Citizen Matters

What every citizen should know about the GST
THE NEW GOODS AND SERVICES TAX

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Pic: Central Board of Excise and Customs

Whether as “India’s Great Migration Challenge,” or its “landmark tax reform” or the current government’s “most significant legacy,” the introduction of the Goods and Services Tax, in short GST, has hogged media headlines for a considerable while now. There are news flashes about the different tax rates fixed for specific goods and services, various discussions on its likely impact on the Indian economy as well as debates over the basic wisdom of the form in which it is currently going to be implemented.

With an overload of information and analysis, the common man cannot be blamed if he feels slightly befuddled by the entire issue. What really is the big deal about the GST? And how am I going to be affected? If you are among those voicing these questions, here’s a quick deconstruction of the new tax regime set to roll out on July 1st.

What is GST?

GST stands for Goods and Services Tax, which will be levied on the supply of goods or services or both in India (except those which are exempted from the GST law). The much touted GST will replace a whole set of existing indirect taxes being levied by the Centre and State Governments, including Central Excise duty, Special Additional Duty of Customs, Service Tax, VAT, Purchase Tax, Central Sales Tax, Entry Tax, Local Body Taxes, Octroi, Luxury Tax, etc. All these taxes will be replaced by Central GST, State GST and Integrated GST (on every inter-state supply of goods and services).

GST would affect all stakeholders including industries, government and citizens. The reason why GST has been hailed is that it is expected to simplify the taxation system with a single tax for the country and the government fixing tax slab for each goods and service that comes under the GST bracket.

How is it different from the existing system?

The main difference between the existing taxation and the GST is that the latter will put an end to multiple taxes that are levied on different products and services at different stages by subsuming many of them.

So far, tax was imposed on products at various levels by Central and State Governments and it involved several complications. For example, a shoe manufacturer in Maharashtra had to initially pay 12 per cent excise duty to the Central government on the manufactured product.

But if the manufacturer had purchased leather (raw material) from Andhra Pradesh, he would have paid AP's state taxes on buying the raw material. Once the product is sold to the wholesaler and the retailer within the state of manufacture, the state would have levied VAT on the product at both stages (though credit is applicable). But if the product is then sold in Punjab, the Centre would again impose sales tax for exporting the goods to another state.

These multiple taxes were not only a burden on businessmen but also on the consumers who ultimately pay the price for all the taxes that the manufacturer, wholesaler and retailer has paid. The new taxation law intends to remove tax barriers between states and create a single market and thus do away with the complications that exist in the tax system.

Input credits: GST vs VAT

The element of input credit is one aspect of the GST that will impact businessmen. Input credit is the deduction in tax rate that a person who has registered under GST will get for the final product (output) based on the tax he has paid on purchases (input).

For example, let us say you are a bag manufacturer.

The tax payable for the output (manufactured product i.e the bag) is Rs 220.

But you have already paid a tax of Rs 120 on purchasing the raw material, in this case leather. So the manufacturer can claim an input credit of Rs 120 and deposit only Rs 100 as the tax on the output (readymade product).

So if you are a manufacturer, supplier, agent, e-commerce operator or aggregator registered under GST, you are eligible to claim input credit for the tax paid by you on your purchases. But this will happen only if the person claiming credit has all invoices in place for the previous purchases made.

Input credit exists in Value Added Tax (VAT) too. But VAT is applicable only for goods sold and not services. Even after the VAT was introduced, services attracted a separate service tax. GST, applicable for both goods and services, and with a uniform pricing will thus have a unifying effect.

Also in VAT, several goods were not eligible to get input tax credit, whereas in GST most of the goods and services are included for credit benefit. And then in VAT, input tax credit could not be availed for inter-state sales/purchases as the VAT was under state's ambit, unlike GST.

For a trader to claim the input tax credit under GST, the tax invoices of his purchases should also have been issued by a registered dealer. Thus, if the supplier has not registered under/paid GST, then the manufacturer who has purchased raw material from him can not claim input credit. The supplier should have also paid tax to the government so as to enable the manufacturer to claim input credit.

In simple terms, therefore, for a manufacturer to get the input tax credit, all his suppliers should have complied with the GST. For a retailer to get input credit, all previous agents in the chain — the wholesaler, manufacturer and supplier — should have complied with the GST. The new tax system ensures that tax is collected at every stage.

Speaking to Citizen Matters, a researcher who works in a renowned tax research and analysis organisation says that the GST will bring in even the small scale businesses/industries and informal sector into the tax bracket.

“So many transactions were taking place in small scale industries and the informal sector, but then no accounts were maintained and taxes were rarely filed. With the introduction of GST, they cannot avoid paying the tax,” he says. In a nutshell, it will drive more businesses to the formal economy.

What’s cheaper, what’s not

Under GST, the government has fixed GST rates on 1,211 goods and 500 services in the range of five to 28 per cent (5, 12, 18 and 28 pc). Basic necessities like milk, curd, meat and cereals are exempted from the GST law.

Of the goods and services that fall under the tax bracket, the tax fixed for certain goods and services is more than the overall tax that existed prior to GST.

Some of the products and services that could become expensive include tobacco products, aerated drinks, restaurants, luxury cars, home appliances, jewelry, transportation, banking, mobile bills etc.

The GST Committee has fixed a higher tax of 28 per cent on sin goods and luxury goods and services. And in general, services are going to be more expensive as the tax rate for services has been fixed at 18 per cent as against 14 per cent.

There are also several segments that might become cheaper with the GST. These include online shopping, branded clothes, movie tickets, food grains etc. Even smartphones are expected to be a bit cheaper. So far with the cumulative impact of the indirect taxes, the total tax levied on smartphones was 13.5 per cent. But under a single GST, the tax will be lesser at 12 per cent.

Similarly hotel stays which are currently taxed at 22 per cent are going to be cheaper with the service now falling under 18 per cent GST bracket.

The government believes that for consumers, the biggest gain would be in terms of a reduction in the overall tax burden on goods, which is currently estimated at 25 to 30 per cent.

Here are the lists of goods and services with applicable GST rates:

http://www.cbec.gov.in/resources//htdocs-cbec/gst/chapter-wise-rate-wise-gst-schedule-18.05.2017.pdf http://www.cbec.gov.in/resources//htdocs-cbec/gst/chapter-wise-rate-wise-gst-schedule-03.06.2017.pdf

In addition, the government has also proposed to form a National Anti-profiteering Authority under the GST regime. The proposed Authority is to ensure that the person who has registered under GST will pass on the tax benefits like reduction in tax rate or input tax credit to the consumer or to the recipient of particular goods/service.

While it is propagated that it is ultimately the common man who will be advantageous due to the GST, the new tax regime will also impact various sectors and people in different ways.

How will GST impact a businessman?

GST intends to bring all kind of industries and businesses into the tax bracket, thus increasing the taxpayer base. The entire filing procedure under the regime will be online which includes registration, payments, refunds and returns. This measure is expected to help the small and medium Enterprises by making compliance transparent. Also, with most of the existing taxes subsumed by GST, the tax paying system for businessmen is likely to be easier in the long run.

Small businesses and entrepreneurs with a turnover of less than Rs 20 lakh are exempt from GST. But this exemption may in fact create problems for them. If a small businessman has opted for exemption under GST, then the large businesses that he serves or supports (for example, as supplier) will have to bear the brunt. This is because, as explained in the input credit section, they cannot claim input credit unless the supplier has also complied with GST.

This could force the small and informal businesses either to grow and register themselves under GST or just perish.

Impact on salaried employees

GST is applicable mainly for businesses, hence it will not affect the salaried class except to the extent that it affects their expenses due to the change in rates of goods and services they purchase.

Other than that, they will continue to pay their income tax like before.

But GST would impact the supply of free goods and services (freebies) from an employer to an employee, exceeding the stipulated sum of Rs 50,000 as specified in Schedule 1 of the GST Bill.

GST impact on self-employed professionals

Just like salaried employees, GST will not directly affect self-employed professionals such as doctors, lawyers etc. In fact, the medical sector has been exempted from GST. In case of an individual advocate or firm of advocates, the service provider is not the one who should pay the tax, but it is the business entity who receives the service that must pay the tax on the service availed.

Too early to predict the impact

Speaking to Citizen Matters, the tax researcher quoted above says that it’s premature to predict how GST is going to benefit people. “Some goods and services will be cheaper and some will be expensive. One has to wait for at least one to two years to actually see the impact of GST on people and the economy. But overall it seems to be a good tax law from consumers’ and business point of view and ideally it should benefit the consumer,” he says.

He observes that goods and services that contribute to 60 per cent of the GDP are exempt from GST and only remaining goods and services (that contribute to 40 per cent of the GDP) come under the GST bracket.

Exemption extends to petroleum and alcohol production, both of which largely contribute to the GDP of the country. The exemption is to ensure that there is a minimum guaranteed income for the State and the Centre when GST is implemented. That said, even sectors like education, healthcare, non-AC rail travel and pilgrimage are exempted from the tax law.

The exemption could be temporary and the government could bring these products under the ambit of GST later on once the new taxation system stabilises, he says.

Critiques

One major criticism of the GST relates to its complexity. Multiple tax slabs for various goods and services instead of a single rate could complicate the system and defeat the objective of doing away with multiple forms of indirect tax. Former finance secretary Vijay Kelkar has reportedly said that it would be easier to start with a single-rate GST at a low rate, achieve mastery in this and then consider more complex possibilities such as high rates and multiple rates.

The other apprehension is that the new tax system would adversely impact Micro, Small and Medium Enterprises (MSME). In fact, MSME Secretary to the Government of India, K K Jalan has stated that the GST would increase compliance cost for small and medium scale enterprises due to lot of procedures involved in the process state. This includes state and central components, invoice formats, complex procedure to claim credits etc.

Even as all these apprehensions make it difficult to predict how the country and its economy will actually respond to GST once it’s implemented, this is one fiscal reform that the entire nation is waiting for with bated breath.