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Study of GST Structure and its benefits in India

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Abstract

GST implementation is one of the best decisions the Indian government has made. For the same reason, India's Financial Independence Day was observed on July 1st, with all members of Parliament attending a celebration at Parliament House. It would be difficult to make the transition to the GST regime, which is recognized by 159 countries. Confusion and complications were and will be expected. India had to submit to such a government at some point. Though the system isn't ideal, once in place, it will make India a more attractive investment destination. Until now, India was a confederation of 29 minor tax economies and 7 union territories, each with its own set of levies. It is a well-liked and respected system since it eliminates the need for different tax rates at the federal and state levels. And if you own a business, you should register for GST because it will not only benefit the Indian government, but it will also assist you in tracking your business on a weekly basis, as you will be required to file a business activity statement each week under GST.

Kew Words: GST, India, Parliament, Consumers, Independence etc.

Introduction

GST is an indirect tax for the entire country that aims to unite India into a single market. It is a tax levied on the sale, manufacture, and consumption of products and services. It is a single tax levied on the supply of products and services from the maker to the consumer. The credits for input taxes paid at each level will be accessible in the succeeding stage of value addition, effectively making GST a tax on the value addition at each stage. Only the tax levied by the last dealer in the supply chain will be passed on to the final consumers, together with the benefits earned at all previous stages. It is levied at identical rates at the national and state levels for the same products, and it largely replaces the current indirect taxes levied separately by the Centre and the States. The Goods and Services Tax is a destination-based tax, meaning it is collected at the point of sale.

Benefits of GST in India

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GST was brought in as a revolutionary change and India's biggest tax system overhaul since Independence. GST replaced a plethora of indirect taxes such as states' sales tax, service tax, excise, etc., with a single central tax regime applied uniformly on all products and services. However, the biggest benefit of GST was that it opened up entire India as a single unified market allowing for free movement of goods across states' borders, as opposed to the earlier scenario where state borders became barriers. GST allowed for faster movement of trucks and led to requirements for fewer warehouses across several states. However, GST has multiple tax rate slabs for different categories of products – a fact that still makes it more complicated than many expected.

Different types of GST

- **Central GST (CGST):** GST paid on each transaction is divided into two equal parts: the part for the Centre is termed as CGST.
- **State GST (SGST):** The part of a state's share of GST, when a transaction takes place within the state, is called SGST.
- **Union territory GST (UGST):** When a transaction takes place within a union territory (UT) without a legislature, the part of GST that the UT gets is called UGST.
- **Integrated GST (IGST):** When a transaction takes place between two states/UTs or between a state/UT and any foreign territory, IGST is levied without any bifurcation on the applicable GST rate.

GST Structure in India

The proposed GST in India consists of a consumption-type VAT, in which only final consumption is treated as the final use of a good. GST is expected to integrate taxes on goods and services across the supply chain, allowing for offsets and capture of value addition at each stage. A continuous chain of offsets is expected to be established, from the level of the original producer or service provider to the retailer's level, which would eliminate the burden of all cascading (or "tax on a tax") effects. Suppliers at each stage would be permitted to set off the GST paid on the purchase of input goods and services against their GST obligations to be paid on the supply of goods and services.

Salient features of the proposed GST model based on reports of the Empowered Committee are summarized below:

1. Aligned with the federal structure of the Indian government, the proposed GST model consists of a dual structure (like in Canada) to be levied and collected by the Union government This dual GST model would be implemented and governed by one CGST/IGST statute applicable across the country, SGST statutes for each state, and common rules determining valuation, place of supply, and place of origin.

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, and measure of levy (including valuation provisions and basis of classification) will be uniform across State statutes. Draft laws are already written 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 up to the final consumer (retail) level, reflecting the tax base of a typical consumption VAT. Therefore, 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, exempted goods and services, goods which are outside the purview of GST, and transactions below the prescribed threshold limits.

3. 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

4. GST is to be structured on the destination principle, so that the tax base shifts from production to consumption. This way, imports will create a tax liability while 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.

5. 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 the same principle applies to SGST. Cross-utilization of input tax credits between the Central GST and the State GST would not be allowed, except in case of interstate supply of goods an services. Therefore, a taxpayer or exporter shall be required to maintain separate details in books of account for using or refunding credit.

6. In order to maintain an uninterrupted credit chain, CST would be phased out in case of interstate transactions of taxable goods. On such transactions, Centre would levy Integrated GST (referred to as IGST, which can be calculated by adding CGST to 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 for IGST, CGST, and SGST on his purchases.

7. 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.

8. A uniform threshold across all states and Union territories is being considered, with adequate compensation for the states (particularly, the states in the North-Eastern Region and Special Category States) where a lower threshold had prevailed in the VAT regime.

9. 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 intrastate and interstate levels, following indirect taxes are proposed to be subsumed:

Central Levies - Central Excise Duty, Service Tax, Excise Duty levied under the Medicinal and Toilet Preparations (Excise Duties) Act of 1955, Additional Duty and Special Additional Duty of Customs, Central cesses and surcharges insofar as they relate to supply of goods and services.

State Levies - Value Added Tax/Sales Tax, Entertainment Tax (other than the tax levied by the local bodies), Central Sales Tax, Octroi and Entry Tax, Purchase Tax, Luxury Tax, Taxes

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on lottery, betting and gambling, State cesses and surcharges insofar as they relate to the supply of goods and services.

Classification of Indian Textile Industry

The textile industry can be broadly classified into two categories, the organized mill sector and the unorganized decentralized sector. The organized sector of the textile industry represents the mills. It could be a spinning mill or a composite mill. Composite mill is one where the spinning, weaving and processing facilities are carried out under one roof. The decentralized sector is engaged mainly in the weaving activity, which makes it heavily dependent on the organized sector for their yarn requirements. This decentralized sector is comprised of the three major segments that is power loom, handloom and hosiery. In addition to the above, there are readymade garments, khadi as well as carpet manufacturing units in the decentralized sector. Thus textile industry classification is as follows:-

1. Organized sector

A) Spinning mills or composite mills

2. Unorganized decentralized sector

A. Power loom segment

B. Handloom segment

C. Hosiery segment

D. Khadi& Carpet manufacturing segment

Organized mills

The organized mill sector contributes around 10% of the fabric production in the country. Mills which comprise both spinning and weaving are called composite mills.

Power loom

This sector comes under unorganized sector and contributes 55 % of the total cloth production of the country. It is capital intensive and is decentralized. Indian power loom fabric is competing successfully in global market. The Power loom sector has been contributing about

55% to total production of entire textile industry over last decade, at approximately 16,000 sq. meters per year.

Handloom sector

This sector is the largest economic activity after agriculture and provides direct and indirect employment to more than 45 lakh weavers. It contributes nearly 23 % of total cloth production. Indian handloom is a part of heritage. India's genius is known to the world through its handspun cloth. Silk, Jute, Cotton and Khadi are the major areas in Handloom sector.

Garments& Hosiery

Indian apparel industry has a great potential and is a major foreign exchange earner. Indian apparels are high in fashion and hence are in great demand abroad. There are around 30,000 manufacturing units in the country, but these are small and fragmented. They employ around 3 million people and earn Rs. 18,000 crores by exports.

Conclusion

GST implementation is one of the best decisions the Indian government has made. For the same reason, India's Financial Independence Day was observed on July 1st, with all members of Parliament attending a celebration at Parliament House. It would be difficult to make the transition to the GST regime, which is recognized by 159 countries. Confusion and complications were and will be expected. India had to submit to such a government at some point. Though the system isn't ideal, once in place, it will make India a more attractive investment destination. Until now, India was a confederation of 29 minor tax economies and 7 union territories, each with its own set of levies. It is a well-liked and respected system since it eliminates the need for different tax rates at the federal and state levels. And if you own a business, you should register for GST because it will not only benefit the Indian government, but it will also assist you in tracking your business on a weekly basis, as you will be required to file a business activity statement each week under GST.

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