

Goods and Services Tax - GST

[UPSC Notes]

What is the GST?

The Goods and Services Tax (GST) is a value-added tax levied on most goods and services sold for domestic consumption. The GST is paid by consumers, but it is remitted to the government by the businesses selling the goods and services. It's the tax that's created by merging important federal and state indirect taxes.

It is a single indirect tax that applies across the country. GST is a destination-based tax, meaning one that is imposed in the state where the goods or services are consumed rather than in the state where they are produced. The tax went into force on July 1, 2017, when the Indian government implemented the Indian Constitution's One Hundred and First Amendment. Furthermore, a 22% cess or other charges on top of the 28% A few things, such as aerated drinks, expensive autos, and tobacco products, are subject to GST. The GST considerably decreased the negative consequences of cascading or double taxation, clearing the way for a single national market. Because of its transparency and self-policing nature, GST would be easier to administer.

101st Constitutional Amendment Act

The introduction of GST needed the amendment in the Constitution of India to enable the integration of Central excise duty, additional duties, state VAT, and certain service tax and State-specific taxes into comprehensive Goods and Services Tax and to empower both the Centre and the State to levy and collect it. The power to levy GST has been conferred by Article 246A of the Constitution which was introduced by the 101st Constitutional Amendment Act. This article grants the Centre the power to make laws with respect to IGST and CGST and grants States the power to make laws with respect to SGST.

GST Council

The GST Council is headed by the Union Finance Minister and other members are the Union State Minister of Revenue or Finance and Ministers in charge of Finance or Taxation of all the States. The GST Council is a constitutional body under Article 279A. It makes recommendations to the Union and State Government on issues related to Goods and Service Tax and was introduced by the Constitution (One Hundred and First Amendment) Act, 2016. The council is structured so that the federal government has 1/3 of the vote and the states have 2/3. A 3/4ths majority is required to make a decision.

Economic Survey 2017-18 also hailed the GST Council for its cooperative federalism technology which brings together the Center and States and can be applied to many other policy reforms.

Types of GST

There are three types of GST levied, namely:

CGST :-

Central Goods and Services Tax (CGST) extends to the whole of India and shall be charged on all the intra-State supplies of goods or services or both.

SGST :-

States Goods and Services Tax (SGST) extends to the whole of the respective state or union territory and shall be charged on all intra-state supplies of goods or services or both.

IGST :-

Integrated Goods and Services Tax (IGST) extends to the whole of India and shall be charged on all the inter-state supplies of goods or services or both.

Timeline of GST

GST was an aspirational concept of the government. The timeline of the implementation of GST since its inception is given below.

- 2000 - Former Prime Minister of India, Shri Atal Bihari Vajpayee initiated the set up of a committee to design the model of GST.
- 2004 - The Union Government of India formed a task force that Mr. Vijay Kelkar headed. This task force was formed to look after Fiscal Responsibility and Budget Management which recommended the replacement of the then-existing regime with GST.
- 2006 - In the Budget Session for 2006-2007, the then Finance Minister of India, Shri P Chidambaram announced in his speech that GST would be introduced in India from 1st April 2010.
- 2009 - After the discussions between the Union Government and the task force committee, First Discussion Paper was released on GST.
- 2011 - 115th Amendment Bill was introduced and subsequently lapsed. This amendment bill talked about the introduction of GST.
- 2014 - 122nd Amendment Bill was introduced by the government in the month of December. This bill is an improvised version of the 115th Amendment Bill.
- 2015 - On 6th May, GST Bill was passed in Lok Sabha but did not pass in the Rajya Sabha.
- 2016 - GST Bill was finally passed in the Rajya Sabha with certain amendments on 3rd August and thereafter received the assent of the President on 8th September. This became the 101st Amendment Act. On 12th September 2016, the GST Council had also notified.
- 2017 - In the month of March, the GST Council recommended the CGST, IGST, SGST, UTGST, and Compensation Cess Act which was finally passed in April. Subsequently, the GST Council recommended all the rules, and all the states except Jammu and Kashmir passed their SGST Act on 30th June. On 1st July, GST was launched in India.

Exemptions Under GST

The power to grant exemption has been given under different sections of the CGST, IGST, SGST, and UTGST. There is a long list of goods and services that have been exempted under GST. Exemptions can be classified as specified activities or transactions, specified suppliers, and specified recipients. Essential goods and services have been exempted under GST. Items such as milk, eggs, lassi, unpacked food grains, and essential services like education services, health care services, etc have been exempted. The government has also exempted certain groups of individuals or bodies like MSMEs from registrations under the GST based on the fulfillment of certain conditions.

Segregation of Tax at Different Levels for GST

Tax under the GST Act is segregated based on whether the supply of goods or services is inter-state supply or intra-state supply. In the case of the intra-state supply of goods or services or both, an equal rate of CGST and SGST is levied. However, in case of any inter-state supply of goods or services or both, IGST is levied.

Advantages of GST

The advantages of GST are:

- The GST eliminates double taxation.
- The online approach is simple and straightforward. The entire GST process (from registration to return filing) is completed online and is quite straightforward.
- Promote Ease of Doing Business - GST helps in removing economic barriers by providing a common market with common tax rates, common procedures for registrations, and schemes like composition schemes that benefit small traders and businessmen.
- Increase in the Government Revenue - With the increase in tax base and improvement in the compliance of tax payments, the revenue of the government will increase exponentially. This is evident from the fact of record collections of GST.
- Mitigation of Adverse Effects of Cascading - Under the GST, a total of 15 different types of central and state taxes have been subsumed into a single tax. Across the entire value chain, a set of prior stages is permitted for the transactions. This improves the liquidity and the competitiveness of the business.
- It Acts as a Boost to the “Make in India” Campaign - GST promotes the idea of a unified and common national market for India which will boost foreign investment and the “Make in India” campaign.

Disadvantages of GST

GST will increase the cost of operation and will increase tax liability on businesses. GST is not applicable to petroleum products. Also, there are penalties for non-compliance. GST went into effect July 1, 2017. The businesses continued to use the old tax structure from April through June before switching to GST in July. This caused a lot of confusion because some businesses were filing taxes at the same time.

The GST regime is entirely online, from registration to filing returns. The GST regime is an entirely online tax system. While larger businesses were able to swiftly adapt to the new system, smaller enterprises were less familiar with modern solutions.

The real estate market has seen an 8% increase in prices since the adoption of GST, resulting in a 12% drop in demand. The telecom industry has been hit. To comply with GST requirements, telecom companies had to completely restructure their IT infrastructure and payment systems, which resulted in a significant increase in expenses.

When GST was implemented in India, the telecom industry encountered numerous hurdles. Because of a lack of clarity on key topics, the implementation proved problematic.

Recent Developments in GST

- The 47th meeting of the GST Council was held at Chandigarh in the month of June 2022.
- As per the Finance Ministry, the GST collection touched a record of Rs 1.68 lakh crores in April.
- As per the 45th meeting of the GST council, five petroleum products still fall outside the purview of the GST
- Compensation Cess has also been extended till 2026.
- The GST council also took many important decisions regarding exemptions, ITC, invoices, late fees, debit notes, etc.

Key Decisions of the 47th GST Council

The GST council had its 47th meeting held at Chandigarh, chaired by the Finance Minister. The key decisions taken were:

- Online Retailers below 40 Lakhs are not required GST registration for Intra-State Transactions.
- Council approved Report of GoM suggesting IT reforms GST Cess Collection will be used for Repayment of Loan till 2026.
- GoM was created for the establishment of the GST Tribunal, Decision on 1st August.
- GoM on Rate Rationalization Extended for Three more Months.
- No Decision on 28% GST on Casinos, Online Gaming: GST Council asks GoM to file Report by 15th July. GST Council to meet on 1st August to decide Tax on Casinos.
- E-Way Bill for Intra-State movement of Gold to be decided by States.
- Rate Changes on Certain Items Approved, will be Implemented from 18th July.

- GST Council to meet on 1st August to decide on Establishment of GST Appellate Tribunal.
- GoM on IT Reforms: Permanent GoM to give Suggestions on GSTN
- GST Compensation Cess for States shall continue.

