

Indirect Taxes-I

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Introduction

The present system of indirect taxation has multiplicity of taxes levied by the Centre and State. This has led to a complex and conflicting principles in indirect tax structure, adding to the multiple compliance and administrative costs. There is no uniformity in tax rates and structure across States. There is cascading of taxes due to 'tax on tax'. There are too many restrictions on seamless credit available, i.e., credit of excise duty and service tax paid at the stage of manufacture is not available to the traders while paying the State level sales tax or VAT, and vice-versa. Further, no credit of State taxes paid in one State can be availed in other States. (GST) Goods and Service Tax, which subsumes a large number of Central and State taxes into a single tax, is meant to mitigate the cascading effect of taxes, provide near seamless credit and make way for a common market. However, realization of all the foregoing objectives appears to be a Herculean task and requires the co-operation of all States.

INDIRECT TAXATION IN INDIA: India currently has a dual system of taxation of goods and services, which is quite different from dual GST. Taxes on goods are described as “VAT” at both Central and State level. It has adopted value added tax principle with input tax credit mechanism for taxation of goods and services, respectively, with limited cross-levy set-off.

SHORTCOMINGS IN THE PRESENT STRUCTURE AND NEED FOR GST

- Tax Cascading
- Levy of Excise Duty on manufacturing point
- Complexity in determining the nature of transaction – Sale vs. Service
- Inability of States to levy tax on services
- Lack of Uniformity in Provisions and Rates
- Local Sale vs. Central Sale
- Interpretational Issues
- Narrow Base
- Complexities in Administration

What is GST (Goods and Service Tax)

GST is a destination based tax and levied at a single point at the time of consumption of goods or services by the ultimate consumer. GST is based on the principle of value added tax. GST law emphasizes on voluntary compliance and on accounts based reporting and monitoring system. It is a comprehensive levy and envisages tax collection on both goods and services at the same rate. Internationally, GST was first introduced in France and now more than 160 countries have introduced GST. Most of the countries, depending on their own socio-economic formation, have introduced National level GST or Dual GST.

Meaning of GST

GST stands for “Goods and Services Tax”, and is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. Its main objective is to consolidate all indirect tax levies into a single tax, except customs (excluding SAD), replacing multiple tax levies, overcoming the limitations of existing indirect tax structure, and creating efficiencies in tax administration.

Introduction of GST would rationalize the tax content in product price, enhance the ability of business entities to compete globally, and possibly trickle down to benefit the ultimate consumer.



● **BENEFITS OF GST**

Ease of starting business

- Reduction of tax burden on new business
- Improved logistics and faster delivery of services
- Elimination of distinction between goods and service
- Improved GDP growth and FDI
- Common Market
- Reduced corruption
- Increase in tax revenue

STRUCTURE AND TYPE OF TAXES

- **CENTRAL GOODS AND SERVICE TAX (CGST)**
- **STATE GOODS AND SERVICE TAX (SGST)**
- **INTER-STATE GOODS AND SERVICE TAX (IGST)**

PROBLEMS IN IMPLEMENTING GST

- Updating systems to be GST-ready
- Issue of casual taxable person
- Fear of high tax rates
- IT infrastructure
- Infrastructure For The Collection Process
- Framework For Tax Disputes
- Cross-verification of documents must be strengthened
- Impact on SMEs



THANK YOU