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## A Comprehensive, multi-stage, destination-based tax : GST

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### Introduction

Goods & Services Tax Law in India is a **comprehensive, multi-stage, destination-based tax** that is levied on every **value addition**.

In simple words, [Goods and Service Tax](#) is an indirect tax levied on the supply of goods and services. GST Law has replaced many indirect tax laws that previously existed in India.

### History of GST in India

Atal Bihari Vajpayee, the 10th Prime Minister of India, was the first to recommend the idea of adopting GST during his time in office, in the year 2000. An Empowered Committee was formed by the state finance ministers at the time, and their aim was to formulate a structure for GST as they already had experience in creating State VAT. The Centre as well as the State had representatives who were urged to examine several different aspects of the proposal so as to come up with reports on the taxation of services, taxation of inter-state supplies, thresholds, and exemptions. The Finance Minister of West Bengal at the time, Asim Dasgupta, headed the committee and chaired it till 2011.

The advisory to the Finance Ministry between 2002 and 2004, Vijay Kelkar, led a task force and sent a report to the Ministry in 2004, highlighting the issues with the then tax structure, adding that these issues could be mitigated by adopting GST.

During his third term as the Finance Minister of India, P. Chidambaram said in 2005 that the government's medium-to-long term objective was to introduce a uniform taxation structure across India and cover the entire production-distribution chain. As a result, a discussion regarding the same took place in the Budget Session in FY 2005-06, and 1 April, 2010, was set as the date on which GST would be implemented in India.

The advisor to Chidambaram, Parthasarathy Shome, said that preparations by the state to make reforms may take time, but the deadline to implement the regime was retained at 1 April, 2010, in the Union Budget 2007-08. Chidambaram confirmed that significant progress was being made by the states to prepare for the implementation of GST in the Union Budget 2008-09, and the deadline remained intact.

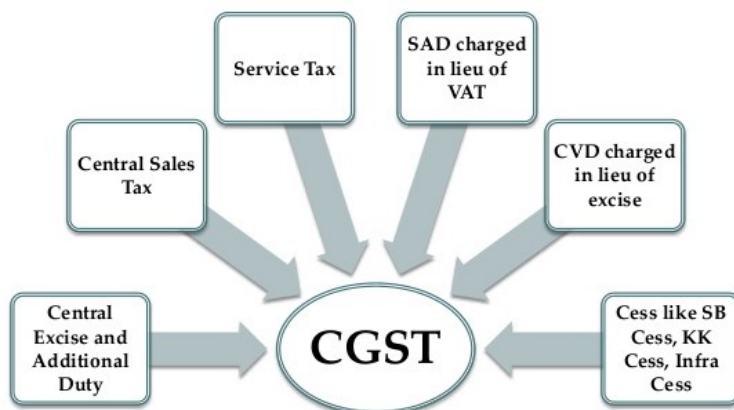
In 2009, following the appointment of Pranab Mukherjee as the new Finance Minister of India, an announcement was made regarding the basic framework of GST, and there was still no change in the deadline. In late 2009, the Empowered Committee, led by Asim Dasgupta, presented

the First Discussion Paper (FDP), explaining in detail the proposed GST reform. The foundation for GST, however, was laid by the Mission-Mode Project introduced by the government. The budgetary outlay of the project was Rs.1,133 crore, and it led to the computerisation of commercial taxes in the various states of India. Following this move, GST implementation was delayed by a year.

The 115th Amendment to the Constitution saw the Government, headed by Congress, put forth the bill for the implementation of GST. The bill drew protests from the opposition party and was then sent for detailed scrutiny to a standing committee. The bill was discussed by the committee in June 2012, and concerns were raised by the opposition party over clause 279B as it provided extra powers to the Centre. As a result, Finance Ministers of various states along with the Finance Minister of India held meetings before setting a deadline to resolve the issues by 31 December, 2012.

Arun Jaitley, the new Finance Minister of India, revealed in his budget speech in February 2015 that GST would be implemented by 1 April, 2016. However, due to disagreements between states and parties in addition to legal issues, the implementation of the regime was delayed by over a year, and on 1 July, 2017, the four GST-related bills, viz. Central GST Bill, Union Territory GST Bill, Integrated GST Bill, and GST (Compensation to States) Bill became Acts. The GST council, over time, finalised GST rules and rates, and the Government announced that GST will come into effect on 1 July, 2017.

Figure



Under the GST regime, the tax will be levied at every point of sale.

Now let us try to understand the definition of Goods and Service Tax – “GST is a comprehensive, **multi-stage, destination-based tax** that will be levied on every **value addition.**”

#### **Multi-stage**

There are multiple change-of-hands an item goes through along its supply chain: from manufacture to final sale to the consumer.

Let us consider the following case:

- Purchase of raw materials
- Production or manufacture
- Warehousing of finished goods
- Sale to wholesaler
- Sale of the product to the retailer
- Sale to the end consumer

#### Value Addition

The manufacturer who makes biscuits buys flour, sugar and other material. The value of the inputs increases when the sugar and flour are mixed and baked into biscuits.

The manufacturer then sells the biscuits to the warehousing agent who packs large quantities of biscuits and labels it. That is another addition of value after which the warehouse sells it to the retailer.

#### Destination-Based

Consider goods manufactured in Maharashtra and are sold to the final consumer in Karnataka. Since Goods & Service Tax (GST) is levied at the point of consumption, in this case, Karnataka, the entire tax revenue will go to Karnataka and not Maharashtra.

changes has GST brought in

#### Conclusion

In the pre-GST regime, tax on tax was calculated and paid by every purchaser including the final consumer. This tax on tax is called Cascading Effect of Taxes.

GST avoids this cascading effect as the tax is calculated only on the value-add at each stage of transfer of ownership. Understand what the cascading effect

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