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Global value added tax (VAT)/ goods and service tax (GST) trends

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Abstract
Researcher feels that GST reinforces the success of system of indirect tax over any other form of taxation. Researcher also feels that expectations of taxpayers are in the form of simplicity and uniformity of tax structure, clarity, transparency and simple grievance redressal mechanism etc. Researcher highlights the key expectations from the proposed GST regime from economy standpoint as well as taxpayers perspectives. Researcher hope that with GST encouraged compliance, the sectors of the economy that currently constitute the parallel economy would enter the mainstream and further boost the GDP. Researcher also explains that with launch of GST, the check posts across the country are abolished ensuring free and fast movement of goods and with this Researcher describes the effects and impacts of GST.

Keywords: substituted Li ferrite, magnetostatic and spin waves, microstrip array antenna, X-band frequency range

Introduction

The spread of Value Added Tax (VAT) or Goods and Services Tax (GST) system of Indirect taxes across the globe is showing an increasing trend with more than 160 countries, including 33 of the 34 member countries of Organization for Economic Co-operation and Development (OECD), employing VAT as the preferred form of consumption tax [1]. Malaysia is the recent country to implement GST effective 1 April 2015 and current Indian government has announced a timeline to introduce GST in India by 1 April 2016.

Countries introduced VAT/GST for different reasons depending on their existing tax system and in case of European Union (EU) to replace turnover taxes on account of the ease of handling cross border-transactions, facilitating development of common market and reducing trade and economic distortions. Another reason of countries adopting VAT/GST was to increase revenue from general consumption to cut down rate of income taxes. Revenue neutral approach was another reason (Norway, New Zealand etc.). Other counties moved to VAT/GST to consolidate and modernize existing tax structure comprising of multiple sales tax at different rates.

This increasing trend towards VAT/GST can be attributed to key factors such as:

1. VAT/GST preserves neutrality by taxing the value added by each factor equally;
2. Consumption tax is large and more stable source of revenue; and
3. Potentially self-enforcing in nature.
4. As economists, Richard M. Bird & Pierre-Pascal Gendron noted in their book [2], IMF played a key role in this spread by consistently supporting and advocating this form of taxation and facilitating its adoption by countries with less developed economic and administrative structures as well. OECD has also launched a project to develop International VAT/GST Guidelines to apply VAT to cross border trade, with an aim to reduce uncertainty and risks of double taxation and unintended non-taxation that result from inconsistencies and the third meeting of the OECD Global Forum on VAT is scheduled to be held in Paris in November 2015.

A roundup of VAT/GST structure of some of the major economies and taking stock as to rate of tax, threshold limits, exemptions, zero-rated transactions etc. would provide a guidance and allow legislators of jurisdictions, planning to introduce new tax regime or replace existing structure with revised structure, to learn from other consumption tax systems and adopt the best practice in laying the groundwork.

Goods & Services Tax (GST) launch will propel the business & economic growth

After a long nationwide debate on Goods and Service Tax (GST), the initiative was launched at midnight on June 30, 2017 in a ceremony held at Central hall of Parliament. Various provisions and benefits of GST were shared in their speeches by the Finance minister of India, Mr Arun Jaitley; the Prime Minister of India Mr Narendra Modi and the President of India Shri Pranab Mukherjee. India's biggest tax reform was launched at midnight of June 30 at Parliament's historic Central Hall, by President Pranab Mukherjee and Prime Minister Mr Narendra Modi. GST therefore, became effective from July 1, 2017.

Current tax rates have been replaced by GST rates with effect from July 1. It is the fourth time since Independence that an event was held at the Central Hall of Parliament at midnight. The last three celebrated India's Independence. Congress boycotted the GST launch along with several other opposition parties. GST replaces a slew of indirect taxes with a unified tax and is set to dramatically reshape the country's 2 trillion dollar economy.

What is the GST?

Goods and Services Tax (GST) is an indirect tax applicable throughout India which has replaced multiple cascading taxes levied by the Central and State governments. GST was introduced as The Constitution (One hundred and first Amendment) Act 2017 following the Constitution 122nd Amendment Bill. The GST is governed by a GST Council and its Chairman is the Finance Minister of India. The process of forming the legislation took 17 years. It was first proposed in the year 2000. The minimum tax rate under GST is 0% and highest tax rate is 28%.

Key Facts

- Under GST, Goods and services are taxed at the following rates: 0%, 5%, 12%, 18%, 28%.
- There is a special rate of 0.25% on rough precious and semi-precious stones and 3% on gold. In addition a cess of 15% or other rates on top of 28% GST applies on few items like aerated drinks, luxury cars and tobacco products.
- A single GST has replaced several existing taxes and levies which include: central excise duty, services tax, additional customs duty, surcharges, state-level value added tax and Octroi.
- Other levies which were applicable on inter-state transportation of goods have also been done away with the launch of GST regime.

Activities covered under GST

GST is levied on all transactions such as sale, transfer, purchase, barter, lease, or import of goods and/or services. India has adopted a dual GST model implying that taxation is administered by both the Union and State Governments.

Transactions made within a single state will be levied with Central GST (CGST) by the Central Government and State GST (SGST) by the government of that state. For inter-state transactions and imported goods or services, an Integrated GST (IGST) is levied by the Central Government.

GST is a consumption-based tax the impact of which will be at the destination. The taxes therefore, are paid to the state where the goods or services are consumed and not the state in which they were produced.

IGST complicates tax collection for State Governments by disabling them to collect the tax owed to them directly from the Central Government. Under the previous system, a state would have to only deal with a single government in order to collect tax revenue.

Proposed GST Structure for India

In India, GST was conceived in 2004 by the Task Force on implementation of the Fiscal Responsibility and Budget Management Act, 2003 [3] (Kelkar Committee) while analyzing prevailing indirect tax system both at Central and State level. The Kelkar Committee observed that a tax reform of nationwide dual GST which would comprehensively tax the consumption of almost all goods and services in the economy would be able to achieve ‘a common market, widen the tax base, improve the revenue productivity of domestic indirect taxes and enhance welfare through efficient resource allocation’.

The existing Indian Indirect tax structure empowers levy of taxes by Central government on manufacturing of goods and supply of services like Customs duties, Central Excise duty, Service tax etc; and State governments on goods at point of sale such as state VAT, Entry Tax, Octroi etc. Multiplicity of taxes and tax base being fragmented between Centre and States have resulted in a complex system of interconnected legislations leading to substantial distortions, cascading of taxes and adversely effecting growth in Gross Domestic Production (GDP). Some of the limitations of the prevailing Indirect tax structure are:

- Central Value Added Tax (CENVAT) structure does not tax value addition post the stage of production,
- CENVAT portion of input goods remains included in the value of goods to be taxed under State VAT contributing to that extent a cascading effect on account of CENVAT element.
- No integration of VAT on input goods with service tax on services at the State level thereby causing cascading effect of service tax.

The proposed GST is consumption type VAT where only final consumption is treated as the final use of a good. GST is expected to integrate taxes on goods and services across all supply chain for availing set-off and capture value addition at each stage. A continuous chain of set-off is expected to be established from the original producer's/ service provider's level upto the retailer's level which would eliminate the burden of all cascading effects. Suppliers at each stage would be permitted to set-off the GST paid on the purchase of input goods and services against GST to be paid on the supply of goods and services.

GST Model Proposed for India

Based on the recommendations, the Government constituted an Empowered Committee comprising of State Finance Ministers (Empowered Committee) to prepare a Design and Road Map for the implementation of GST. Salient features of the proposed GST model based on reports of Empowered Committee are summarized below:

1. Aligned with the federal structure of the Indian government, GST model is proposed to be a dual structure (like in Canada) to be levied and collected by the Union government [referred to as Central GST (CGST)] and respective State governments [referred to as State GST (SGST)]. This dual GST model would be implemented and governed by one CGST/IGST statute applicable across the country, SGST statutes for each State, common rules determining valuation, place of supply, place of origin etc. This would imply that the Centre and the States would have concurrent jurisdiction for the entire value chain and the basic principles of law such as chargeability, definition of taxable event and taxable person, measure of levy including valuation provisions, basis of classification, etc. shall be uniform across State statutes. It has been reported that draft laws are already ready and under internal discussions. Also, various allied rules are in the process of being drafted and finalized.
2. CGST and SGST would be comprehensively applicable

to all goods and services upto the final consumer (retail level), reflecting the tax base of a typical consumption VAT. Thus, CGST and SGST would be applicable to all transactions involving supply of goods and services made for a consideration (except alcoholic liquor for human consumption) and the exempted goods and services, goods which are outside the purview of GST and them transactions which are below the prescribed threshold limits. Based on recommendations of both the 13th Finance Commission and Empowered Committee, GST on following products shall be levied from a date to be notified by the GST Council

- Petroleum Crude
- High Speed Diesel
- Motor Spirit (commonly known as Petrol)
- Natural Gas
- Aviation Turbine Fuel

3. GST to be structured on the destination principle so that the tax base shifts from production to consumption whereby imports will be liable to tax and exports will be relieved of the burden of GST. Consequently, revenues will accrue to the State in which the consumption takes place or is deemed to take place.
4. Taxes paid on input goods/services against CGST shall be allowed to be utilized as input tax credit (ITC) against output tax liabilities under CGST and same principle applies to SGST. Cross utilization of input tax credit between the Central GST and the State GST would not be allowed except in case of inter-state supply of goods and services. Therefore, a taxpayer or exporter shall be required to maintain separate details in books of account for utilization or refund of credit.
5. In order to maintain uninterrupted credit chain, CST would be phased out in case of inter-state transactions of taxable goods. On such transactions, Centre would levy Integrated GST (referred to as IGST which would be CGST plus SGST) with appropriate provision for consignment or stock transfer of goods and services. The inter-state seller will pay IGST on value addition after adjusting available credit of IGST, CGST, and SGST on his purchases. The importing dealer will claim credit of IGST while discharging his output tax liability in his own State. The relevant information will also be submitted to the Central Agency which will act as a clearing house mechanism, verify the claims and inform the respective governments to transfer the funds.
6. An uniform threshold across all States and Union territories is being considered with adequate compensation for the States (particularly, the States in North-Eastern Region and Special Category States) where lower threshold had prevailed in the VAT regime.
7. In view of the fact that the CGST and SGST are intended to be levied on consumption of all goods and services, these two taxes must subsume all taxes presently levied on various goods and services by the Centre and the States, respectively. With an objective of free flow of tax credit in intra and inter-State levels, following indirect taxes as presented in Table 1 (existing under the current structure) are proposed to be subsumed:

Table 1: Indirect Taxes to be subsumed into GST

Central indirect taxes	State Indirect Taxes
Central Excise duty	Value Added Tax/Sales Tax
Service tax	Entertainment Tax (other than the tax levied by the local bodies)
Additional Excise duties	Central Sales Tax
Excise Duty levied under the Medicinal and Toilet Preparations (Excise Duties) Act,1955	Octroi and Entry Tax
Additional Duty and Special Additional Duty Of Customs	Purchase Tax
Central cases and surcharges in so far as they relate to supply of goods and services	▪ Luxury Tax ▪ Taxes on lottery, betting and gambling ▪ State cases and surcharges in so far as they relate to supplu of goods and services.

***Source*:** First Discussion Paper on Goods and Services Tax in India submitted by the Empowered Committee of State Finance Ministers submitted on 10 November 2009; Constitution (122nd Amendment) Bill, 2014.

Legislative Initiatives

Based on the federal character of Indian government, fiscal powers are also equitably distributed between Central government and State governments [4]. As per the current scheme of Constitution of India, 1949, only Central government has been empowered to levy duties on manufacturing of goods and taxes on supply of services. Therefore, in order to introduce a national GST in India a Constitutional amendment empowering the states to levy and collect taxes would be a pre-requisite. Therefore, to address these issues and give concurrent taxing powers to both the Union and States, the Government introduced Constitution (115th Amendment) Bill, 2011 (GST Bill) in the Lower House of Parliament on 22 March 2011 seeking to amend the Constitution of India, 1949 for the introduction of GST in India based on the model proposed by the Empowered Committee. The said Bill was referred to the Parliamentary Standing Committee on Finance on 29 March 2011 for detailed examination and the Standing Committee tabled its report before Parliament on August 2013. However, the said Bill lapsed with the dissolution of the Lower House in 2014. On formation of the new government, GST Bill was revised [Constitution (122nd Amendment) Bill, 2014] and got approval from the Union Cabinet to be presented before the Lower House of Parliament on 19 December 2014. The Lower House accord it’s approved to the GST Bill on May 6, 2015 which was then referred to a Select Committee of the Upper House (Select Committee) for examination. The Select

Committee after accepting most of the clauses in the GST Bill submitted its Report to the Upper House on July 22, 2015 with certain recommendations in few clauses. Union Cabinet has approved the amendments to the GST Bill as
per recommendations of the Select Committee on 29 July 2015 and the GST Bill was placed for discussion before the Upper House on 10 August 2015. However, the Upper House was adjourned sine die on the last day of the monsoon session (13 August 2015) without any business being conducted.

Table 2: Summary of the Amendments sought by the GST Bill and Recommendations of the select Committee

Amendments sought by the GST Bill	**Select Committee Recommendations**
Taxes to be subsumed: Various central indirect taxes including Central Excise Duty, Countervailing Duty, Service Tax, etc. and state VAT, octroi and entry tax, luxury tax, etc. to be subsumed.	Adopted with no Change mendments
Concurrent powers to Centre and States on GST: Insertion of a new Article [5] in the Constitution of India to empower Parliament and State Legislatures to make laws on taxation of goods and services. sought by the GST Bill	Adopted with no Change mendments
Levy of IGST on inter-state transactions of goods and services. Insertion of new Article [6] in the Constitution to empower levy and collection of GST on supplies in the course of interstate trade or commerce (including imports from outside India) by Central government and apportion between the Centre and the States in a manner to be prescribed by law, on the recommendations of the GST Council. Principles for determining the place of supply and when a supply takes place in the course of interstate trade or commerce shall be formulated by the Parliament, by law sought by the GST Bill	Adopted with no change Amendments
Constitution, Composition and functioning of the GST Council: Insertion of new Article [7] for constitution of GST Council. The President of India to constitute a GST Tax Council within 60 days of this Act coming into force. The GST Council is to consist of the following three members: (i) the Union Finance Minister (as Chairman), (ii) the Union Minister of State in charge of Revenue or Finance, and (iii) the Minister in charge of Finance or Taxation or any other, nominated by each state government. Provision has been made with respect to matters relating to the constitution of the Council, conduct of its functions, quorum, decision making process etc. The Council shall examine issues relating to GST and make recommendations on 1. The taxes, cesses and surcharges levied by the Union, the States and the local bodies which may be subsumed in GST; 2. The goods and services that may be subjected to or exempted from GST; 3. Model GST laws, principles of levy and apportionment of IGST including principles 4. governing Place of Supply 5. Threshold limit of turnover for imposition of GST 6. Rate of tax including floor rates with bands of goods and services tax 7. Special rates for a specified period, to raise additional resources during any natural calamity or disaster 8. Special provisions with respect to North Eastern States, Jammu & Kashmir, Himachal Pradesh and Uttarakhand. 9. 8. Any other matter relating to GST, as the Council may decide mendments sought by the GST Bill	GST Council to consider following recommendations of Select Committee. 1. Define the term 'bands' (of GST) to include the 2. range of GST rates over the floor rate, within which CGST and SGST may be levied on specific goods or services or class of good or services. GST rate for other banking services should be kept minimum. If the GST rate on banking services is higher than 14%, then the cost of doing business in India would be much higher as compared to other competing Countries. Therefore, to ensure international competitiveness, banking services may be kept outside GST, if possible. If it is not possible, then some specified banking services such as interest, trading in securities and foreign currency and services to retail customers should not be liable to GST and. 3. In the drafting of state GST laws, revenue sources of Panchayats, Municipalities etc. must be protected. State governments must also take measures to ensure adequate revenue flow to local bodies.
Resolution of disputes: The GST Council may decide upon the modalities for the resolution of disputes arising out of its recommendations Amendments sought by the GST Bill	Adopted with no Change
Additional Tax on supply of goods: An additional tax of up to 1% on supply of goods in the course of inter-state trade or commerce is proposed to be collected by the Government of India for a period of two years or such other period as the GST Council may recommend. Such tax is to be assigned to the States from where the supply originates. Power to exempt such goods from levy of tax shall be with the Government of India. Principles to determine the place of origin from where supply of goods takes place in the course of interstate trade will be formulated by the Parliament, by law. Amendments sought by the GST Bill	Select Committee has recommended that the provision of 1% additional tax is likely to lead to cascading of taxes. Hence, it is recommended that the term "supply" be explained to mean "all forms of supply made for a consideration" which will exclude inter-company supplies such as branch transfer and free of cost supplies
Compensation to states: Parliament may, by law, on the recommendation of GST Council, provide for compensation to the States for losses of revenue arising on account of implementation of GST for a period which may extend to five years. Amendments sought by the GST Bill	Select Committee has recommended that compensation would be provided to states for a period of five years.
Goods exempted: Alcoholic liquor for human consumption is exempted from the purview of the GST. Further, the GST Council to recommend the date on which GST be levied on: (i) petroleum crude, (ii) high speed diesel, (iii) motor spirit (petrol), (iv) natural gas, and (v) aviation turbine fuel. GST to be imposed on tobacco. Centre to impose additional levy on tobacco Amendments sought by the GST Bill	Adopted with no Change

***Source*:** Constitution (122nd Amendment) Bill, 2014; Report of the Select Committee on GST Bill presented to the Rajya Sabha on 22 July 2015

GST Different tax rates
- Lower rates for essential items and the highest for luxury and de-merits goods.
- Service Tax will go up from 15% to 18%. The services are taxed at lower rates such as train tickets and will fall in the lower slabs.
- Essential items including food is taxed at zero rate. The propose is to control inflation as food and essential items constitute roughly half of the consumer inflation basket.
- The lowest rate of 5% would be for common use items. There would be two standard rates of 12 per cent and 18 per cent, which would fall on the bulk of the goods and services. This includes fast-moving consumer goods.
- Highest tax slab will be applicable to items which are currently taxed at 30-31% - excise duty plus VAT.
- Ultra luxuries, demerit and sin goods like tobacco and aerated drinks will attract a cess for a period of five years on top of the 28 per cent GST. The collection from this cess as well as that of the clean energy cess would create a revenue pool which would be used for compensating states for any loss of revenue during the first 5 years of implementation of GST. The cess would be lapsable after 5 years.
- The structure is a compromise to accommodate demand for highest tax rate of 40% by states like Kerala.
- The principle for determining the rate on each item will be to levy and collect the GST at the rate slab closest to the current tax incidence on it.

Threshold Limits and Exemptions

Threshold Limits

Objectives behind threshold limit are to:
1. Reduce cost of administering of large numbers of small taxpayers
2. Relive small taxpayers from compliance cost and compliance administration
3. Give advantage to small taxpayers over large enterprises on account of lower tax incidence.

It has been recommended a uniform threshold limit for both CGST and SGST across states with dealers having annual aggregate turnover of supply of all goods and services less than Rs.10 lakh being exempted from the purview of both CGST and SGST. While GST laws including threshold limit, exemptions etc. are evolving and concerned groups are finalizing the principles and laws, following principles on threshold limit should be adhered to:

a. Threshold limit of gross annual turnover of Rs.10 lakh both for goods and services for all the States and Union Territories be specified.
b. Further, composition scheme for small scale traders and industries under GST should be with an upper ceiling on Rs. 50 lakh gross annual turnover and a floor tax rate of 0.5% across all States. The Composition scheme should also allow registration of dealers below composition cut-off. It has been reported that minimum threshold limit would be Rs. 25 lakh and composition upper ceiling would be Rs. 75 lakh of aggregate annual turnover of a dealer for supply of goods and services. Review of the threshold limits prevailing in the countries, it is observed that a uniform threshold limit is preferred by most of the VAT/GST countries and businesses are not required to charge and collect VAT/GST if their annual turnover does not exceed the threshold limit. However, EU has provisions for separate threshold limits for application of the special scheme [8] of acquisition by taxable persons not entitled to deduct ITC, by non-taxable legal person and for application of the special scheme [9] of distance selling. Also, member states of EU like Malta, Sweden and Spain has no threshold limit while countries like Belgium, Germany, Greece, Hungary, Luxembourg, Netherlands and Portugal requires businesses below the threshold limit to register for VAT/GST, though not required to charge and collect VAT/GST. It has also been observed that all EU member states except Netherlands allows voluntary registration prior to exceeding the prescribed threshold while many countries have restrictions on the availing of threshold limit.

Exemptions

Exemptions are granted from VAT/GST on supply of goods and services because they are of a particular value to the society or country as a whole or in order to reduce burden of the tax on low income-families. Exemption from VAT relieves a dealer from payment of VAT on supply of goods and services whereas procurements would be subject to VAT leading to huge accumulation of input tax incurred. It has been recommended that ordinarily, there should not be any exemption from CGST or SGST. If for some reason, it is considered necessary to provide exemption, the Centre and the States should draw up a common exemption based on following principles:
1. All public services of government (Centre, State and Municipal/Panchayati Raj) including civil administration, health and formal education services provided by government schools and colleges, defence, para-military, police, intelligence and government departments excluding railways, post and telegraph, other commercial departments, public sector enterprises, banks and insurance, health and education services;
2. Any service transactions between an employer and employee either as a service provider, recipient or vice versa;
3. Any unprocessed food article which is covered under the public distribution system should be exempt regardless of the outlet through which it is sold; and
4. Education services provided by non-Governmental schools and colleges; and
5. Health services provided by non-Governmental agencies.

Proposed GST structure intends to widen the tax base and eliminate exemptions as exemptions break the continuous chain of set-off. Therefore, the list of exempted items should be meticulously prepared based on the principles behind exemptions and practice in other jurisdictions. Empowered Committee has proposed to convert all industrial related incentives into cash refund scheme after collection of tax, so that the chain of set-off is not disturbed. It was clarified that such exemptions, remissions etc. would continue up to legitimate expiry time both for the Centre and the States. Any new exemption, remission etc. or continuation of earlier exemption, remission etc. would not be allowed.

Role of the Goods and Services Tax Network (GSTN)

Government has created GSTN as a non-profit organization. As per the government website on GST, "Goods and Services Tax" Network (GSTN) is a non-profit organisation proposed to be formed for creating a website / platform for all the concerned parties related to the GST, namely stakeholders, government and taxpayers to collaborate on a single portal. When up and running, the portal is supposed to be accessible to the central government which allows it to track down every transaction on its end while taxpayers are advertised to have the ability of connecting this to their tax returns. However its efficacy and efficiency is yet to be tested. The IT network was touted to be developed by unnamed private firms. The known authorised capital of GSTN is ₹10 crore(US$1.6 million) in which Central Government holds 24.5 percent of shares while the state government holds 24.5 percent and rest with private banking firms for smooth running of the transactions.

The broad framework of GST model proposed for India now being clear, well-designed and well-functioning

Information Technology (IT) infrastructure facility would be a precondition and pre-requisite for smooth

Administration of taxpayers, processing of returns, controlling collections, making refunds, auditing taxpayers, levying penalties etc. in the new regime. On the IT front, all stakeholders had agreed for a common PAN-based taxpayer ID, a common return, and a common challan for tax payment

And therefore a common portal providing three core services (registration, returns and payments) would ease compliance.

Information technology strategy for GST implementation

In India, an Empowered Group on IT Infrastructure for GST (EG-IT) was formed in 2010 comprising of members of the Central Board of Excise and Customs (CBEC), members of the State Finance Ministers, Commissioner of State commercial tax department etc. EG-IT was formed to establish requisite IT infrastructure for facilitating roll out of proposed GST. The EG-IT made recommendations [10] on appropriate structure and roadmap for creating a special purpose vehicle (SPV) and recommended the feasibility of incubating the SPV in National Securities Depository Limited (NSDL). Based on the endorsements of EG-IT recommendations by Empowered Committee and Union Finance Minister, NSDL was assigned a pilot project for GST implementation and developing and managing the GST Portal comprising of activities such as ‘As-Is’ Study of Centre and States/Union Territories, setting up of common GST Pilot Portal with core services of registration, tax payments and returns filing, verification of dealer PAN details, preparation for dealer data migration etc.. During the pilot phase, NSDL conducted workshops for dealers and officials of the Commercial Tax Department of identified States and Centre.

The Cheaper and costlier after GST launch

Table 3

GST
(Goods & Services tax)

COSTLIER	Pre-GST	After-GST	CHEAPER	Pre-GST	After-GST
Shoes > ₹ 500	14.4%	18%	Fertiliser	12%	5%
Cornflakes	10%	18%	Tractor Parts	28%	18%
Jam	5%	18%	Shoes < ₹ 500	14.4%	5%
Leather Bags	6%	22%	Garments > ₹ 1000	18.5%	12%
Mobile Bills/Salon Visits	15%	18%	Cellphones	13-24%	12%
Credit Card/NEFT	15%	18%	Soap, Hair Oil	24-28%	18%
Telephone Bills	15%	18%	Pressure Cooker	19.5%	12%
Business Air Tickets	9%	12%	Economy Air Tickets	6%	5%
Small Cars < 1500cc	25-27%	28+1%	Large Cars > 1500cc	41.5-44.5%	28+15%
Watch	20%	28%	Plastic Kitchenware	17.5-27%	18%
Life Insurance	15%	18%	Biscuits	12-18%	18%
Hotels > ₹ 7500	18-25%	28%			
DSLR Camera	25%	28%			
Shampoo	26%	28%			
Perfume	26%	28%			
TVs & ACs	26%	28%			

UNCHANGED	Pre-GST	After-GST
Garments < ₹ 1000	5-6%	5%
Movie Tickets > ₹ 1000	25-30%	28%
Gold	2-5%	3%

***Source*:** NDTV

Effects and impact

The GST is expected to fuel inflation in the short term. The GST rate starts at 5% and goes upto 28%. The 18% taxation on services such as restaurants; movies are bound to increase prices. Another problem with the GST is not including liquor and petroleum under GST's ambit. These are major revenue sources for the government.

After the introduction of the GST, while costs of essential food items may not increase, other consumer goods and services in India including food, hotel charges, insurance and cinema tickets will become costlier. Upon its introduction in the country, GST led to a number of protests by the business community, primarily due to an increase in overall taxes and hence the prices of goods. Thousands of cinema theatres in the states where higher rate of GST has been applied on movie tickets went on strike.

However, with the launch of GST, the check posts across the country are abolished ensuring free and fast movement of goods. The central government has assured states of compensation for any revenue loss incurred by them from the date of GST for a period of five years. However, no concrete laws have been framed to support such action.

Taxes replaced by GST

The following taxes have been replaced by the GST:

- Central Excise Duty
- Commercial Tax
- Value Added Tax (VAT)
- Food Tax
- Central Sales Tax (CST)
- Introit
- Octroi
- Entertainment Tax
- Entry Tax
- Purchase Tax
- Luxury Tax
- Advertisement tax
- Service Tax
- Customs Duty
- Surcharges

GST Calculation

Assume that the GST is set at 20%. Suppose that the manufacturing cost of a Product A is 100 and assuming a GST of 20% the total amount is Rs. 120. The next step of taxation would be when the Product is sold to consumers. Suppose the product is sold at a price of 150. The GST will charge another 20% on just the difference of Rs. 150 and Rs. 120 i.e. only 20% on Rs. 30 which is equal to Rs. 6. Accordingly, the final price is Rs. 150 + Rs. 6. GST will be applied at every step of value creation. The GST is estimated to provide an immediate boost of 0.9% – 1.4% of the GDP.

GST is in a form of comprehensive indirect tax on manufacturing, sales and consumption of goods and services within the country. It is based on the input tax method. The tax is levied and collected at each stage of sale or purchase of goods or services.

Benefits of GST

- GST is a right step to move forward with the 'Make in India' vision. GST gets rid of multi tier and multiple taxation system in the country
- GST-registered businesses will be able to claim tax credit to the value of GST they paid on purchase of goods or services as part of their normal commercial activity.
- GST is a destination based tax as against the present concept of origin based tax. The tax structure is much simpler and easier to understand.
- According to a report by the National Council of Applied Economic Research, GST is expected to increase economic growth by between 0.9 per cent and 1.7 per cent.
- Taxable goods and services are not distinguished from one another and are taxed at a single rate in a supply chain till the goods or services reach the consumer.
- Reducing production costs will make exporters more competitive. The reduced cost of locally manufactured goods and services will increase the competitiveness of Indian goods and services in the international market
- GST eliminates complexities in the present taxation structure and consequently prevent the loss of nearly 50% of the advantage of lower manufacturing costs that India has over the western nations
- Single authority will have the administrative responsibility to levy tax on goods and services
- Implementation of GST assures a single taxation system in the entire country for all goods and services making tax compliance easier and more effective.

Adverse effects

- GST may prove detrimental to the growth of small scale industries. Basic exemption limit in excise of Rs. 1.5 Crores taken away in GST, which will affect the Small Scale Industries. Lakhs of industries in India are surviving only for one reason that they are not required to pay excise if their turnover does not exceed 1.5 crores.
- Services which hitherto were charged on receipt basis will be charged on accrual basis.
- GST is required to be paid, once invoice is raised even if there is no certainty of receiving the payments for the services rendered
- Number of goods and services have become costlier after launch of GST. It would increase inflation in the country which is already reeling under the pressure of demonetization.

Summary of expectations from proposed GST regime

The global spread of VAT/GST reinforces the success of VAT/GST system of indirect tax over any other form of taxation. With India inching towards a GST regime, a set of key expectations surrounds economic development, growth in international trade, moderate taxes, stability in prices etc. Further, expectations of taxpayers are in the form of simplicity and uniformity of the tax structure, clarity and transparency, ease of taxpayer's compliance, administrative improvements, faster and simpler grievance redressal mechanism etc. This chapter highlights the key expectations from the proposed GST regime from economy standpoint as well as taxpayers perspectives.

Economic Expectations

Existing indirect tax regime of multiple levies across sectors of production is reported to be leading to distortions in the allocation of resources as well as production inefficiencies. Non recoverable taxes built into the costs are making the Indian products more expense than their global competitors and therefore affecting competitiveness. Therefore GST is expected to provide boost to exports by mitigating costs which could increase exports in the range of 3.2 to 6.3 per cent.

The broad objectives behind introducing a comprehensive GST in India is to harmonise and consolidate multiple indirect taxes in India and make India a common national market by widening the tax base and cutting down exemptions; mitigate cascading and double taxation and promote voluntary compliances through the lowering of overall tax burden on business and end consumers. Today in the GST design there are aberrations like 1 per cent additional tax, exclusion of certain sectors of economy and exclusion of certain taxes that makes the design deviate from these objectives. It is expected that these aberrations would be temporary and the GST would finally be an all-encompassing tax that would fulfil the expectations. It is hoped that with GST encouraged compliance, the sectors of the economy that currently constitute the parallel economy would enter the mainstream and further boost the GDP.

Taxpayers Expectations

As per OECD guidelines [11], the generally accepted principles of tax policy applicable to consumption taxes are applicable to domestic as well as international trade; some of which are:

Neutrality, Efficiency, Certainty, Simplicity, Effectiveness and fairness etc.

The proposed GST structure in India is expected to be as per the best practices across all VAT/GST countries and some of the expectations are as follows:

1. Tax Neutral: Tax neutrality ensures that tax ultimately collected on a particular supply chain is proportionate to the amount of tax paid by the final consumer. A credit mechanism that prevents breakages in credit chain anticipated under GST regime in India is one which, with moderate rates, will be tax neutral and does not lead to any increase in prices of goods and services and serves the interests of producers' caterings to domestic and international markets without undue advantage to one over another

2. Simple, efficient and uniform GST is expected to overcome the issues and shortcomings of the existing indirect tax structure. Historically, Indirect tax regime in India has been very complex with multiple levies at multiple taxable events. GST is expected to introduce a simple, efficient and uniform Indirect tax structure in India with a comprehensive tax leviable on supply of all goods and services on the same tax base and expectations from such system of taxation are:

a. Taxable event would occur simultaneously on supply of goods and services and taxability would not be dependent on 'goods' or 'services (existing in current regime).
b. Existing complexities relating to 'works contract', software, intellectual property etc., are expected to be
c. Eliminated making taxation of such transactions simpler, and reducing their tax burden.
d. Challenges being faced at present by sectors such as E-commerce, Telecom, Financial services, Real Estate etc. will be addressed and resolved.
e. The complexities of the existing system concerning valuations and classification of goods and services on
f. Account of the varied interpretations and rulings will be eliminated.
g. Lower administrative burden and provide simplicity by standardizing GST return/challans and payments and provide for easy access through a central web-portal for registration, refund etc.

3. Clarity in GST legislations: Benefits of a comprehensive national GST can be best derived with common laws and rules applicable across States and Centre. Therefore, GST legislations are expected to be:

a. Formulated with clear and specific explanations on key concepts like 'taxable event'; 'when a supply amounts to inter-state supply of goods and services'; 'determination of origin of in case of inter-state trade of goods'; 'availment and utilization of ITC; 'Transitional Provisions', 'List of exempted supplies of goods and services' etc.
b. Minimal use of terms such as 'in relation to', 'such as' 'including' to avoid interpretational issues that may lead to litigation.

4. Conciliation and Redressal Mechanism: Conciliation is a process in which the Conciliator plays a proactive role to bring about a settlement and is considered to be a more informal redressal process. World over the GST laws have conciliation mechanism whereas Indian indirect tax system is heavily reliant upon dispensing justice through medium of Courts. In such a system the decisions are delegated upwards by authorities who ought to be fair and equitable. It is expected that the new legislation will have conciliation mechanism that would not necessitate a tax payer to seek expensive and delayed justice through judiciary.

GST being simple, efficient and successful form of indirect taxations globally, its introduction by target date i.e., 1st April, 2016, would contribute significantly towards economic growth and is keenly awaited by all who have lived through the maze of inefficient, irrational and complex indirect tax system in India.

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