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Goods and Services Tax (GST)

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Abstract

GST also known as the Goods and Services tax is defined as the giant indirect tax structure designed to support and enhance the economic growth of a country. The aim of this research paper is regarding impact of GST and its impact on various sectors. With the introduction of GST, there is chaos and confusion among common man. GST bill will be a form for economic integration of India. The main trait of the GST is to transform India into a unified market by dismantling the present fiscal barrier among states and can expect improved tax compliance. There would be only one tax, that too at the national level, monitored by the central government. GST is also different in the way it is levied — at the final point of consumption and not at the manufacturing stage.

Keywords: Goods and service tax, Indirect Tax

Objectives of the Study:

1. To study the conceptual framework of GST in Indian Context
2. To study Impact and Challenges of GST on various constituents Indian Economy.

Research Methodology:

The study focuses on extensive study of secondary data collected from various books, journals, government reports, publication from various websites which focused on Goods and Services Tax.

Introduction

The major source of revenue for any nation is the tax, so for economic development of the nation, it is compulsory to have good taxation system. India started its journey towards tax system in the year 1980. GST would be a major move towards Indian economy as since independence India has faced some of the issues because of complex indirect tax system, this complexity is assumed to be resolved by present GST structure replacing all state and central indirect taxes in to one simple unique tax.1 GST is a comprehensive indirect tax on manufacture, sale and consumption of goods and services at national level. One of the biggest taxation reforms in India is the (GST) all set to integrate state economies and boost overall growth.

GST is the biggest reform for indirect taxes in India in the post-independence period. It simplified indirect taxation, reduced tax complexities, removed the cascading effect and led to one nation and one tax regime in India. Experts believe that GST will have a huge positive

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impact on business and change the way the economy functions. In this chapter we shall have a brief introduction on new GST regime introduced in India since July, 2017. Before we are introduced to the system of GST in India let us know the concepts of Direct and Indirect taxes.

Features of GST:

Value Added Tax: GST is a single value added tax on the supply of goods and services levied by the government of India. Under GST, tax is levied only on the value added at each stage in the supply chain from producer to the ultimate consumer. For example, if a business house purchases the goods of Rs. 1,000 and sells it for Rs. 1500 by adding Rs. 500 to the initial cost (consisting of say business overheads Rs. 200 and Profits of Rs. 300) he will have to pay GST only on the value addition of Rs. 500 and not on the total cost of Rs. 1500.

Comprehensive: GST subsumes all the prevailing indirect taxes. Moreover, by bringing in a unified taxation system across the country, it ensures that there is no more arbitrariness in tax rates.

Multi-stage: GST is levied at each stage in the supply chain from manufacturer to the ultimate consumer where the transaction takes place. GST offers comprehensive and continuous chain of tax credits from the producer's point or service provider's point up to the retailer's level or consumer's level thereby taxing only the value added at each stage of supply chain.

Credit of GST paid on Purchases: The supplier at each stage is permitted to avail credit of GST paid on purchase of goods and or services and can set-off this credit against the GST payable on supply of goods and services to be made by him.

Destination based consumption: GST is collected at the point of consumption. The tax authority with appropriate jurisdiction in the place where the goods / services are finally consumed will collect the tax. For example let us say that the cotton garments are shipped from Gujarat to Maharashtra. Gujarat is producer state and Maharashtra is the consumer state. Tax revenue under GST shall be collected by GST authorities in Maharashtra.

No Cascading Effect: Since only the value added at each stage is taxed under GST, there is no tax or cascading of taxes under GST system. GST does not differentiate between goods and services and thus the two are taxed at a single rate.

Rates of GST: Currently there are four slabs of GST on the various categories of goods and services. They are 5%, 12%, 18% and 28%.

Registration under GST: Every supplier who makes a taxable supply of goods and / or services liable to get himself registered in the state from where he supplies. Threshold limit (computed on all India basis) – Special category states – Rs.10 lakhs – Other states –Rs.20 lakh. Online application for registration has to be made within 30 days. PAN based Registration has to be done. Following persons have to obtain registration irrespective of their threshold limit: (a) Persons making inter-state taxable supply (b) Casual taxable persons and (c) Non-resident taxable persons.

Impact of GST on various Areas of Economy:

GST has a positive impact on the economy and on various sectors which are as follows:

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- **Impact on consumer goods sector:**

With the implementation of Goods and Service Tax, FMCG sector would really change. The Food Manufacturing Consumer Goods sector consist 50% Food and Beverage sector and 30% is Household and Personal care. FMCG sector which is also called consumers packed goods is the key taxation contributor both direct and indirect in the economy. The multiplicity of the taxation influences the company decision on manufacturing location and distribution of Goods. Their companies set their manufacturing units and warehouses where they can gain tax benefits. They have to pay taxes to transfer the stock from the warehouses among the states. FMCG sector would surely impacted because of GST as taxes affect the cost to the company.

- **Impact on Brokers and equity investments:**

With the service tax being subsumed into GST, the rate of GST on financial services stands modified from 15 per cent to 18 per cent. From a long-term investor's perspective, this may not be too significant since the overall shift is just about 3 basis points. This 3 basis points for short term traders, will change the economics of mixing their funds in the equity markets. It remain to be seen whether it actually affected the volumes and liquidity in the markets.

- **Impact on Cement Industry:**

According to Angel Broking, GST implementation is expected to be neutral for the cement industry. Earlier, cement was taxed at 12.5 per cent excise and VAT rates between 12.5-15.5 per cent. Under GST, the cement will be taxed at 28 per cent, which is nearly the same as the current tax structure.

- **Impact on Food Industry**:

Since food constitutes a large portion of the consumer expense of lower income households, any tax on food would be regressive in nature. The food processing sector will root difficulty in extending GST in view of the fact that production and distribution of food is largely unorganized in India, in most of the countries tax food keep at a lower rate with view the considerations of fairness and equity on global observe . Countries such as Canada, UK and Australia where food establish a relatively small portion of the consumer basket and food is taxed at zero rates. Even in some countries, food is taxed at a standard rate which is considerably as low as 3% in Singapore and Japan at the commencement of the GST. In level of international jurisdictions, no division is tired on the degree of processing of food. Hence, the gain of lower or zero tax rates should also be prolonged to all food items in India regardless to degree of processing.

- **Impact on Information Technology services:**

The proposed GST rate under the IT industry is not yet decided. The discussed joint rate of GST for the product is 27%. According to projected GST if electronic form software is transferred through it would be regarded as service (intellectual property).and if it is transferred through media or any other touchable property then it should be treated as goods. Price will be reduced by implementation of GST in uniform simplified and single point taxation.

- **Impact on Infrastructure sector**:

The Indian infrastructure sector largely comprises power, road, port, railways and mining. Each of them the indirect tax levy is different and exclusive, and this is composite in nature.

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While this sector enjoys different exceptions and concerns as it is important on national front. With the implication of GST the multiplicity of taxes will be removed and it would increase the tax base with continuation of exceptions and concerns for national interest and growth.

The benefits of GST: can be summarized as under:

For business and industry Easy compliance: A robust and comprehensive IT system would be the foundation of the GST regime in India. Therefore, all tax payer services such as registrations, returns, payments, etc. would be available to the taxpayers online, which would make compliance easy and transparent.

Uniformity of tax rates and structures: GST will ensure that indirect tax rates and structures are common across the country, thereby increasing certainty and 2 ease of doing business. In other words, GST would make doing business in the country tax neutral, irrespective of the choice of place of doing business.

Removal of cascading: A system of seamless tax-credits throughout the value-chain, and across boundaries of States, would ensure that there is minimal cascading of taxes. This would reduce hidden costs of doing business.

Improved competitiveness: Reduction in transaction costs of doing business would eventually lead to an improved competitiveness for the trade and industry.

Gain to manufacturers and exporters: The subsuming of major Central and State taxes in GST, complete and comprehensive set-off of input goods and services and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports. The uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cost.

For Central and State Governments

Simple and easy to administer: Multiple indirect taxes at the Central and State levels are being replaced by GST. Backed with a robust end-to-end IT system, GST would be simpler and easier to administer than all other indirect taxes of the Centre and State levied so far.

Better controls on leakage: GST will result in better tax compliance due to a robust IT infrastructure. Due to the seamless transfer of input tax credit from one stage to another in the chain of value addition, there is an inbuilt mechanism in the design of GST that would incentivize tax compliance by traders.

Higher revenue efficiency: GST is expected to decrease the cost of collection of tax revenues of the 3 Government, and will therefore, lead to higher revenue efficiency.

For the consumer

Single and transparent tax proportionate to the value of goods and services: Due to multiple indirect taxes being levied by the Centre and State, with incomplete or no input tax

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credits available at progressive stages of value addition, the cost of most goods and services in the country today are laden with many hidden taxes. Under GST, there would be only one tax from the manufacturer to the consumer, leading to transparency of taxes paid to the final consumer.

Relief in overall tax burden: Because of efficiency gains and prevention of leakages, the overall tax burden on most commodities will come down, which will benefit consumers.

Conclusion:

Tax policies play an important role on the economy as it is the revenue source; it has a positive impact on both efficiency and equity. In view issues of income distribution a good tax system should keep pace with it and at the same time it should also endeavour to generate tax revenues to support government outflows on public services and infrastructure development. The implementation of GST would pave way for a simple and understandable tax structure and would also help in avoiding any evasion taking place at any level. Thus, lot being said and done, an appropriate implementation would lead to actually understand whether "GST is a boon or curse. All sectors in India - manufacturing, service, telecom, automobile etc. will bear the impact of GST. While comparing challenges with its advantages, it is clearly visible that its advantages are more compared to challenges; GST will give Indian economy a strong and smart tax system for economic development. But for gaining those benefits, country will need to build strong mechanism.

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