

GOODS AND SERVICES TAX CONCEPTS & CHALLENGES



Edited by

Dr. P. SUNDARA PANDIAN

Dr. V. MANOHAR



V.H.N.S.N. COLLEGE

Virudhunagar Hindu Nadars' Senthikumara Nadar College (Autonomous)

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(An Autonomous Institution Affiliated to Madurai Kamaraj University)

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33. IMPACT OF GST IMPLEMENTATION ON MUTUAL FUNDS

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Introduction:

Taxes in India are levied by the Central Government and the state governments, excluding some minor taxes being levied by local authorities such as Municipality. India has abolished multiple taxes with passage of time and imposed new ones. Few of such taxes include interest tax, gift tax, wealth tax, etc. Taxation system in India has undergone sea changes since its introduction in 1860 by Sir James Wilson, the British Government. While introducing the taxation system, the purpose it served was to meet losses sustained by the Government. But then it transformed to achieve overall sustained development of society in the modern era i.e. to allocate the tax income collected for the developmental activities of the economy. The authority to levy a tax is derived from the Constitution of India which allocates the power to levy various taxes between the Central and the State. An important restriction on this power is Article 265 of the Constitution which states that "No tax shall be levied or collected except by the authority of law". Therefore, each tax levied or collected has to be backed by an accompanying law, passed either by the Parliament or the State Legislature. Taxes constitute the main source of public finance whereby government raises revenue for public spending. Taxes have been broadly categorized into direct and indirect taxes. Direct taxes include those taxes which are paid by the person on whom these are levied like income tax, wealth tax etc. On the other hand, indirect taxes are levied on one person, but paid by another e.g. sales tax, excise duty, custom duty etc.

One such significant step in the Indian taxation system reforms will include the introduction of Goods and Services Tax (GST). Goods and Services Tax (GST) is a proposed system of indirect taxation in India merging most of the existing taxes into single system of taxation. It was introduced by "The Constitution (One Hundred and First Amendment) Act 2016".

"Goods and Services Tax" would be a comprehensive indirect tax on manufacture, sale and consumption of goods and services throughout India, to replace taxes levied by the central and state governments. Goods and Services Tax would be levied and collected at each stage of sale or purchase of goods or services based on the input tax credit method. This method allows GST-registered businesses to claim tax credit to the value of GST they paid on purchase of goods or services as part of their normal commercial activity. Taxable goods and services are not distinguished from one another and are taxed at a single rate in a supply chain till the goods or services reach the consumer. Administrative responsibility would generally rest with a single authority to levy tax on goods and services. Exports would be zero-rated and imports would be levied the same taxes as domestic goods and services adhering to the destination principle.

As per GST council and reports of Government officials, it is known that GST will be implemented from April 1, 2017. On rolling out the new GST, it will cause a major effect on both manufacturing and services sector.

Mutual funds taxation

Mutual fund (MF) is the pooling of resources from a large number of retail investors and investing the pooled corpus of the fund in various diversified portfolios. Though all the sectors will have both favorable and adverse effects of such an implementation, mutual fund sector, the key financial services sector in the transformation of savings in to productive investments, will have a larger impact. Also the taxation for a MF is different from that for traditional fixed deposits, it is important that investors understand the tax liability of the scheme they have invested in to reduce hassles at the end of the year. With respect to mutual

taxes

tax

capital gains

government

