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A COMPREHENSIVE ANALYSIS OF GOODS AND SERVICES TAX IN INDIA

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ABSTRACT

GST means goods and services tax ,implemented on July 1,2017 by finance minister ,is considered as a big and major tax reform in India since independence.GST simplify all indirect taxes by subsume all central and state levies taxes like excise duty, VAT, service tax etc. into one single tax. The primary aim of implementing GST in India is elimination of cascading effect of taxes and brings more transparency in taxation system. The GST based taxation system reduces tax theft and corruption as well as important for the economy as it increases the GDP rate from 1% to 2%. Despite the importance of the GST, many business managers still remain confused about key aspects of the GST taxation system. From the taxes that will be subsumed by the GST to technical dimensions of the GST model, this article serves as a complete guide to what will change on July 1. The article highlighted the salient features of GST, comparison of Indian GST taxation system rates with other world economies as well as compared with previous tax system, and also presented in –depth coverage regarding advantages/ impacts of GST implementation to various sectors of the Indian economy. After analyzing and understanding the importance of GST as a biggest tax reform, it has been concluded that GST have positive impact on certain sectors

while negative for others. However, GST will give more benefit in long- run as compared to short -run.

KEYWORDS: *Goods and Services Tax (GST), Indirect Tax, Indian economy, GST council*

1. INTRODUCTION

The goods and services tax (GST), regarded as India's biggest tax reform in India after its independence, implemented from July 1, 2017. The new single tax system will transform India's present indirect tax regime, and replaced multiple cascading taxes levied by the central and state governments. Goods and Services Tax (GST) is an important indirect tax applicable throughout India and as well as on all the goods and services. It was introduced as The Constitution (One Hundred and First Amendment) Act 2017.

The GST is a single value added tax levied by government (state and central) on the manufacture, sale, and consumption of goods and services at the national level. As per the Indian Constitution (One Hundred and Twenty Second Amendment) Act, 2016, it will subsume all central and state levies taxes, which are shown in table.1 and create a single, uniform market across India.

Table 1: Indirect Taxes Included Under GST

Indirect taxes In India	
Levied by Central Government	**Levied by State**
Custom duty	Entry tax and Octroi
Excise Duty	Entertainment tax
Central Sales Tax	Electricity duty
Service Tax	Luxury tax
	VAT/sales tax
	Property Tax

The GST also considered economic reform as it simplify the current tax structure, reduce procedural hurdles, increase the tax base, reduce tax avoidance, avoiding cascading effects of taxes and bring down the final cost of goods and services to benefit businesses, consumers, and the government. According to several studies and the experience of countries such as Canada, Australia, and New Zealand, the implementation of destination-based consumption tax is largely positive. GST in these countries has not only been able to boost tax revenues, but has also been beneficial for their long-term macroeconomic growth.

The rest of our article is presented as follow: section two focuses on literature review. Section three, describes the research objectives of the study. Section four, explains the research methodology. Section five, represents the salient features of GST. Section six, describes comparison between India's GST and other countries GST as well as previous indirect tax structure and GST system within country. Section seven, explain the impacts of GST. Lastly, concludes the study.

2. REVIEW OF LITERATURE

Ansari and Jain (2017) conducted a study to evaluate the impacts of GST on Indian startups. They conclude that the proposed GST act may not be completely perfect but inspite of all these problems GST is one of the most business friendly reforms in India and in long term the benefits of GST are likely to overcome the problems of GST.

Tendon and Tendon (2017) analysis the goods and services taxation enigma in India –prospects, implications and rollout. For the study they used secondary data from various sources. Study concludes that if GST roll-out effectively, it could be the game changer in the Indian economy and provide an impetus for growth and transparency. They also concluded that if GST implemented effectively, GDP of the country may cross 9%.

Sunitha and Chandra (2017) explained the impact of new taxation system on selected various industries in India and overall impact on Indian economy. In this study they also examined the concept, model of GST and rates of GST as a new tax reform in Indian economy. Conclusion of the study shows that applicability of GST gives great reforms in indirect tax system and avoids the duplication of taxes which in return change the pace of the country.

Nisa (2016) evaluates the impact of GST on India's foreign trade. They used secondary data for the study and it is explorative by nature. Also examine the role of GST in exports of goods and services, net foreign earnings and ease of doing business. Result of the study indicates that GST would be positive for certain sectors while negative for others.

Matheen et al. (2017) examined the concept, benefits and impact of GST on different sectors and on Indian economy. In this study they shows that how GST will give Indian economy a strong and smart tax system for economic development. Also suggest building strong mechanism for GST to gain the benefits of GST.

Mahender (2017) explain the positive and negative effects of GST on manufacturing industry in India. Findings of the study indicates that some sectors enjoy the benefits of GST while other sectors face the negative impact of GST like IT sector ,banking and financial services, media companies(DTH) and Textile industry face negative impact by the GST.

3. OBJECTIVES OF THE STUDY

- To study the features of GST.
- To compare the Indian GST taxation system with other world economies taxation system.
- To Study the difference between previous taxation and GST taxation system.
- To study the impact of GST after its implementation.

4. RESEARCH METHODOLOGY

The study based on secondary data which is collected from various books, National & international Journals, published government reports, publications from various websites which focused on various aspects and impact of Goods and Service tax. According to the requirements of the objectives of the study the design is descriptive type.

5. SALIENT FEATURES OF GST

- **Model of GST :**

  India has opted for dual model of GST. Under it Goods and service tax is divided into 3 parts such as C-GST, S-GST and I-GST. Centre would levy and collect Central Goods and Services Tax (CGST), and States would levy and collect the State Goods and Services Tax (SGST) on all transactions within a State. Integrated GST which is levied on interstate supplies will be collected by central government but distributed between central and state government.

- **Destination-Based Consumption Tax:**

  GST will be a destination-based tax because it is totally dependent on location of consumption. This implies that all SGST collected on the final products which are domestically consumed. The GST will be based on the principle of destination-based consumption taxation as against the present principle of origin-based taxation.

- **GST Council :**

  It is a joint forum of the centre and states. The GST Council comprising of the federal Finance Minister as the chairman, the federal Minister of State (Revenue), and the state and union territory finance ministers will make recommendations to the central, state, and union territory governments on important issues like tax rates, exemption lists, threshold limits, and all other matters relating to the GST. The recommendations given by GST Council will act as guidance to central as well as State Governments. The GST Council is also empowered to decide how to resolve disputes arising out of its recommendations. Decisions by the GST Council will be made based on a three-fourth majority of the votes cast: the central government will cast one-third of the votes, while the state and union territories will cast two-third of the votes.

- **Input Tax Credit:**

  The input tax credit of CGST would be available for paying the Central GST liability on the output at each stage. Similarly, the credit of SGST paid on inputs would be allowed for discharging the SGST on output. No cross utilization of credit would be permitted. Simply, the input tax credit of central and state GST cannot be adjusted against each other. The credit of IGST would be permitted to be utilized for payment of IGST, CGST and SGST/UTGST in that order.

- **Goods Exempt:**

  Alcohol for human consumption has been kept outside the purview of the GST. It means the GST would apply to all goods other than alcoholic liquor for human consumption and five petroleum products, viz. petroleum crude, motor spirit (petrol), high speed diesel, natural gas and aviation turbine fuel.

- **Goods and Services Tax Network (GSTN):**

  A not-for-profit, Non-Government Company called Goods and Services Tax Network (GSTN), jointly set up by the Central and State Governments will provide shared IT infrastructure and services to the Central and State Governments, tax payers and other stakeholders.

- **GST Compensation:**

  Due to a shift from origin based to destination based indirect tax structure, some States might face drop in revenue in the initial years. To help the States in this transition phase, the Centre has committed to compensate all their losses for a period of 5 years. Accordingly, clause 19 has been inserted in the Constitution (122nd) Amendment Bill, 2014 to provide for compensation to States by law, on the recommendation of the Goods and Services Tax Council, for loss of revenue arising on account of implementation of the goods and services tax for a period of five years.

- **GST Rates:**

  GST rates are determined by GST council. GST council has declared four tier tax structures: 5%, 12%, 18% and 28% for different goods and services. For the purpose of controlling inflation, essential items will be taxed at zero rates. These rates are lower rate (essential items), standard rates, special rates, zero rates (exempted goods and services). Recently in the 25th GST council, finance minister Arun Jaitley announced the changes in tax rates on 29 goods and 53 categories of services, and the new rates will be effective from January 25.

- **Applicability of GST:**

  GST will be applicable on each and every goods and service except for the exempted goods, services and if the turnover is less than specified threshold limit. As well as Goods and service tax is applicable to whole of India including Jammu and Kashmir.

- **Exports and supplies to SEZ:**

  Exports and supplies to SEZ will be treated as zero-rated supplies. Zero rated supply means to supply of any goods and/or services that are taxable, but their rate of tax is nil. Input tax credits can be availed relating to such supply of goods and services which mean the exporter shall have an option to either pay output tax and claim its refund or export under bond without tax and claim refund of Input Tax Credit.

- **Import of goods and services:**

  In addition to the applicable of customs duties, import of goods and services would be treated as inter-state supplies and subject to IGST. The IGST paid on import of goods and services shall be available as ITC for further transactions.

6. COMPARISON OF GST:

Under this section present GST scenario is compared with previous indirect tax scenario of India and with other countries GST.

6.1 WORLDWIDE GST: The concept of goods and service tax (GST) is not new to a world, countries like France, Canada, Australia, New Zealand, Malaysia, Indonesia; Pakistan etc. have adopted an integrated system of paying the tax instead of customs duties, octroy, VAT and so on.

How GST of India is different from GST of other countries?

- There are main 2 types of GST in India i.e. **CGST** and IGST. Other countries follow integrated GST system.
- Unlike other countries, India has not the same rate of GST.
- India has many rules and regulations for implementation of GST. GST structures of other countries like Canada, New Zealand are quite simple and easy to understand.
- Procedure of filing tax and paying amount is complicated than rest of the countries.
- GST is unified structure but it is bit complicated and confusing than any other countries.

GST of India and Singapore

Singapore follows the system of a single rate of paying tax for every purchase of goods and services. Currently, GST rate in Singapore is 7% which is far lower than Indian rate of GST (18%).

GST of India and New Zealand : There is no GST on financial services and rental income in New Zealand. Business can recover the amount of tax through input tax. Recently tax rate in 15% and India holds 18% as standard rate of GST.

GST of India and China

Tax slab of GST of China are 0% 5% 9% and 17%. In reverse, India holding 0% 5% 12% 18% and 28% GST slabs.

GST of India and Indonesia

Indonesia has an astonishing policy for exporters. Most of exporting goods are exempted from tax. Restaurants and hotel business are exempted from tax. In India, Farming activities are exempted from GST.

GST of India and France

France was the first country to introduce GST in 1954.All goods whether they are exported or produced in home country all business entity are liable to pay tax. In India Agricultural, essential items and allied activities are exempted from tax. Tax rate of GST of France is 19.6% while India holds 18% as GST rate. **Table 1**.depicts GST rates and introduced year of GST of some countries. GST rates of some countries are given below:-

TABLE-1

WORLDWIDE GST RATES

Country	Standard VAT/GST rates in %	Introduced in year
France	19.6	1954
Germany	19	1968
Netherlands	21	1969
Italy	22	1973
Argentina	21	1975
Korea	10	1977
Mexico	16	1980
Indonesia	10	1984
New Zealand	15	1986
Japan	8	1989
Russia	18	1991
South Africa	14	1991
Singapore	7	1994
China	17	1994
Australia	10	2000
Malaysia	6	2015
India	18	2017

6.2 PREVIOUS INDIRECT TAX SCENARIO AND GST:

Under previous tax structure there are number of indirect taxes which has to be paid by individuals/ business houses as some of which are levied by central government and others by state government. In reverse, GST is the biggest tax reform in India, which subsumed all indirect taxes under it and holds 0% 5% 12% 18% and 28% GST slab rates. Now one doesn't have to pay different taxes on different occasions, as GST means "one nation, one tax". Table 2. Shows the taxation system under GST and old indirect taxation system.

Table .2

Transaction	NEW system	OLD system	Comments
Sale within the state	SGST and CGST	VAT& EXCISE/ST	Under the new system, a transaction of sale within the state shall have two taxes, SGST-which goes to the state; and CGST which goes to the centre.
Sale outside the state	IGST	CST &Excise/ST	Under the new system, a transaction of sale from one state to another shall have only type of, the IGST-which goes to the centre.

There is many other reasons/need to introduce GST in India as:

- Possible reduction in prices
- Increase in Government Revenues
- Less compliance and procedural cost
- One country-one Tax
- Reduce corruption and tax evasion
- Eliminate the cascading effects of indirect taxes on single transaction
- Increase productivity and transparency
- Subsume all indirect taxes

Table.3 Comparison of Previous Tax System and GST Taxation System

Basis	Previous scenario	GST scenario
No. of Taxes	Different indirect taxes levied by central as well as state governments.	Single tax i.e. Dual layered GST levied by central and state government.
Basis of charge	Goods –Taxable at place of manufacture/sale Services –Taxable at place of rendering of services.	Taxable at place of consumption as GST is destination based tax.
Registration	Decentralized registration for different taxes under central and state governments.	Centralized registration under GST network.
Collection of tax	Different procedures for different taxes which varies from state to state.	Uniform and common process under GST network.
Filing of Return	Different dates and different provisions for each tax.	Single date for filing of return under GST network.
Input Credit of tax	Narrower scope For example – input of VAT cannot be used against excise duty.	Broader scope Only input of S-GST cannot be used against C-GST and vice versa.
Cascading effect	No set off is available for Excise duty against VAT which leads to cascading effect.	Not possible under GST since full credit is available.
Tax Rate	Different for different taxes and states.	Standard rate is 18%
Threshold limit	Central Excise – 1.5 crores VAT– between 5 to 20 lakhs Service tax – 10 lakhs	20 lakhs (10 lakhs in case of North east states)
Exemptions	Some areas like excise free zone enjoy status of excise exemptions.	No such exemptions.

7. IMPACT OF GST TAX IN INDIA

After the GST is implemented there will be certain amount of impact in ever sector. Let us look at these impacts one by one in a brief manner. Some of these impacts can be temporary while others may remain permanent. The impact is expected in a high rate as the sudden change in the game of tax is going bring slight or a huge leap in the world of business depending on the category of business.

7.1 Impact on Automobiles:

Automobile is one of the important sectors for economy growth and development. It was also affected by the new indirect taxation era(GST). It will result in Reduce the cost of manufacturing of bikes and cars due to the unified tax slab and a push to the growth rate of the automobile sector by reducing the rates on commercial vehicles from 30.2% to 28%. The earlier tax on small cars used to vary from 31.4% – 33.5%, will now be 28%. But it also brings some negative impact on this sector as bigger cars and SUVs would have to pay high tax.

7.2 Impact on Pharmaceuticals:

It will bring a negative impact on this sector. As GST is applicable on phases of the supply chain, it will have a negative impact on Free-drugs samples, Bonus/Discount Schemes, Inter-state stock transfer, etc. and faces Software issues as well.

7.3 Impact on FMCG

The FMCG will receive a positive for household and personal care space. It will reduce 200 to 500 basis points, apart from reducing the warehousing and logistical requirements. However the working capital for retailers and additional tax rates for jewelry and cigarette manufacturers are negatives and will attract higher GST regime than companies like ITC which are going to be affected adversely.

7.4 Impact on banking and financial sector:

The anther sector affected by GST is banking and financial sector as it plays an significant role in economic growth of a country. Due to GST, service costs are reduced and it also helps in effective disbursement of loans.

7.5 Impact on startups:

GST will bring a positive impact on this sector. As it enhanced logistics and faster service deliveries as well as Consolidation of multiple taxation.

7.6 Impact on India's foreign trade:

This sector also get benefits from the introduction of GST as it makes business easy and Exports to climb exports are treated as 'zero-rated supplies'. But there are some negative impacts as Import – leavy of IGST and basic custom duty and ITC of only IGST allowed, ITC of BCD is not allowed.

7.7 Impact on manufacturing sector:

Manufacturing sector play an important role in the development of the economy as it contributes around 15% to India's GDP. Here are some impacts of GST on manufacturing sectors: Transportation Costs to Fall, requirement of warehouses will come down Substantially,,, reduce the cost .

7.8 Impact on Agriculture sector:

Agriculture sector contributes 16% to the country's GDP, is eyeing on a new era of growth under the GST regime. The new indirect tax reform is likely to improved supply chain to benefit the sector participants. With better supply chain management, the wastage and cost for farmers and retailers can be reduced. It also brings a reduction in the cost of heavy machinery needed to produce crops. GST also effect it negatively as Increase in fertilizers rates from 5% to 12% and Increase in pesticides rates from existing 12% to 18%.

Table 4. Overall Impact of GST tax in India

	Sectors	Impacts	Description
1	**Banking and Financial Sector**	**Positive**	• Lower costs of services due to elimination of cascading effect of taxes. • Effective disbursement of loans and allied services.
		Negative	• Under GST, service tax increase from 14.5% to 18%. • Increase in loan processing fees, debit/credit card charges and insurance premium etc.

2	**Startups business**	**Positive**	• Simplify starting of businesses • Expanded markets • Higher exemptions and reduced tax liabilities • Enhanced logistics and faster service deliveries • Consolidation of multiple taxation.
		Negative	• Tax burdon for manufacturing startups. • Technological restrictions
3	**FMCG Sector**	**Positive**	• Easily set up of warehouses. • Some products are taxed at low rates like soaps, toothpaste, hair oil etc. • Reduction in distribution cost.
		Negative	• Increase in effective tax rates. • Products taxed at higher rates like detergents , shampoo, baby foods etc.
4	**India's foreign trade**	**Positive**	• Business made easy • Exports to climb exports are treated as 'zero-rated supplies'.
		Negative	• Import – levy of IGST and basic custom duty. • ITC of only IGST allowed, ITC of BCD is not allowed.
5	**Pharmaceuticals Sector**	**Positive**	• Traditional Cost and Distribution Model will get replaced by supply chain efficiencies. • reduced manufacturing & transaction costs as well as improved compliance.
		Negative	• As GST is applicable on phases of the supply chain, it will have a negative impact on Free-drugs samples, Bonus/Discount Schemes, Inter-state stock transfer, etc. • Software issues.
6	**Agriculture Sector**	**Positive**	• Reducing the cost of heavy machinery required for producing agricultural commodities.
		Negative	• Increase in fertilizers rates from 5% to 12%. • Increase in pesticides rates from existing 12% to 18%.
		Positive	• Transportation Costs to Fall. • Requirement of warehouses will come

7	**Manufacturing Sector**		down Substantially • Entry tax sub summation will reduce cost of production . • Restructuring of supply chain:
		Negative	• Increase in immediate working capital requirements. • Lack of clarity on local exemptions.
8	**Automobiles Sector**	**Positive**	• Reduce the cost of manufacturing of bikes and cars due to the unified tax slab. • a push to the growth rate of the automobile sector. • commercial vehicles has been set to 28% as opposed to previous 30.2% • The earlier tax on small cars used to vary from 31.4% – 33.5%, will now be 28%
		Negative	• Bigger cars and SUVs would have to pay high tax.

8. CONCLUSION

This study is done to analysis and understands the concept of goods and services tax in India. Goods and Services Tax (GST) is an important indirect tax applicable throughout India and as well as on all the goods and services. It was introduced as The Constitution (One Hundred and First Amendment) Act 2017. And present study is based on secondary data which is collected from various sources like articles, journals, newspapers etc. Various tables have been used to explain the findings of the study. The following are some of the findings from the analysis.

- Banking and financial services faces the problem related operating expenses.
- Startup business and automobile industry are getting more benefits by the GST.
- Agriculture sector faces negative impact of GST.
- FMCG sector as well as manufacturing sector, both have positive impact of GST by reducing transportation costs and warehouse strategies.
- Pharmaceuticals industry also has negative impact of GST.

So finally it can be concluded that GST have positive impact on certain sectors while negative for others. However, GST will give more benefits in long- run as compared to short -run.

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