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An Analysis on GST Compensation in India

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ABSTRACT: GST is structural reform of the current government by replacing the multiple taxes of different State and Central Government into a single tax has been a major relief to trade and industry. As seen in today's time the movement of goods across the country has become faster with the help of single bill system. Government also tries to complete this process through single tax system with a slogan of ONE NATION ONE TAX but in various States this scheme has not been implemented. It is a very easy process for all businessmen to run their business smoothly. In this paper the author talks about the various stages process of GST, why GST is so important for need of the hour, and how a person chose the correct tax slab according to his income and so on. It is very necessary for every person to pay his tax on correct time and if he did not pay his tax on time he is liable for late payment. For a good development of Country it is very important to run economy on a top level, and the economy is good when all persons pay their tax on time.

KEYWORDS*:* documents, economy, GST Compensation, legislation, tax slabs rates

I. INTRODUCTION

A tax is a kind of fee levied by Central or State Government on goods, income of citizens of India or any other activity. The main objective of taxation is to finance government expenditure. Tax can be used in financing public goods and services such as for the development of nation, society. Through taxation an infrastructure also developed.

Through taxation there is a hope for growth of nation with certain strategies undertakings such as the concept of "make in India" and "digital India campaigns." Our economy is also based on taxation, the duty of every citizen is to pay his tax on time without having done any fraud or wrongly act. The whole economy is based on our efforts if we pay the right tax it is beneficial for us, beneficial for economic growth. To reduce the burden of tax on a common people the government tries to constitute an act called goods and services tax, the concept behind this only to pay one nation one tax.

Goods and Services Tax means, any tax applies on manufacturing, sale and consumption of goods and service. The goods and services expected to provide the need of stimulant for economic growth in India by transforming the existing base of indirect taxation in India towards the free flow of goods and services.

The introduction of goods and services tax will be a very crucial step in the field of indirect tax reforms in India. After coming of the concept of GST, it is expected to significantly to ease the double taxation and make taxation overall easy for all the industries. For a common person, the most important task will be reduction in the overall tax burden on goods and services.

Under GST (Compensation to States) Act, 2017 states are guaranteed compensation for loss of revenue on account of implementation of GST for tenure of five years between 2017 and 2022. The GST compensation is calculated based on the difference between the States current GST revenue and the protected revenue after approximately the growth of fourteen percent from the base year of 2015-16.

The concept to implement this theory in GST is GST should generate as much revenue as the previous tax code. This new tax authority is taxed on consumption and not on manufacturing which means that tax won't be levied at the place of production which also means manufacturing states would lose and hence several states opposed the concept of GST. The government will have to give assurance this is benefit for all no one can harm under this.

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II. DISCUSSION

Types of GST in India: GST is totally based on four pillars which are discussed below:[1]

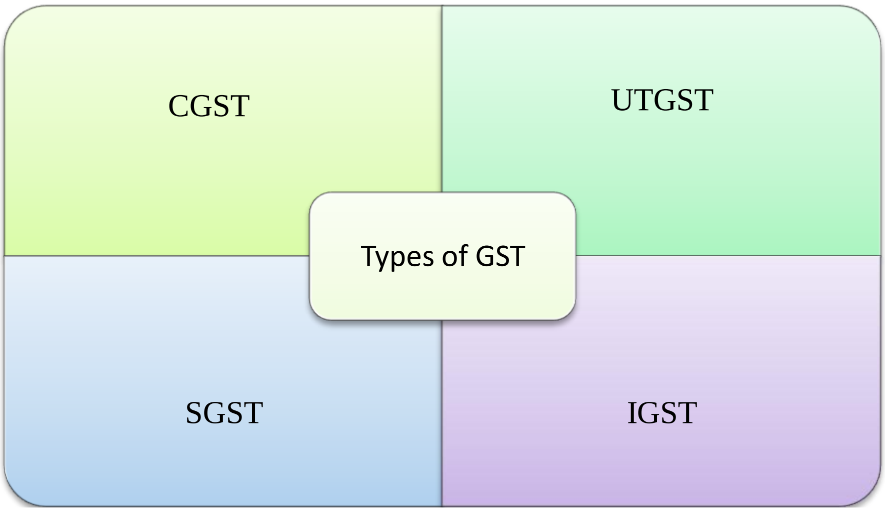

Figure 1: Types of GST

- *The Central Goods and Services Tax (CGST):* this type of tax applied on central excise, additional duties of customs, service tax. This has been implemented by central government on intra-state goods and services transactions. The central government collects the revenue generated through central goods and service tax.
- *The State Goods and Services Tax (SGST):* SGST implied by any Government of State on intra-state goods and services transactions. SGST includes sales tax, taxes on value added services, entertainment tax, luxury tax, entry tax, purchase tax, stamp duty, tax on vehicle, electricity banking and real estate.
- *The Union Territory Goods and Services Tax (UTGST):* UGST implemented on Union Territories of country in such territories, SGST is replaced by UGST.
- *The Integrated Goods and Services Tax (IGST):* The Integrated Goods and Service tax is the tax applies on inter-state goods and services. It is applicable on imports and exports as well. The taxes have been shared, the central government and state government. IGST also helps you claim input tax credit.

Types of registration under GST:

- Mandatory registration u/s 22 & 24
- Voluntary registration u/s 25(3)
- Registration by Dept u/s 25(8)
- Input service distributor u/s 24
- Others i.e. job worker etc

Eligibility for GST registration:

For every type of business whether it is on small level or larger level, every person shall have a PAN which is issued under the Income-tax Act, 1961 in order to be eligible for grant of registration. Also, a person who is required to deduct tax under section 51 shall have a TAN. Alongwith having PAN and TAN No. authentication of Aadhar for specified person is also mandatory, and if Aadhar number is not available, such person shall other alternate and viable means of identification.

Need of GST:

The basic need to implement GST is to reduce the burden of taxation which leads to a high cost and inefficient tax structure. The proposed GST would incorporate various central indirect taxes such as central excise and service tax. It

[1]http://www.slideshare.in types of GST in India

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will also include value added tax and entry tax, taxes on goods and services and so on. In GST, 2 percent levied by central sales tax implement by central government on interstate sale of goods.

It is a single type market which is allowing for free movement of goods and services across states. GST has multiple slabs of tax rate for different categories of products.

Goods which are not covered under GST:

- *Consumption of alcohol on humans:* the power to remain same with the states on consumption of alcohol.
- *Products related to petroleum:* on few products of petroleum such as crude oil, diesel oil, petrol, natural gas and ATF are excluded in GST.
- *Tobacco:* the central government reserved certain rights and powers to levy additional excise duty on tobacco products.
- *Entertainment tax:* all the State Governments have powers and certain rights on entertainment tax levied by local bodies remain with the state.[2]

Types of Tax in India:

Direct Tax: direct tax means any tax which is payable to government directly bears the incidence of tax. In direct tax burden is upon on person himself. Direct tax includes income tax which is applied on income and other tax includes interest tax or expenditure tax.

Indirect Tax: indirect tax means the person paying the tax to the government of India collects the same from the ultimate consumer. Thus incidence is shifted to the other person. These type of tax is regressive in nature, in such type of taxes all the consumers are equally bear the burden, irrespective of their ability to pay.

The run-up to the enactment of the GST design revealed that the rate structure dominated the Parliamentary debate on Constitution Amendment Bill. It was intensely debated by economists and experts, besides, of course, politicians. The central idea was to arrive at a 'Revenue Neutral Rate' (RNR), a median rate accompanied with a merit and demerit rates keeping in mind the fiscal impact and burden on the common man.

In addition, the price-elasticity analysis and revenue-augmentation capacity also endorse the necessity for a higher tax rate. Thus, a demand to permanently do away with the highest tax of 28% may gain some political mileage but will be detrimental to the interest of the common man as the latter will end up subsidising consumption of luxurious and sin-goods.

Second, trimming the tax-slabs causes business loses on account of inverted duty structure to also diminish. To illustrate, all supplies to Railways are currently pegged at 5% whereas most inputs used for making such supplies are taxed at 18%. This results in excess input credit accumulation which results in working capital bottlenecks and, in most cases, incremental cost, as business can't absorb by way of input credit.

In the concept of GST, States feel aggrieved on many points which are described below:

GST has connection around 47 percent of the gross tax revenues of the State as compared to only 31 percent of the Centre. The Centre is still left with buoyant sources of revenue like income tax, corporation tax and custom duties which are outside of GST.

States believed that the introduction of GST would put an end to the frightful practice of the Centre levying cesses and surcharges, which are not shareable with them. The data of union budget of the year 2018-19 increased the rates of education and health problems and implement a social welfare surcharge on a number of imported goods. As per the Union budget of the year 2019-20 raised the road cess on petrol and diesel by Re 1 per litre. The union budget of 2020-21 introduced health cess on imported medical devices. The cess has been further increased to 9 percent litre during the current year.

States are despairing that even as the burden of fighting the critical situation of covid-19 which has fallen on their shoulders, the centre has not been sufficiently sensitive to their deep fiscal woes.

How GST is beneficial for Indian Economy:

- To remove the bundled indirect taxes such as VAT, service tax, excise and so on.
- Less tax compliance and a simplified tax policy compared to current tax structure.
- Removal of tax over tax
- To reduce the cost of manufacturing due to lower burden of taxes on the manufacturing sector. Hence prices of consumer goods will be likely to go down.

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[2] Goods excluded under GST

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- Public will have to shed less money to buy the same products that were costly earlier.
- To increase the demand and consumption of goods
- To boost up the Indian economy in the long run data.

Chain of GST:

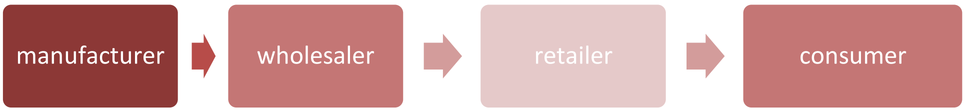

Figure 2: chain under GST

- Manufacturer: manufacturer means not only a person who employs hired labour in the production or manufacture of goods, but also engage any person who engages in their production or manufacture on his own account.
- Wholesaler: the general definition of wholesaler is a person or a company that sells goods in large quantities at low price typically to retailers.
- Retailer
- Consumer: consumer means who consume goods. Under GST most goods are expected to turn cheaper while services will become more expensive with the introduction of new goods and services.

Who is a taxable person under GST?

It will cover all types of person carrying on business activities i.e. manufacturer, job-workers, trade and included all types of service providers etc. A dealer must get registered under CGST as it will make him entitle to claim of CGST.

Process of registration under GST: any business whose turnover exceeds Rs. 40 lakhs is required to register as normal taxable person. This process is known as GST registration. A GST registration is very necessary for every business and it is safe also for every businessman having GST registration. Suppose if any organization done any business without registered himself under GST, it will be an offence and falls under GST.[3]

Documents required for GST registration

- PAN of the applicant
- Aadhar Card
- Proof of business registration
- Identify and address proof of promoters/directors with photographs
- Address proof of the place of business
- Bank account statement/cancel cheque
- Digital signature
- Letter of authorization

Penalty for not registering under GST:

An offender not paying tax or making short payments has to pay a penalty of 10 percent of the tax amount due subject to a minimum of Rs. 10,000/-

Persons or organizations come under GST registration:

- *Individuals registered under the Pre-GST law i.e. VAT, service tax and so on*
- *Businesses with turnover above the threshold limit of Rs. 40 lakhs*
- *Casual taxable person*
- *Agent of a supplier and input service distributor*
- *Person supplying online information and database access or retrieval services from a place outside India other than a registered taxable person.*

Returns under GST:

The taxpayer would need to submit periodical returns to both the central GST as well as State GST authorities. ITC credit can also be verified on the basis of the returns files and revenues reconciled against Challan data from banks.

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[3] Registration process under GST cleartax blog

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High tax-rate, in general, is unviable for the economy as it discourages consumption and directly affects economic output. Simultaneously, it could lead to inflationary pressure as tax is a major component of the supply price.
Merging of tax-slabs augurs well for make in India concept. This is principally based on overall reduction in tax incidence, simplification of tax regime and obviating the state bias with some goods with 5 and 12 percent to 18 percent etc.
Why GST Compensation is necessary?
In theory the GST should generate as much revenue as the previous tax regime
New tax regime is based on consumption and non-manufacturing
In this, tax would not be levied at the place of production which also means manufacturing and states would lose out and hence several states strongly opposed the idea of GST.
How has GST helped in price reduction?
During the pre-GST regime, every purchaser, including the final consumer paid tax on tax. This condition of tax on tax is known as the cascading the effect of taxes.
From GST tax is calculated only on the value-addition at each stage of the transfer of ownership. The indirect tax system under GST will integrate the country with a uniform tax rate. It will improve the collection of taxes as well as boost the development of the Indian economy by removing the indirect tax barriers between states. For example: in the manufacture of the milk, how from actual figures to see what happens to the cost of goods and the taxes are discussed below in the above said Figure 1.

Table 1: Calculation of tax

Action taken	Actual Cost(Rs)	Tax rate @ 10 % (Rs)	Invoice total (Rs)
Manufacturer	500	50	550
Warehouse adds a label and repacks at 200 Rs	750	75	825
Retailer advertises at Rs 500	1325	133	1458
Total	2600	300	2900

Advantages of GST registration:

- Removing the descend effect of tax
- Higher threshold for GST registration
- Composition scheme for small businesses
- Simpler online facilities for GST Compliance
- Defined treatment for e-commerce activities
- To increased efficiency in logistics
- To synchronize the unorganized sectors

Rates of GST in other countries as described below in Figure 1

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Figure 3: Flow chart of rate of GST in other countries

New procedure under GST registration:

As seen in today's time as apart from online filing of the GST returns, the GST regime has introduced several new systems which are discussed below as:

- *E-way bills:* GST includes a new system of filing of e-way bills in place of waybills on 1st April, 2018 for inter-state movement of goods and on 15th April 2018 for intra-state movement of goods.
- *E-invoicing:* the e-invoicing system has been launched on a trial basis w.e.f. from January 2020 and applicable w.e.f. from October 2020. This system requires large business with an annual aggregate turnover of more than Rs. 100 crore to comply with some requirements. In this system the process is only that to issue a unique invoice reference number for every business-to-business invoice by uploading on the portal of GSTN's portal known as the invoice registration portal. This portal authorizes by using the digital signature along with a QR Code.

Issues:

- As the economy of a country shake in the critical situation of covid-19 pandemic, the collection of tax has dropped significantly.
- At the same time, expenditure needs are sharply higher at the state level.
- Using an equivalent of the Force-Majeure clause in commercial contracts, the centre is relinquished compensation for time being while exploring the options suggested by the centre.

Solutions:

- It is a time for State to accept the realities and agree to a lower level of compensation, ideally linked to the growth rate of the Indian economy in nominal terms.
- States can't turn blind sight after the critical condition of pandemic
- The Central Government must also need to lead the country out of its GST impasse by borrowing more financial markets or directly from RBI.
- The centre must understand that it is their lawful obligation and they cannot invalidate it.
- States should reciprocate by settling for a more practical compensation for time being while exploring the options suggested by the centre.

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III. CONCLUSION

In India GST is a reform which is still a work-in-progress. Through GST it is easy for every businessman to run his business with efficiently. It is very necessary every business whether on small scale or on marginal basis shall be registered under GST registration in India. It is very important every business shall be run on fairly basis with correct tax pay. Every person shall payable to tax whose income is falls under tax slabs constitutes by Government of India. There are different slabs under which tax rate is to be payable i.e. as per new slabs of tax with a income below than 2.5 lakh no rate shall be applicable, on income of Rs. 2.5 lakh to Rs 5 lakh tax rate of 5 percent shall be payable and so on and if such tax rates shall not be paid on time then a person faces lots of problems and on him the government has certain rights to impose heavy penalties.

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