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# A Goods and Services Tax for India


**By Dinesh Agrawal and Dipti Doshi**

India is soon going to revamp its indirect tax system by introducing a Goods and Services Tax (GST). The present multi-layered system of indirect tax has cascading tax and a distortionary effect on production and re-distribution of goods and services, resulting in misallocation of resources, lesser productivity and lower economic growth. Under the GST regime, the distinction between various economic activities like manufacturing and service (where tax is presently levied by the Central Government) and trading (where tax is levied by the respective State Governments) will be eliminated. GST will be collected on the value added at each level of the supply chain as goods and services move through the chain, from the producer to the ultimate consumer. A fundamental feature of GST is the ability of taxpayers to claim a credit for 'input tax paid' on purchases against the output tax liability.

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The first discussion paper released by the Empowered Committee (EC) has provided a broad framework of the proposed GST, which is to have two components: 'CGST', to be levied by the Central Government; and 'SGST', to be levied by the States on the same value base. Most of the taxes levied on goods and services by the Central Government (including Central excise duty, Additional customs duty, and Service tax) and by State Governments (including Value added tax, Entertainment tax, and Entry tax) are proposed to be subsumed in the GST. The EC has proposed the following: (i) a dual rate structure for goods i.e. a lower rate for the necessities and a higher standard rate for the general goods; and (ii) a single rate for services. The Task Force and Union Finance Ministry has advocated a single rate of GST for both goods and services.

It is proposed that the CGST and SGST would be applicable to all transactions of goods and services with a few exemptions. GST will be implemented through multiple statutes – one for CGST and a SGST statute for every State – with uniform basic provisions for, inter alia, chargeability, definition of taxable events and taxable persons, measure of levy including valuation provisions, basis of classification etc. Cross-utilisation of input tax credit (ITC) for tax paid on purchases of goods and services, and for payment of tax between goods and services, will be allowed under the GST regime. However, cross-utilisation of ITC of CGST will not be permitted for payment of SGST and vice versa. ITC on tobacco products, petroleum products and alcohol may be partially allowed.

A robust banking and IT infrastructure is the prerequisite for hassle-free GST, especially for inter-state supplies. Law makers are yet to define finer details like time and place of incidence of tax on service and GST rate. Politically motivated economic decisions are a major issue in a welfare democracy like India. Thus, a permanent institution is required to keep the integrity of GST design. GST-reform induced gains in GDP are estimated to be in the range of 0.9 percent to 1.7 percent. Further, benefits are expected to accrue from the integration of the presently fragmented Indian market into a single market. It is also expected that Indigenous manufacture and exports from India will be more competitive under the GST regime.

**Khaitan & Co**
One Indiabulls Centre, 13th Floor
841 Senapati Bapat Marg, Elphinstone Road
Mumbai 400 013, India
Tel: (91) 22 6636 5000 Fax: (91) 22 6636 5050
**Email: mumbai@khaitanco.com**
**Bangalore Kolkata Mumbai New Delhi**