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UNDERSTANDING GOODS AND SERVICES TAX (GST) IN INDIA

- *- Aashi Kumari*

INTRODUCTION

Have you bought a phone, had your meals in a restaurant, or even paid a plumber in India post July 2017? Then you have definitely paid GST whether you were aware of it or not. In effect, GST transformed the Indian taxation framework and simplified a maze of central and state taxes by replacing them with a single indirect tax flowing through all the supply chains. Although it plays such a crucial role in most economic transactions, GST remains poorly understood and is usually described only as the "extra percentage on the bill". It is important to understand GST and learn its history, mechanics and reasons of its implementation since few reforms affected so many aspects of Indian economic life.

WHAT GST ACTUALLY IS

Goods and Services Tax is a single destination-based indirect tax levied on the supply of goods and services. The most important part of this definition is "destination-based": GST is collected in the place where the goods or services are consumed and not where they are produced. Before GST, India used such taxes as excise duty, service tax, VAT, octroi and entry tax with various rates and requirements. Each transaction in the supply chain was liable to be taxed separately. Therefore, a single good could be subject to several taxes depending on the current stage of its journey through supply chain. The whole process became more complicated in interstate transactions when there were no clear rules about where taxes should be collected. GST was introduced to solve these problems.

WHY INDIA NEEDED IT ?

Before GST, the Indian taxation system was not only inefficient but also harmful for making business decisions. Due to the cascading effect, the tax rate kept accumulating on itself and increased prices, thus creating no added value. Also, the company could be motivated to locate warehouses in states with more favorable tax regulations instead of making logical decisions about business development. Interstate trading was restricted by numerous tax inspections and paperworks. Therefore, GST was created to get rid of all this inefficiency, unify the country into one large market and simplify compliance for every business.

THE STRUCTURE: CGST, SGST, AND IGST

In contrast to many other countries, GST in India is divided into two components to respect the federal nature of India and tax powers of both central and state authorities. For the transaction within a single state, two components work together: Central GST (CGST) collected by the central government and State GST (SGST) collected by the concerned state. Together, they make up the entire GST rate applied to the transaction. For the interstate transaction, instead of two taxes one integrated GST (IGST) is applied, which is collected centrally and then distributed between the states. It allows the government and the state to collect their portions while functioning as one united tax.

TAX SLABS AND WHAT THEY MEAN

Unlike some other countries, GST in India is not uniformly applied and consists of multiple slabs, which have traditionally included 0%, 5%, 12%, 18% and 28%. Luxury and sin goods like tobacco and premium vehicles attract even greater cesses on top of the highest slab. The idea behind it is to apply the slab system because essentials like fresh food and educational and medical services are included in lower slabs or even exempt from taxation while more luxurious goods belong to higher slabs. The principle of justice explains the difference: charging GST in the same proportion from soap and luxury cars is unjust to low-income households.

INPUT TAX CREDIT: THE MECHANISM THAT MAKES IT WORK

Another elegant part of GST is called the Input Tax Credit or ITC. A business entity may use a tax credit of already paid GST in respect of its inputs against GST payable in respect of its outputs.

Suppose, for example, that a furniture manufacturer purchased wood and paid GST on it and then sold the manufactured table and charged GST from the customer. The manufacturer will pay the government only the difference between the tax charged and already paid on the wood as inputs and not the full GST. In this way, it perfectly eliminates the cascading effect, because in essence, the tax is levied only on the added value at each stage.

FILING AND COMPLIANCE

GST compliance includes registration, invoicing, and return filing. Once a business reaches the required threshold, it needs to get a GST Identification Number and issue the GST invoices. The frequency of return filing varies depending on the scale of a business. Return filing may be done either quarterly, monthly, or annually through the online GST portal, stating the sales, purchases, and tax liability. The whole system operates through online filing and matching; therefore, mismatch in sales reported by the seller and credits claimed by the buyer can be instantly detected. This is the major advantage of this system, although sometimes it might be frustrating for a small enterprise.

THE REAL-WORLD IMPACT

Has GST lived up to its promises? The answer is yes and no. For sure, logistics has been improved; now there are no more stops at check-points to verify taxes while transporting goods across states. Also, there has been an expansion of the formal economy because more businesses registered themselves to receive input tax credit. However, during the initial period of implementation, small businesses faced difficulties in compliance, frequent changes in the rates led to some misunderstandings, and many sectors required time to adjust (real estate, textiles). Now there are still debates concerning the adequacy of some rates and simplicity of compliance for very small businesses.

WHY IT MATTERS TO YOU

Being a consumer, GST enables you to correctly read the bills and understand the reasons behind price differences among categories. For a student in law, economics, or commerce, GST is an interesting example of the balance between the central and state authorities of India in the context of a federal state and the simplification of a very complicated system. As a citizen of India, GST

is an important reform, which is used in every transaction in the country and influences the economic life greatly.

CONCLUSION

The GST system is a constantly evolving concept. It has been modified and corrected in many aspects since its introduction in 2017. Nevertheless, it managed to provide replacement of the fragmented and cascaded system with a single tax collected in the place of consumption and divided fairly between the center and the states with the mechanism of preventing double taxation. Similar to most big reforms, its success lies not in the initial idea, but in the continuous work of perfecting it. Correct understanding of the GST system is the key step towards its appreciation.