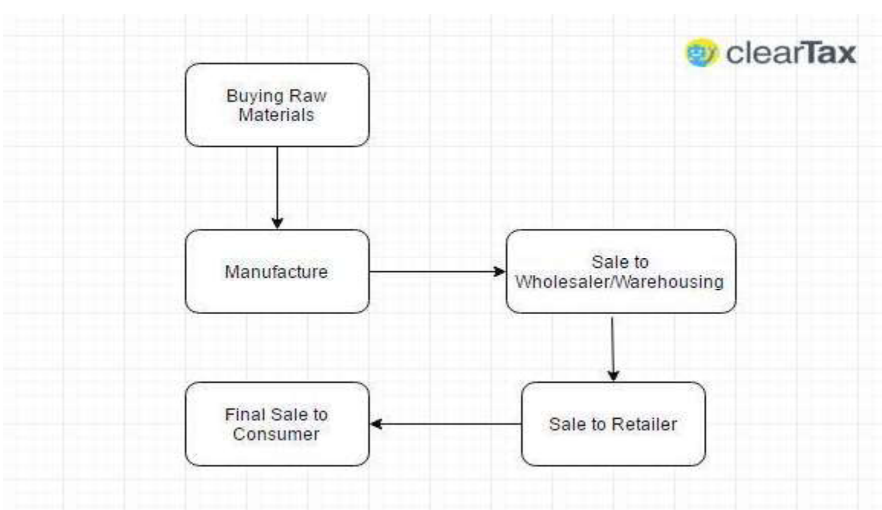
What is GST?

Goods & Services Tax Law in India is a **comprehensive**, **multi-stage**, **destination-based tax** that will be levied on every **value addition**.

To understand this, we need to understand the concepts under this definition. Let us start with the term 'Multi-stage'. Now, there are multiple steps an item goes through from manufacture or production to the final sale. Buying of raw materials is the first stage. The second stage is production or manufacture. Then, there is the warehousing of materials. Next, comes the sale of the product to the retailer. And in the final stage, the retailer sells you – the end consumer – the product, completing its life cycle.

So, if we had to look at a pictorial description of the various stages, it would look like:



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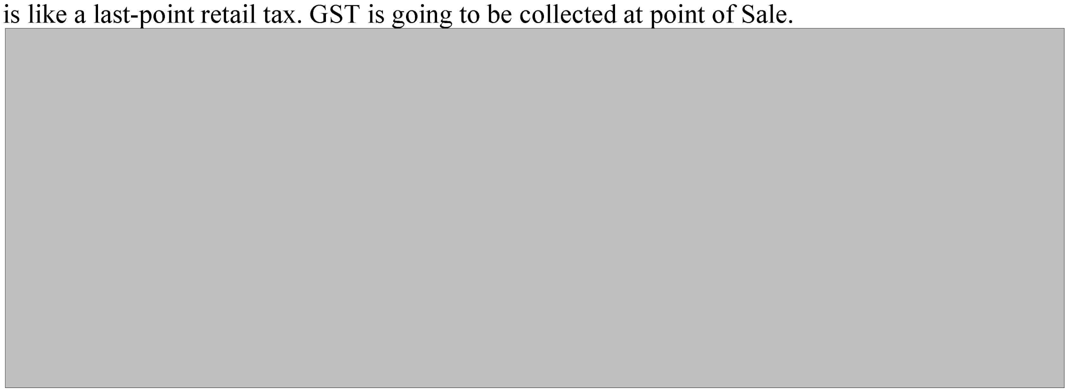
Goods and Services Tax will be levied on each of these stages, which makes it a multi-stage tax. How? We will see that shortly, but before that, let us talk about 'Value Addition'.

How is GST applied?

GST is a consumption based tax/levy. It is based on the "Destination principle." GSTis applied on goods and services at the place where final/actual consumption happens.

GSTis collected on value-added goods and services at each stage of sale or purchase in the supply chain. GST paid on the procurement of goods and services can be set off against that payable on the supply of goods or services. The manufacturer or wholesaler or retailer will pay the applicable GST rate but will claim back through tax credit mechanism.

But being the last person in the supply chain, the end consumer has to bear this tax and so, in many respects, GST is like a last-point retail tax. GST is going to be collected at point of Sale.



The GST is an indirect tax which means that the tax is passed on till the last stage wherein it is the customer of the goods and services who bears the tax. This is the case even today for all indirect taxes but the difference under the GST is that with streamlining of the multiple taxes the final cost to the customer will come out to be lower on the elimination of double charging in the system.

What kind of GSTwill be implemented in India?

When Goods and Services Tax is implemented, there will be 3 kinds of applicable Goods and Services Taxes:

CGST: where the revenue will be collected by the central government

SGST: where the revenue will be collected by the state governments for intra-state sales

IGST: where the revenue will be collected by the central government for inter-state sales

In most cases, the tax structure under the new regime will be as follows:

Transaction	New Regime	Old Regime	Comments
Sale within the state	CGST + SGST	VAT + Central Excise/Service tax	Revenue will now be shared between the Centre and the State
Sale to another State	IGST	Central Sales Tax + Excise/Service Tax	There will only be one type of tax (central) now in case of inter-state sales.

Example A dealer in Maharashtra sold goods to a consumer in Maharashtra worth Rs. 10,000. The Goods and Services Tax rate is 18% comprising CGST rate of 9% and SGST rate of 9%. In such cases the dealer collects Rs. 1800 and of this amount, Rs. 900 will go to the central government and Rs. 900 will go to the Maharashtra government. Now, let us assume the dealer in Maharashtra had sold goods to a dealer in Gujarat worth Rs. 10,000. The GST rate is 18% comprising of CGST rate of 9% and SGST rate of 9%. In such case the dealer has to

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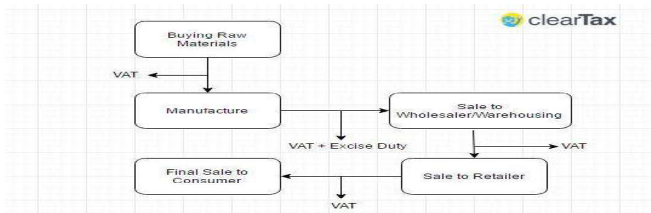
charge Rs. 1800 as IGST. This IGST will go to the Centre. There will no longer be any need to pay CGST and SGST.

Why We Need GST?There is one more term we need to talk about in the definition –**Destination-Based**. Goods and Services Tax will be levied on all transactions happening during the entire manufacturing chain. Earlier, when a product was manufactured, the centre would levy an Excise Duty on the manufacture, and then the state will add a VAT tax when the item is sold to the next stage in the cycle. Then there would be a VAT at the next point of sale.

So, earlier the pattern of tax levy was like this:



Now, Goods and Services Tax will be levied at every point of sale. Assume that the entire manufacture process is happening in Rajasthan and the final point of sale is in Karnataka. Since Goods & Services Tax is levied at the point of consumption, so the state of Rajasthan will get revenue in the manufacturing and warehousing stages, but lose out on the revenue when the product moves out Rajasthan and reaches the end consumer in Karnataka. This means that Karnataka will earn that revenue on the final sale, because it is a destination-based tax and this revenue will be collected at the final point of sale/destination which is Karnataka**.(cleartax.in/s/gst-law-goods-and-services-tax)**

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Who Will Have To Pay GST?- GST will be paid by all manufacturers and sellers. It will also be paid by service providers such as telecom providers, consultants, charted accountants etc.

What Is The Applicable GST Rates?- The GST rates have not yet been passed by the LokSabha. The Proposed rates are: 5%, 12%,18%,28% (+luxury cess).

Food grains will have 0% tax to provide relief to consumers.

labs	New GST rates	Current rates	Products
1	2%	Upto 9%	Edible oil, Spices, Tea, Coffee etc.
2	12%	9-15%	Computers, processed food etc.
3	18%	15-21%	Soaps, oil, Shaving Sticks etc.
4	28%	21%	Luxury goods, Tobacco etc.

Benefits of GST Bill implementation

- The tax structure will be made lean and simple
- The entire Indian market will be a unified market which may translate into lower business costs. It can facilitate seamless movement of goods across states and reduce the transaction costs of businesses.
- It is good for export oriented businesses. Because it is not applied for goods/services which are exported out of India.
- In the long run, the lower tax burden could translate into lower prices on goods for consumers.
- The Suppliers, manufacturers, wholesalers and retailers are able to recover GST incurred on input costs as tax credits. This reduces the cost of doing business, thus enabling fairer prices for consumers.
- It can bring more transparency and better compliance.

- Number of departments **(tax departments)** will reduce which in turn may lead to less corruption
- More business entities will come under the tax system thus widening the tax base. This may lead to better and more tax revenue collections.
- Companies which are under unorganized sector will come under tax regime.

Challenges for implementing Goods & Services Tax system

- The bill is yet to be tabled and passed in the Parliament
- To implement the bill **(if cleared by the Parliament)** there has to be lot changes at administration level, Information Technology integration has to happen, sound IT infrastructure is needed, the state governments has to be compensated for the loss of revenues **(if any)** and many more..
- GST, being a consumption-based tax, states with higher consumption of goods and services will have better revenues. So, the co-operation from state governments would be one of the key factors for the successful implementation of GST

Since GST replaces many cascading taxes, the common man may benefit after implementing it. But it all depends on 'what rate the GST is going to be fixed at?' Also, Small Traders **(based on Annual Business turnover)** may be exempted from it.

(www.relakhs.com/gst-goods-services-tax-in-india/)

How will impactGST?

Expect reduction in prices of :-

- FMCG goods such as shampoos, chocolates
- Eating out
- Small cars
- DTH

Increases in prices of :-

- Luxury cars
- Tobacco
- Aerated Beverages
- Textiles

In order to understand the impact on the common man, let us categories daily expenses into six buckets: **Food:** Eating out or cooking at home has become relatively cheaper with reduction in tax rates on essential items and removal of cascading effect of tax on eateries and restaurant. For instance, most of the food items such as sugar, tea, edible oil, food grains, etc, will be charged a lower rate, of 5%. Essential items such as milk, curd, cereals, rice (unbranded) have been exempted from levy of GST. Today, eating out at a restaurant, a consumer pays both service tax and VAT on the invoice, apart from service charge collected additionally. Under GST, the rate of tax on the restaurant invoice could be either 5%, 12% or 18%, depending on whether the restaurant is under the composition scheme, non-air conditioned or air-conditioned, respectively.

Housing: Buying a new house under the GST regime is going to cost slightly higher in the short run. For under-construction property, the existing tax rates are broadly around 6% in most states, comprising service tax and VAT (other than a few where the VAT rate is higher). Under GST, the rate shall increase to 12%, with the ability of the builder to avail all input tax credits resulting in a reduction of his costs which may be passed on to buyers by commensurate reduction in prices. However, this may not be possible for the builder immediately, especially where the builder has already procured the construction material.

Transportation: Buying cars will burn smaller holes in customer's pocket under GST regime as compared to erstwhile regime. Key market players have already announced price-cuts owing to benefit on account of

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increased credits and marginal reduction in tax rates. Also, travel in radio taxis will cost less, with the GST rate applicable being 5% as against 6% under the erstwhile regime.

Entertainment: GST is a boom for all who like to spend weekend outdoors, as effective from July 1, going to the movies will be more economical with entertainment tax —that was as high as 50% in some states—subsumed under GST.

Communication: However, GST may not be good news for people who like spending time on their handsets as it is going to pinch the pockets with the rate on most services including communication going up by 3%, from a 15% service tax to 18% GST.

Other daily household items: FMCG goods will witness a mixed impact under the GST regime. On the one hand, aerated drinks purchased from nearby shops will become more expensive, with the GST rate applicable being 28%, along with a 12% additional cess. Personal care products such as soaps, kajal, tooth-paste and hair oil will see a drop of almost 10% in the effective tax rate applicable. To sum-up, GST delivers about a mixed bag to the common man. To ensure that industry does not increase the prices of their goods and services even if the tax rates are marginally going up, the government has incorporated an anti-profiteering clause in the law which mandates that the supplier pass on all benefits received either on account of reduced tax rates or increased credits to consumers by way of reduced prices. GST is no-doubt a win-win situation, from India's economic standpoint—it will place the country in the list of nations which have simplified tax regimes, thereby attracting foreign investments, as well as from the common man's perspective with prices of products and services coming down in the long run. It will be interesting to see as to how the government manages to deliver on its promise of holistic economic growth and reduced inflation in the long run, courtesy of the 'one nation, one tax' regime.

(www.gstindiaexpert.com/Home/GSTArticlesView/gst-impact-on-common-man-new-tax-regime-will-deliver-a-mixed-bag-with-some-items-turning-costly-20170715239)

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