INTRODUCTION

The GST is a broad based, single, comprehensive tax levied on goods and services at each point of sale of goods or provision of service, in which, the seller or the service provider may claim the input credit of tax which he has paid while purchasing the goods or availing the service; the final consumer will thus bear only the GST charged by the last dealer in the supply chain. With the introduction of GST at the state level, the additional burden of CENVAT and service tax would be comprehensively removed and major Central and State tax will get subsumed into GST which will reduced the multiplicity of the taxes. Thus it marks a measure improvement over the previous system of VAT. Again, the transparent and complete chain of set-offs, GST will hell winding the coverage of tax base and improve tax compliance. This may lead to higher revenue which further results in lowering of tax burden.

GST is a tax on goods and services with the benefit of continuous chain of set off from the level of manufacturers and service providers right up to the retailer’s level. Thus it is essentially a tax only on value addition at each stage, and thus a supplier of goods and/or services is permitted to set off the GST paid at the previous stage through an input tax credit mechanism. GST has been envisaged to give relief of the cascading burden of “tax on tax”.

GST is abbreviation for Goods and Service Tax. GST would be levied on all the transactions of goods and services made of a consideration. This new levy would replace almost all of the indirect taxes. In particular, it would replace the following indirect taxes:

At Federal Level
• Central Excise Duty
• Service Tax
• Additional Excise Duties
• CVD (Levied on imports in lieu of Excise duty)
• SAD (Levied on imports in lieu of VAT)
• Excise Duty levied on Medicinal and Toiletries preparations,
• Surcharges and cesses

At State Level

• VAT/ Sales tax
• Entertainment tax (Unless it is levied by the local bodies)
• Luxury Tax
• Taxes on lottery, betting and gambling
• Entry tax not in lieu of Octroi
• Cesses and Surcharges

Systems of GST

Internationally, there are three systems in vogue:

(a) Invoice System
(b) Payment System
(c) Hybrid System

(a) **Invoice System**: In the invoice system, the GST (Input) is claimed on the basis of invoice and it is claimed when the invoice is received, it is immaterial whether payment is made or not. Further the GST (Output) is accounted for when
invoice is raised. Here also the time of receipt of payment is immaterial. One may treat it as mercantile system of accounting. In India the present system of sales tax on goods is an invoice system of VAT and here it is immaterial whether the tax payer is following the cash basis of accounting or mercantile basis of accounting. The advantage of invoice system is that the input credit can be claimed without making the payment. The disadvantage of the invoice system is that the GST has to be paid without receiving the payment.

(b) **Payment System**: In the payment system of GST, the GST (Input) is claimed when the payment for purchases is made and the GST (Output) is accounted for when the payment is made. In this system, it is immaterial whether the assesses is maintaining the accounts on cash basis or not. The advantage of cash invoice system is that the Tax (output) need not be deposited until the payment for the goods and/or services is received. The disadvantage of the payment system is that the GST (input) cannot be claimed without making the payment. The Taxes on services in India are based on this payment system since service tax is payable on receipt basis and further Cenvat credit is only allowable when payment of the service is made. In some countries, this system is also adopted for small traders to keep them away from the complexities of the Invoice system, which is purely a mercantile system.

(c) **Hybrid System**: In hybrid system the GST (Input) is claimed on the basis of invoice and GST (Output) is accounted for on the basis of payment, if allowed by the law. In some countries the dealers have to put their option for this system or for a reversal of this system before adopting the same. These three systems can be summarised as under:
It always depends on the law of the country, which decides the system of GST to be followed by the dealers.

1.2 The advent of GST

**Best Time to Introduce GST**

Financial Secretary of Hong Kong Government Henry Tang Ying-yen has recently said: “The GST offers us the best option to broaden our tax base and we should grasp this opportunity to introduce it when the circumstances are favourable and while the economy is enjoying steady growth with only mild inflation.” When VAT was introduced in India, most of the burden of introduction and implementation of VAT was shared by the Empowered Committee of the Finance Ministers of the states but when GST will be introduced it is only the Union Finance Minister who has to take most of the burden on his shoulders. There may be a clash of interest of the Centre with the states hence the task will not be that easy. The serious process of discussion of the GST is yet to be started hence at present it cannot be ascertained what the initial reaction of the states will be. But even after the Centre’s clear indication about GST, the states continue to demand for more power to tax.