



# International Journal of Allied Practice, Research and Review

Website: [www.ijaprr.com](http://www.ijaprr.com) (ISSN 2350-1294)

## Comparison between Goods and Services Tax and Current Taxation System A Brief Study

Raj Kumar

**Abstract:** GST has been crossed a long way but still it is not implemented. The spread of Goods and Services Tax system of Indirect taxes across the world is showing an increasing trend more than 160 countries, Malaysia is the recent country to implement effective from 1<sup>st</sup> April 2015. GST was conceived in 2004 by the task force on implementation of the fiscal Responsibility and Budget Management Act, 2003 (Kelker Committee) prevailing Indirect tax system both at Centre and States level. The Kelker Committee observed that a tax reform of nationwide GST which would comprehensively tax, 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 resources allocation. GST model is proposed to be a dual structure (like in Canada) to be levied and collected by the Union and State governments. The proposed GST is consumption type VAT where only final consumption is treated as the final use of goods. GST integrates taxes on goods and services across all supply chain for availing set off. This Paper analyzed the proposed GST frame work and Current Taxation System, first identifies the proposed GST and current Taxation structure, compared the proposed GST framework and current Taxation System and described its impact on Employment and various Sectors in brief. However, the researcher also observed earlier studies. Government of India has announced a timeline to introduce GST in India by 1<sup>st</sup> April 2016.

**Keywords:** GST, Comparison, Framework, Sectors and taxation.

### I. Introduction

On 19<sup>th</sup> Dec. 2014, Finance minister Arun Jaitely explain the constitutional (122<sup>nd</sup>) Amendment bill in the Lok Sabha as single most important reforms after 1947 while the idea of GST was first thought by the finance minister Mr. P Chidambaram in the Budget Speech of 2006-07. But GST could not become a reality in all these years owing to irreconcilable differences between the Centre and the States over the framework, taxing powers, issues of revenue loss and compensation. The introduction of the amendment bill is the first major economic policy initiative by the NDA Government.

The amendment bill reveals that it not only sees to empower the Centre and State with the concurrent tax jurisdiction over transaction of supply of goods and services or both but it also provides a

prime facie broad frame work by which GST would be in terms of its coverage, its operating mechanism, implementation and dispute resolution.

Promulgation of Goods and Service Tax Council–The GST council is envisaged as a recommended body, Union Finance Minister as Chairperson, Minister in charge of finance or Taxation or any other Minister nominated by each State Government as members and Union Minister in charge of Revenue as Member of GST Council. The members shall choose a Vice Chairman from amongst themselves. The NDA Government focused areas are on GST Arunachal Pradesh, Assam, Jammu and Kashmir, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand.

Goods and Services Tax (Article 366 12A) – Goods and Service Tax means tax on supply of goods or services or both excluding taxes on supply of alcoholic liquor of human consumption. Alcoholic beverages” only items excluded from purview of GST. Petroleum and Petroleum products such as (petrol), high speed diesel, aviation turbine fuel, natural gas have been subsumed in the GST and not finalized whether GST will be applicable or not. The current taxes imposed by the States and the Centre on petroleum and petroleum products i.e. Sales tax/VAT, CST and Excise duty only will be continue till the next amendment.

Scheme of Taxation (Article 246A, Article 270, and Article 286) – GST would have two components: Central GST (CGST) and State GST (SGST). Further, the Centre will have the power to tax inter-state supply of goods and services through levy of Integrated Goods and Service tax. Such GST will be apportioned between the Centre and the State in the manner may be provided by Parliament by law on the recommendation of GST council. {Economic Law Practice }

G – Goods  
S – Services  
T- Tax

Goods and Service Tax will be levied on levy on manufacture, sale and consumption of goods and service at a national level. GST is at value addition at each stage and value added tax and continuous chain of set of benefits from producer’s /service provider’s point up to the retailer level where only final consumer bear the tax. {R.K Bhalla }

GST rates of some countries are given below.

Country	GST Rate
New Zealand	15%
Australia	10%
France	19.6%
Canada	5%
Germany	19%
Japan	5
Singapore	7%
Sweden	25%
Pakistan	18%
Malaysia	6%
Denmark	25%

## II. Review of Literature

Garg (2014) focused on the impact of GST (Goods and Services tax) with a brief description of the historical scenario of Indian taxation and its tax structure and discussed the possible challenges, threats and opportunities that GST brings to strengthen our free market economy.

Shah (2014) highlighted the objectives of proposed GST and discussed the possible challenges, threats and opportunities that GST bring before is to strengthen our force marked economy.

Objectives:

1. Identify Proposed GST framework and current taxation scenario.
2. Differentiate proposed GST framework and Current taxation.
3. Analyze the impact of GST on employment, Manufacturing and Textile Industry.

## III. Research Methodology

The Data have been collected and analyze for this research study from secondary published sources viz., newspapers, books, websites and research studies.

Finding:

Resent system subsumed taxes:

Tax	Levy by	Levied on	Covered by
Central excise	Central	Manufacturer	Yes
Service tax	Central	Providing Services	Yes
Custom	Central	Import	No
CVD under custom(Countervailing duty)	Central	Additional import duty(Compensating excise)	Yes
SAD under custom(Special additional duty)	Central	Additional import duty(Compensating excise)	Yes
CST	Central	Inter-state sales	Yes
VAT	State	Sales within a state	Yes

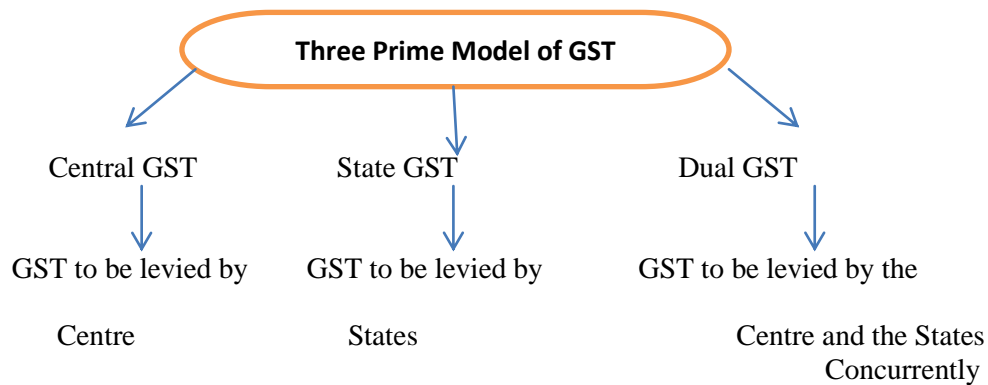
The GST shall subsume all the above taxes except the basic custom duty that will continue to be charged even after the roll out of GST.

The Dual GST Model:

GST at Central level (Union) Government level only

GST at State level Government level only

GST at both, Union and State Government levels



Tax Credit Mechanism:

CGST – CGST, **SGST**, IGST                      SGST –SGST, **CGST**, IGST

It is clear that cross utilization of CGST and SGST is not allowed generally but IGST mechanism will make this credit fungible.

Proposed GST and Current tax structure: Comparison

Basis	Current Scenario	GST Scenario
Structural Difference	Central taxes: - Excise/Custom Duty, Central Sales Tax charged on Services, Surcharge and Cess. State Taxes: - VAT, Purchase, Luxury Tax, Entertainment Tax,	A duel layered tax system with both Central and State GST levied on same base on all the goods and services except Petroleum, High Speed Diesel,

	Tax on Lottery, Surcharge & Cess.	Motor Spirit and Natural Gas to be brought at a later date subject to recommendation of GST council.
Basis of levy	Taxable at the place of manufacture/sale of Goods. Rendering of services.	Taxable at the place of consumption, at destination based tax.
Registration	Decentralized registration under Central and State authorities.	Uniform E- Registration process based on PAN of entity.
Procedure of Collection of Tax and Filing of Returns	Central Excise/Service tax-Uniform, VAT varies from State to State.	Uniform process and common dates for collection/deposit of tax and filing of Returns.
Validation and of Challan/returns, Input Credit and payment of tax	Part validation by system, full verification subject to assessments by relevant Central/State authorities.	System based validation and consistency checks on input credit availed, utilization and tax payments.
Excise Duty	Excise duty charged up to the point of manufacturing.	Replaced by CGST to be charged up to retail level.
Basic Custom Duty	In case of Import, taxed by Centre under separate act.	No change
Countervailing duty/ Special Additional Duty	In case of Import, taxed by Centre separately.	To be subsumed under GST (CGST).
Service Tax	Charged by Centre on list of services under Finance Act on payment/provision basis.	To be subsumed under SGST based upon place of Supply Rules.
Central Sales Tax	Applicable at concessional rate of 2% on inter-state transfers against C forms, otherwise full rate i.e. 5 to 14.5%	To be subsumed in IGST.
Entry Tax	Currently being charged by selected states for inter-state transfers, held as import in local area.	No entry tax, Additional 1% of tax to be levied on inter-state supply of selected goods, list yet to be finalized.
Tax on Export of Goods and Services	Exempted/Zero rated	No change.
Tax on Inter State Transfer of Goods to Branch or Agent	Exempt against form F	To be taxable but full credit available to dealers.
Tax on Transfer of Goods to branch or Agent within State	Generally exempted, depend upon state procedure.	Might be taxable, unless TIN of transfer and transferee is same.
Cascading Effect	Credit between Excise duty & Service tax available but no set-off against VAT on excise duty.	Credit available on the full amount of taxes up to retailer.
Cross set-off of Levy	Currently set-off of Excise duty and Service tax is allowed.	No cross set-off between CGST and SGST.
Disallowance of credit on selected items	There are certain non-creditable goods and services under both VAT & CENVAT Rules.	No such disallowance unless specified by GST Council.
Exemptions- Excise free zone, VAT Remissions	Some areas enjoy status of Excise/VAT exemptions.	No such exemptions, Investment Refund Scheme may be introduced for existing zones

		based upon recommendation of GST Council.
Levy of Tax on Government Bodies, NGOs	Certain Government bodies, PSUs and Non-profit covered.	Not changed.
Threshold Limit	Central Excise- 1.5 Crores VAT- varies from Rs. 5 to 20 Lacs from state to state. Service Tax- Rs. 10 Lacs	CGST- limits to be decided. SGST- Rs. 10 Lacs to 20 Lacs as recommended by GST council.

#### Impact of GST:

On Job – GST would create millions of jobs after its implementation. GST is a long term strategy of the Government; it would lead to a higher output, more employment opportunities. It has a lot of benefits to the common man and raise from the undue burden of taxation. This could help in reducing the net MRP of the products of the consumers and increase in the sales for manufacturers this help in increasing demand and supply of the goods which will help in economic growth. Such an economic development can help in boosting up the employment. GST provide lot more incentives to all sectors in the economy and invites the corporate houses to start up their business and that will create a balance of growth, boost the overall economic development which is require for more jobs like India where massive supply of cheap labor waiting for employment.

Direct benefit to Manufacturing: Logistics and More Employment – The direct benefit in the hand of manufacturers and logistic companies, warehousing facilitators rather than industries. GST will bring slight change in prices & tax burden on consumers. It will reduce the transit time by which more efficiency will be and benefiting manufactures. Further, logistics sectors would benefit after implementation of GST, reducing compliance cost, dropping number of warehouse and allowing tax credit across the supply chain. Almost all the sector would have indirect benefit from it and expand their operation that will create a more employment.

Impact on Manufacturing: The manufacturing sector has great importance for many developing countries. India’s manufacturing sector has complex tax structure with only 16% share in GDP, India’s manufacturing sector has been close to stagnant for the last two decades. India has shifted our self from an agricultural economy to a manufacturing and service economy. New GST system will be a modern tax reform helpful in growth and business opportunities. In India the new GST system will change old Indirect Tax Structure into unified Indirect Tax Structure. GST will bring positive change by eliminating Taxation system. First step of Manufacture concern is to calculate cost of production in financial statement; New GST system aids in reducing cost of production while creating incremental value for customers remain a challenge for every business. The new GST will assist the smooth flow of goods within the country.

Impact on Textiles: The Textile industry has been divided into broad categories for Taxation purpose. It include cotton, woolen, silk, synthetic fiber, artificial silk, khadi and handloom, jute, hemp and mesta textiles, carparte weaving, readymade garments and miscellaneous textile products. The current taxes very based on these categories. Textile sector is dominated by unorganized players who are given tax exemption on size basis of their operation. On the basis of these factors, key concern for textile industry include

Dispute over fabric vs. garments classification.

Different taxation is for cotton and man-made fibre.

Zero duty for cotton fibre as compared to high Excise duty structure on manmade fibre segment.

Composite milks are taxed at higher rate in comparison to power looms.

The current Taxation is production based leading to blocked input taxes which results in higher cost of production. With the implementation of GST, there will be a uniform role of tax which will result in block input taxes will be eliminated as GST is a Consumption tax.

Zero rating on Exports under GST will boost Exports. Integration of production will be encouraged resulting in increased efficiency. Goods movement within the States will also be much easier a lot of local state taxes which are levied on the borders of states by which there will be improvement in productivity & efficiency of the textile industry.

Auto: GST will reduce cost and of production by eliminating cascading effect. especially for Automotive distributors, which attracts high rate of CENVAT duties as well VAT at state level, In addition to other levies such as National Calamity Contingent Duty, Auto Cess, Entry taxes, Octroi, registration charges and Road taxes, Automobile Exports are also likely to benefit as embedded taxes in India's Export prices will be eliminated.

Under GST, without costs on Inter-state movement of goods (CST or Entry taxes) and change in the point of taxation to be the consumer ultimately businesses shall have greater flexibility to re-design their supply chains and thus, optimize logistics costs. Since sellers are also likely to get benefit from changes, Companies could negotiate and get benefit on Input Prices. However, there are various aspects which need to be resolved for the auto industry to be geared for the GST regime. Some prime issues being treatment of ongoing area based exemption scheme and the State level incentives in form of subsidy, ultimate use based exemption and government's export incentives in indirect taxes.

#### **IV. Conclusion**

Initiatives step of Government towards Indirect taxes for reducing cascading effect, beneficial to both Government and Sellers. Indirect taxes system will be clear and simple and manufacturer, wholesalers, and retailers can be easily recovered input taxes in form of tax credits.

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