

GST: A central Idea to unite India

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GST was recently Introduced few months back at Lok Sabha by Finance Minister Arun Jaitley which was passed but it still awaiting approval from Rajya Sabha (Upper House) where govt is in minority. The Idea of GST was introduced long back but there was lots of issues with it initially and now government is trying hard to implement it by amending the constitution .

What is GST?

GST stand for Good and Services tax. At present India we have two broad categories of taxes:-

1. Direct Taxes (eg. Income tax, wealth tax)- taxes whose tax liability cannot be shifted to any one other.

2. Indirect Taxes- tax liability can be shifted to other Further to explain Indirect tax is divided in 3 major parts.

- Central VAT
- State VAT
- Service Tax

GST Is an initiative to subsume the taxes on taxes that we pay. In GST we will pay taxes on value addition just like VAT. On the current tax regime state govt only levy taxes on goods while central govt taxes for goods as well as for services and in today's time it is hard to differentiate between goods and services. So the GST will usher in a uniform tax regime throughout the country.

Indian GST will have following distribution:

- Central GST (Tax which central govt will receive)
- State GST (Tax which state govt would receive)
- Integrated GST (this is a special tax that one has to pay for interstate transaction which is 1% which is to be decided by GST council after 5 years if they wish to continue or abandon it)

Need of GST

There would be a single tax policy across the country which will allow free movement of goods and services to each and every state of India.

Impact on Economy:

- GDP will increase
- Cost of product throughout the country would be almost same.
- Customer will have more money in their pocket to spend .
- Tax/GDP ratio would go up.

Though this tax regime will unanimous tax policy across country but states will suffer a huge loss with this . So few commodities are exempted from it.

- Potable Alcohol
- Aviation Turbine fuel
- High Speed Diesel
- Petroleum

Also Govt has reached to conclusion they would still be paying any revenue loss hereafter to each state for a period of 5 years from the date of implementation of GST. There would be a GST council headed by Finance Minister and team will comprise of finance minister of each state who will be its policymaker.

Today consumers have no idea about the extent of taxes they pay on goods. If you get a bill after buying merchandise which gives the extent of VAT[1] you have paid, it is an understatement of the actual tax you have paid. Remember, well before merchandise reached the retail outlet, the central government has collected excise duty. The extent of excise duty is not mentioned in the bill.

Therefore, today it is reasonable to assume we pay well over 20% tax for most merchandise we buy. In GST, consumers should benefit in two ways. First, all taxes will be collected at the point of consumption. It means that if a shirt is taxed at 18%, it will include both central government's taxes and state government's taxes. Transparency in taxation should deter governments from indiscriminately increasing taxes as there is bound to be public backlash.

Second, once barriers between states are removed, we as consumers will not end up paying "tax on tax" which is what happens when goods move across state borders. If this is the case why will GST not kick in the moment both houses of parliament clear the constitution amendment bill?

The constitution amendment bill only changes the overarching principle of indirect taxation in India in order to create a common market. Details of GST have yet to be worked out. It is only after details have been worked out can the final GST rates be fixed. Therefore, after the constitution is amended, the center and states have to pass a separate legislation which fleshes out the details of GST. Eventually, this will be followed by subordinate legislation which details procedures