The Gist of GST

Ajit Ranade

The *GST* is set to rollout at midnight on June 30, and the move is being hailed as India's second awakening. Is the hype really worth it?

So it is finally here. The biggest reform in indirect taxes since Independence will be rolled out on July 1. It is so momentous that a special midnight meeting of Parliament has been arranged on the night of June 30. Shades of India's 'tryst with destiny'? From the next morning, more than 1,500 different slabs on various goods and services will collapse into just six slabs. These are at 0, 5, 12, 18, 28 and 43% rates.

The rollout of the Goods and Services Tax (GST) across the country means that both the Centre and the states have surrendered their right to impose indirect taxes. The centre gave up excise and service tax and states gave up sales tax (also called Value Added Tax i.e. VAT). Here are some interesting titbits about GST.

GST is prevalent in more than 142 countries worldwide. But the Indian version is unique, since our version consists of actually three taxes, called CGST, SGST and IGST (centre, state, inter-state). The United States of America does not have GST.

What will be the applicable GST rate? This will now be decided by the GST council. It consists of representatives from every state of India. The council is a deliberative body, with no constitutional basis. It works mostly by consensus.

Sometimes its decisions seem odd.

For instance, the working principle of the council was to impose low rates (0 or 5%) on 'essential' items like food and medicine. It was to impose a high rate (28 or 43%) on luxury items.

But, what constitutes a luxury and what is a necessity is subjective. Most of the heated debates were on this classification.

REPRINTED FROM THE PUNE MIRROR WITH DUE PERMISSION FROM AJIT RANADE. PUBLISHED ON 24TH JUNE 2017.

IMAGE CREDIT: SAI DEHERKAR

“This ‘interlocking’ incentives, implies much less scope for tax evasion and tax dodging. Hence, tax collection is likely to go up.”

Ladoos and the sale of hair will not be taxed, since that’s what Andhra wanted. But, sanitary napkins will be taxed at 12% since they were deemed inessential.

Due to pressure from the hotel industry, the rooms that cost less than INR 7,500 per night, will not be deemed luxury and will be taxed at 18%. But others will be taxed at 28%.

In a restaurant, the GST will be different depending on whether it is air-conditioned or not.

If you are leasing a car, then you currently pay a service tax of 15%. That will go up to 43%, especially for larger cars. If you see the full list, it can make you both laugh and it can make you cry. And sometimes, do both at the same time!

Since it is the council that determines rates, gone are the days when the Finance Minister (FM) tweaks tax rates on goods and services. It is as if the FM of each state has lost some ‘stature’ by losing the ‘tweaking’ power.

The entire GST system will work online. Hence it is necessary for all sellers, big and small to have an internet connection. The government has provided a handy excel spread sheet type software, which can be filled offline.

Tax returns have to be filed three times in the middle of the month, plus once at the end of the month, and once annually. That is 49 returns, per state.

If you have presence in more than one state, then it is more. These returns are all done electronically, so it is not as cumbersome as it seems. As such, even pre-GST, there were more than 8 crore sellers who were filing state-level sales tax returns electronically.

The GST system gives you credit (i.e. refund) on tax paid on inputs. So if you charge 18% tax on your output, but your inputs have paid 12%, then your net burden is much less. But, to avail of the refund, you have to ask for proof of GST paid on inputs from your suppliers.

This means you will deal only with tax compliant suppliers. This 'interlocking' incentives, implies much less scope for tax evasion and tax dodging. Hence, tax collection is likely to go up.

Most services, currently taxed at 15%, will go up to 18%. Some examples are coaching classes, beauty parlours, security services and so on. Since the service sector dominates the economy, this may lead to some short term inflation.

Almost one-third of the economy is excluded from GST. This includes agriculture (i.e. crop sale), real estate (sale of flats), electricity, alcohol, tobacco, petrol and diesel.

All these, excluding agriculture, will attract state taxes, but no offsetting credit will be available. To that extent there is insufficient coverage of GST and is hence, inflationary.

The long-term benefits of GST are undeniable, but short-term teething troubles are also inevitable. Be prepared for both.

NEXT PAGE
IMAGE CREDIT: APURWA KUMBHAR