A Study on Impact of GST In India

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Abstract*- This paper is an analysis of what the impact of GST (Goods and Services Tax) will be on Indian Tax Scenario. The authors have stated with a brief description of the historical scenario of Indian taxation and its tax structure. Then the need arose for the change in tax structure from traditional to GST model. GST has be detailed discuss in this paper by the authors as the background, silent features and the impact of GST in the present tax scenario in India.Even in the worldwide economic crisis India showed remarkable survival in its economic system. The well insulated economic structure in India is the basis of such an amazing withstand. The proposed Goods and Services Tax (GST) is expected to be another milestone in the economic growth in India. The fundamental aim of GST is to make uniform the scattered indirect tax system in India and avoid the cascading effect in taxation. The impact going to make by GST will be a transformation in the entire tax system in India. The effect will go beyond Indian borders. The implementation of GST Will reduce tax burden on manufacturers and thus encourages for the higher production. This process will increase the export of India and it will increase the total GNP. Avoidance of cascading effect empowers the manufacturers to produce to their optimum capacity and retards growth. The study intends to exhibit the detailed impact of GST implementation in Indian economic system.*

Keywords*-* GST, Indirect Tax, Indian Economy, Tax Administration, Cascading effect.

I. INTRODUCTION

It has been long pending issue to streamline all the different types of indirect taxes and implement a “single taxation” system. This system is called as GST (GST is the abbreviated form of Goods & Services Tax). The main expectation from this system is to abolish all indirect taxes and only GST would be levied. As the name suggests, the GST will be levied both on Goods and Services. GST was first introduced during 2007-08 budget session. On 17th December 2014, the current Union Cabinet ministry approved the proposal for introduction GST Constitutional Amendment Bill. On 19th of December 2014, the bill was presented on GST in Loksabha. The Bill will be tabled and taken up for discussion during the coming Budget session. The current central government is very determined to implement GST Constitutional Amendment Bill. GST is a tax that we need to pay on supply of goods & services. Any person, who is providing or supplying goods and services, is liable to charge GST. GST is a consumption based tax/levy. It is based on the “Destination principle.” GST is applied on goods and services at the place where final/actual consumption happens. GST is collected on value-added goods and services at each stage of sale or purchase in the supply chain. GST paid on the procurement of goods and services can be set off against that payable on the supply of goods or services. The manufacturer or wholesaler or retailer will pay the applicable GST rate but will claim back through tax credit mechanism. But being the last person in the supply chain, the end consumer has to bear this tax and so, in many respects, GST is like a last-point retail tax. GST is going to be collected at point of Sale.

II. OBJECTIVES OF THE STUDY

- To study on impact of GST in India
- To understand the concepts of GST in India
- To measure the effectiveness of the GST in India

III. RESEARCH DESIGN

The study is based on secondary data. The data is collected from various sources newspapers, magazines and websites. Data was collected from its inception till 31.09.2018. For presentation, the table is used and for analysis percentage method used.

IV. CONCEPTUAL UNDERSTANDING OF GST IN INDIA

1. Why GST is required?

Goods & Service tax is projected in-direct tax in India. GST arises since:-

(a) It requires eliminating different indirect taxes like as excise duty, valuing added tax, Entry and import tariff, lavishness tax etc and containing a consistent of in-direct tax crossways the country.

(b) It requires diminishing the impacts of tariffs being obligatory on levy taxes and in that way boundary the overall price increases and its impact on the common man.
(c) It requires generating a sole general market by minimizing deformation occurred by unstable tariff rates in various states in India.
(d) It requires encompassing a consumption tax and tariffs based upon destination.

2. How will be Goods and Service Tax charged?

(a) GST is charged on supply of goods and services except being using up the alcohol
(b) Supply is able to moreover inside a State or among different States.
(c) Supply inside a State applies Central GST (CGST) along with State GST (SGST) even as Supply among different States is applicable to Integrated GST (IGST).
(d) Taxation of GST is administrated and managed by three (3) different laws such as State GST Act, Central GST Act and Integrated GST Act by the side of with associated rules and regulations.
(e) The planned GST rates are zero (0), five (5) %, twelve (12) %, eighteen (18) % and twenty eight (28) %.
(f) Exports would be zero (0) rated means that the taxes and tariffs paid on inputs would be refunded.
(g) Information Technology infrastructure and amentias is given by the GST Network.

3. When GST is applicable in India?

GST would be applicable after the performance of the three (3) different laws. The law is come too forces from 1st July 2017.

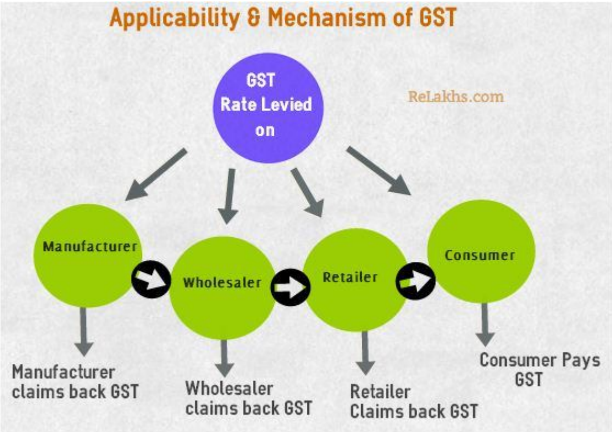
4. Who are subject to GST and who are administered and controller of GST?

Comprehensive all India gross turnover of Rs 20 lacks in a fiscal year would formulate an individual subject matter to GST. Threshold boundary for special class states is Rs 10 lacks. The turnover would consist of supplies made as an agents or brokers, exempted supply, exports and interstate stock transports. The supplier is required to disburse GST while for precise goods and /or services the beneficiary will be necessary to pay GST on reverse charge base. Moreover, beneficiary will be necessary to pay GST for supply getting from unregistered supplier.

GST will be administered and managed by Central and State Government. Central Excise & Services Tax department at the Central level and Commercial taxes department at the State level would be re-designated for executing GST. Administration will be separated on mutually agreed based on turnover.

5. What will happen to existing indirect taxes after GST becomes the law?

The majority of the previous indirect taxes and tariffs would be subsuming under GST.



V. IMPACT OF GST IN INDIA

Positive Impact of GST:-

1. Easy to Run a Business diagonally all the States homogeneously

GST would modify the Value Added Tax all over India. This means the business wouldn't have to endure or suffer about keeping up among Value Added Tax compliances that are different in all state in India.

2. Smaller amount of Tax Compliances

Central GST would reinstate – Service Tax, Central Excise Duty, Duties of Excise, Surcharges and Cesses and Customs Duty, State GST would replace – State VAT, State Cesses and Surcharges, Central Sales Tax, Tax on Advertisements, Lottery, Gambling, Luxury Tax, Purchase Tax and Entertainment Tax.

3. Faster Transportation of Goods

It will be of large help to the logistics sector and will also result in the faster transportation of goods as there will be no hour long waits at the Sales Tax check posts across borders due to the elimination of various indirect taxes.

4. Indirect Benefit to Startups: Startups are required to register for VAT if their turnover is more than 5 lakhs and in some states 10 lakhs. With the coming of GST, businesses with an annual turnover of over 10 lakhs are needed to register for GST.

5. Increase in Foreign Investment

The goods manufactured within India will become more competitive in the international markets due to decreased costs which will, in turn, foster the growth of Indian exports.

6. Sectors that will apparently reap the most advantages

Cement, Building Materials, Metal, Automobiles, Entertainment, Consumer Durables, Fast moving consumer goods and Logistics.

Negative Impact of GST:-

1. Proposed GST Rate Is Higher Than VAT

The rate of GST is proposed to be larger than the current VAT rate in India, which although decreasing the price in the longer run, will be of no help in cutting down prices of commodities.

2. Dual Control

A business will be indirectly controlled by both the Centre and the State in all tax-related cases. The State will lose autonomy to replace the tax rate which will be regulated by the GST Council.

3. Certain Sectors Will Face a Negative Impact

Sectors that are currently enjoying no excise duty or have enjoyed a lot of tax benefits will have to bear the brunt of a higher tax. These include Textile, Media, Pharma, Dairy Products, IT/ITeS, and Telecom. The same goes for products. It is supposed that the prices of the following commodities will increase – jewellery, mobile phones and credit cards.

4. Loss Incurred By the Manufacturing States

Since GST is commonly related to the manufacturing segment, most manufacturing states may incur losses.

Impact of GST on the Indian Economy

GST the biggest tax reform in India founded on the notion of “one nation, one market, one tax” is finally here. The moment that the Indian government was waiting for a decade has finally arrived. The single biggest indirect tax regime has kicked into force, dismantling all the inter-state barriers with respect to trade. The GST rollout, with a single stroke, has converted India into a unified market of 1.3 billion citizens. Fundamentally, the $2.4-trillion economy is attempting to transform itself by doing away with the internal tariff barriers and subsuming central, state and local taxes into a unified GST. The rollout has renewed the hope of India’s fiscal reform program regaining momentum and widening the economy. Then again, there are fears of disruption, embedded in what’s perceived as a rushed transition which may not assist the interests of the country.

Will the hopes triumph over uncertainty would be determined by how our government works towards making GST a “good and simple tax”. The idea behind implementing GST across the country in 29 states and 7 Union Territories is that it would offer a win-win situation for everyone. Manufacturers and traders would benefit from fewer tax filings, transparent rules, and easy bookkeeping; consumers would be paying less for the goods and services, and the government would generate more revenues as revenue leaks would be plugged. Ground realities, as we all know, vary. So, how has GST really impacted India? Let’s take a look.

GST: The Short-Term Impact

From the viewpoint of the consumer, they would now have pay more tax for most of the goods and services they consume. The majority of everyday consumables now draw the same or a slightly higher rate of tax. Furthermore, the GST implementation has a cost of compliance attached to it. It seems that this cost of compliance will be prohibitive and high for the small scale manufacturers and traders, who have also protested against the same. They may end up pricing their goods at higher rates.

What the Future Looks Like

Talking about the long-term benefits, it is expected that GST would not just mean a lower rate of taxes, but also minimum tax slabs. Countries where the Goods and Service Tax has helped in reforming the economy, apply only 2 or 3 rates – one being the mean rate, a lower rate for essential commodities, and a higher tax rate for the luxurious commodities. Currently, in India, we have 5 slabs, with as many as 3 rates – an integrated rate, a central rate, and a state rate. In addition to these, cess is also levied. The fear of losing out on revenue has kept the government from gambling on fewer or lower rates. This is very unlikely to see a shift anytime soon; though the government has said that rates may be revisited once the RNR (revenue neutral rate) is reached.

The impact of GST on macroeconomic indicators is likely to be very positive in the medium-term. Inflation would be reduced as the cascading (tax on tax) effect of taxes would be eliminated. The revenue from the taxes for the government is very likely to increase with an extended tax net, and the fiscal deficit is expected to remain under the checks. Moreover, exports would grow, while FDI (Foreign Direct Investment) would also increase. The industry leaders believe that the country would climb several ladders in the ease of doing business with the implementation of the most important tax reform ever in the history of the country.

Impact of GST on Small and Medium Enterprises

At present, the total tax collection in India is around 14.5 Lakh Crore, of which 34% is indirect tax. Indirect taxes include service tax, stump duty, customs duty, VAT, etc. It refers to the collection of tax indirectly by the Government of India. In most of the developing countries, the share of indirect tax is higher than the direct tax. However, in the developed countries the share of indirect tax is much lower. Therefore, the new GST implementation will allow the government to have a better grip on the taxpayers. This should be capable of evolving the entire tax system.

How will GST help small to medium enterprises?

GST is meant to bring every indirect form of tax under one roof. For small and medium sized businesses, owners or manufacturers have to take care of different taxes and have to run to various departments to fulfil all the tax-related documentations. Some file different taxes biannually, annually, half-yearly, etc. The more the departments, the more is the harassment. Currently, the total tax levied by the central and the state governments add up to 32%, but with the implementation of GST, the business owners have to pay a much lower tax of around 18-22 percent. Moreover, they do not have to pay different taxes to various departments. It makes the job very much easier for every business owner.

Direct impact of GST on small and medium enterprises

GST will help and ease the process of starting a business in India. Earlier, every business in India was required to obtain VAT registration, which differs in every state, and the rules and regulations are different. Thus it was a very confusing procedure. However, under GST, the businesses have to only register for GST which will have a centralized process, similar to service tax.

Currently, for any business, it is mandatory to make a VAT payment if the annual turnover is more than 5 lakh in few states and 10 lakhs in few other states. This difference in various states creates confusion. Under GST a business does not have to register or collect GST if the annual turnover is 10 lakh. This is applicable to every state. This will allow many small businesses which have a turnover between 5 lakh – 10 lakh to avoid applying for the GST return.

GST allows small and medium business to do business with ease in India, due to the less complexity. The distinction between the services and goods will be gone, and this will make compliance easier.

How GST will impact a common man's budget

It has been more than 40 days since GST has been implemented in India. While the industry was very apprehensive, the GST transition has been smooth. The big question is how GST will impact a common man’s budget. GST is stated to be one of the biggest tax reforms in India, which would not only impact the businesses but also the common man. The primary impact to be felt by the consumers would change in prices of goods and services on account of GST rates. The primary impact to be felt by the consumers would change in prices of goods and services on account of GST rates. In terms of impact in prices, while services would mostly be more expensive in the initial phases, impact on prices of goods could be a mixed bag. In the long run, once the benefits of GST are expected to kick in in terms of higher input credits and reduction in cascading effect, it is anticipated that the inflationary effect will come down and prices, in general, would come down and stabilize. In services, the tax rate has increased from 15% to 18%. The 3% increase could potentially mean an increase in the price of services by 3% for the common man, in the short run.

EXPENSES	EXAMPLES
RESTAURANT BILLS	▶A customer visits a restaurant & purchases a meal for ₹1,000 in Delhi ▶Under earlier regime, VAT @ 12.5% and service tax @ 6% was charged. Thus, the customer used to pay ₹185 as tax ▶Under GST, a meal at an air-conditioned restaurant shall attract 18%. Thus, the customer pays ₹180 as tax ▶Effectively, no substantial impact on restaurant bills
AIR TRAVEL	▶A customer travels in domestic economy class on a ticket of ₹1,000 ▶Under earlier regime, service tax at 6% was levied – amounting to ₹60 ▶Under GST, economy class is taxable at 5%. Thus, there would be minor savings in economy class ▶In case the customer travelled business class, GST rate has increased to 12% from 9% under service tax. ▶Thus, business class would be expensive.
HOLIDAYS	▶A customer stays in a hotel which has tariff of ₹8,000 a night ▶In pre-GST regime, the gross indirect tax rates (service tax + luxury tax) ranged from 19% to 25%, depending on rate of luxury tax in a state. Thus, total tax could be between ₹1,520 and ₹2,000 ▶Under GST, for tariff above ₹7,500, tax would be applicable at 28%, resulting in tax incidence of ₹2,100. Thus, higher tier hotels are going to be more expensive under GST ▶The lower tier hotels could be cheaper under GST, since tariffs between ₹1,000 and ₹2,500 would have GST of 12%, and between ₹2,500 and ₹7,500 would have GST of 18%
CAB EXPENSES	▶A customer takes an Ola or Uber and the ride costs ₹100 ▶There is a marginal saving since cab facilities would attract GST at 5% as compared to 6% service tax
BANKING AND INSURANCE	▶These services will primarily have a 3% increase in rate (from 15% service tax to 18% GST). Thus, these services will be more expensive
OTHER HOUSEHOLD EXPENSES	▶Food items have been kept in the range of 0-5% under the GST regime. Food prices are unlikely to go up ▶FMCG products like packaged food, shampoos, soaps, tissue papers, toothpaste, pharma products, electronic items like TV and coolers etc. to become cheaper ▶Services like salon, dry cleaning and telecommunications to become more expensive due to 3% increase in tax rate
REAL ESTATE	▶A customer buys under-construction property for ₹1 crore. ▶Under earlier regime, rate of around 5.5% was levied (both VAT and service tax), but varied from state to state. Under GST, a rate of 12% will be levied resulting in inflation in initial period ▶Prices of ready-to-move-in apartments with completion certificates would remain steady as these are out of GST ambit

VI. CONCLUSION

Even though GST has been accepted by over 110 countries in the world, the possibility of GST accomplishment deeply is different from one country to another. GST is the majority coherent steps towards the all-encompassing indirect tax restructuring in our country ever since sovereignty. GST is levy able on all make available of goods and stipulation of services as well grouping thereof. All sectors of financial system whether the trade, industry including Govt. departments and service segment shall have to abide collision of GST. Implementing GST makes certain consistency of taxes crossways the states in India, in spite of of place of manufacture or allocation in India, which is improved option when compare to VAT and in terms of management; GST put together the levy base and capable of allow faultless flow of effort tax credit all along the rate chain of goods and services, it will direct to concentrated cost of on the whole goods and services presented. GST situation would direct to an enhanced revelation of tax dealings, which may have a optimistic impact on shortest tax collections also.

Taken as a whole, if GST properly trappings with tax exclusion for certain goods like farming commodities, which will effect in rising income at the Centre as the tax compilation system becomes supplementary transparent, creation tax elusion dilemma disappear and leading to financial growth, serving Indian people recoup the wealth vanished within country.

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