Goods and Service Tax (GST) and its outcome in India

Sakharam Mujalde, Avi Vani

The present research paper is an attempt to study the concept of Goods and Service tax over the current taxation system in India. India is a federal country where Indirect Tax is levied by Federal and State Government. Value Added Tax is levied by State Governments starting with understanding tax. Tax is a compulsory contribution to state revenue, levied by the government on workers’ income and business profits, or added to the cost of some goods, services, and transactions. There are 2 taxation system in India i.e. direct and indirect tax. GST is a reform in the indirect tax system. Indirect taxes are levied on manufacturing of goods provision of service and consumption. The indirect tax is domain of Central Government. There is the problem with current regime of taxation. Due to large no. of taxes been levied the consumer have no idea about them and it increases the cost of product due to mediatory. GST is by far the most awaited tax reform in the country. Presently there are indirect taxes like central excise, VAT, service tax, luxury tax etc. which would get subsumed under GST. GST is to abolish the cascading effect of taxation i.e. tax on tax. This is a single tax which will be levied on the product or service which is sold. The GST, as mentioned above is an indirect tax and will be borne by the customer. There will be a standard rate of GST across various goods and services, which could broadly be in line with international rates. World over, GST has been implemented in over 150 countries. Goods and Service tax bill is officially known as the constitution (one hundred and twenty second amendment) bill, 2014. The GST implementation in India is Dual in nature, i.e. it would consist of two components: one levied by Centre (CGST) and another levied by States and Union Territories (SGST). GST was first introduced by France in 1954. Most of the countries followed unified GST while some countries like Brazil, Canada follow a dual GST system.

**Rate of GST (some countries)**

<table>
<thead>
<tr>
<th>Countries</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>10 %</td>
</tr>
<tr>
<td>Canada</td>
<td>6 %</td>
</tr>
<tr>
<td>China</td>
<td>17 %</td>
</tr>
<tr>
<td>France</td>
<td>19.60 %</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>17.50 %</td>
</tr>
<tr>
<td>Singapore</td>
<td>7 %</td>
</tr>
<tr>
<td>New Zealand</td>
<td>12.5 %</td>
</tr>
</tbody>
</table>

Though GST is just as VAT, but VAT has certain shortcoming which will be overcome by GST.

**Review of Literature**

Akansha Khurana and Aastha Sharma (2016) in their research paper on GST- A positive reform for Indirect taxation system concluded that the GST will provide relief to producers and consumers by providing wide and comprehensive coverage of input tax credit set-off, service tax set off and subsuming the several taxes. Monika Sehrawat (2015) in her paper on GST in India – A key tax reform concluded that GST will give India a world class tax system by grabbing different treatment to manufacturing and service sector. Hitesh k.Prajapati (2016) in his paper on Challenges and Implementation of GST in India talked about the challenges in implementation of GST like IT sector is not boomed, threshold limit of turnover for dealers under GST is another bone of contention between the government and the Empowered Committee etc. Dr. Shakir Shaik, Dr. S.A. Sameera, Mr. Sk. C. Firoz in their paper on Does Goods and Services Tax (GST) Leads to Indian Economic Development? Stated in conclusion that GST in the Indian framework will lead to commercial benefits which were untouched by the VAT system and would essentially lead to economic development. Hence GST may usher in the possibility of a collective gain for industry, trade, agriculture and common consumers as
well as for the Central Government and the State Government

**Objectives :-**
1. To study the features of GST.
2. To study the impact of GST on Indian economy.
3. To study the advantages and challenges of GST.

**Research methodology**
The research paper is an attempt of research, based on the secondary data sourced from journals, Internet, articles, previous research paper which focused on the various aspects of goods and service act. According to the requirements of the objectives of the study the design is descriptive type. The accessible secondary data is used only for study.

**Features of the GST to proposed**
The GST system is based on the same concept as VAT. Following the features have been discussed:-

**Range of GST**
1. GST to be structured on the destination principle so that the tax base shifts from production to consumption whereby imports will be liable to tax and exports will be relieved of the burden of GST.
2. CGST and SGST would be comprehensively applicable to all goods and services up to the final consumer. CGST and SGST would be applicable to all transactions involving supply of goods and services made for a consideration (except alcoholic liquor for human consumption) and the exempted goods and services, goods which are outside the purview of GST and the transactions which are below the prescribed threshold limits.
3. Tobacco products are included in GST along with central excise tax.
4. Initially the following products are exempted but GST on following products shall be levied from a date to be notified by the GST Council
   - Petroleum Crude
   - High Speed Diesel
   - Motor Spirit (commonly known as Petrol)
   - Natural Gas
   - Aviation Turbine Fuel

**Collection of GST:-**
1. GST has two components CGST and SGST as discussed above. CGST will be collected by central government whereas states governments will collect SGST.
2. IGST is levied on supplies in the course of interstate trade including imports which is collected by central government exclusively and distributed to imported states as GST is destination based tax. The proportion of distribution between centre and states is decided on recommendation of GST Council. (Proposed article 269A).

**Input tax credit**
1. At present, under various state VAT laws, there is no uniformity and clarity on the quantum of ITC to be availed in case the goods are finally sold at a discounted value. Many states like Tamil Nadu, have specific provision for reversal of excess ITC availed by dealers in such cases. Under GST regime full ITC should be allowed without any correlation to the price of output sale.
2. The facility of Input Tax Credit at Central level will only be available in respect of Central Goods and Service tax. In other words, the ITC of Central Goods and Service tax shall not be allowed as a set-off against State Goods and Service tax and vice versa.

**Compensation to states**
1. For maximum of 5 years union will compensate states for the revenue losses arising out of GST implementation.
2. This compensation will be made on the recommendation of GST Council.

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Current system</th>
<th>GST</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of raw material</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Tax on raw material</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Value added by manufacturer</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Tax payable by manufacturer</td>
<td>2( CENVAT : 10% of 20)</td>
<td>2( GST : 10% of 20)</td>
</tr>
<tr>
<td>Retailers cost</td>
<td>132</td>
<td>132</td>
</tr>
<tr>
<td>Retailers margin</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Tax payable</td>
<td>15.2(sales tax : 10% of 152)</td>
<td>2(GST : 10% of 20)</td>
</tr>
<tr>
<td>Final price paid include taxes</td>
<td>167.2</td>
<td>154</td>
</tr>
<tr>
<td>Of which taxes</td>
<td>27.2</td>
<td>14</td>
</tr>
</tbody>
</table>

(Source: PRS Legislative Research)
Impact of GST on Indian economy:-

The Goods and Service Tax (GST) bill is expected to have wide ranging ramifications for the complicated taxation system in the country. It is likely to improve the country’s tax to GDP ratio and also inhibit inflation. While giving financial muscle to the government for increasing the capital expenditure which will help the economy grow. Though there are expectations that the GDP growth is likely to go up by 1 to 2%, the results can only be analysed after the GST implementation. The response is mixed from countries around the world. While the New Zealand economy had a higher GDP growth, it was lower in case of Canada, Australia and Thailand after the GST was implemented. There is likely to be short term lift to price pressures especially the service tax has been raised from current 15 to 17-18%, while some products taxes are lowered. These adjustments will offset each other, lowering the net impact of inflation. The GST impact on growth will be negative in short run but positive later. The one per cent tax that has been proposed as a sop to appease the States for compensating their loss of revenue from the inter-state CST is likely to play a spoil sport. It is probable that it may affect the GDP adversely. The GST tax rate is expected to be around 17-18% and can be assumed as a tax neutral rate. With the implementation of GST the FMCG sector would really change. The multiplicity of the taxation influences the company’s decision on manufacturing location and distribution of Goods. FMCG companies will now shift towards the areas where they can have the benefits of tax. There will be a positive effect on costing of products as taxes will be reduced the same reduction will affect the prices or costing also. Hence, GST playing a favourable role. The Indian infrastructure sector largely comprises power, road, port, railways and mining. And the indirect tax levy is different and unique for each of them, and this is complex in nature. After implementation of GST the system of multiple taxes will not exists, therefore increasing the tax base.

Currently in India tax evasion is the problem lying in front of govt. and due to confusing tax system prevailing people often evade, but GST will act as a weapon against this practise and increase the revenue for the government as well. With the collection done at point of sale, both components will be charged on the manufacturing costs and therefore leading to decrease of prices which in turn will benefit the consumer and further leading to increase in the consumption of goods which further will increase the profits of the companies.

Advantages of GST

Here’s a look at GST’s benefits Less developed states get a lift as the current 2% inter-state levy means production is kept within a state. Under the GST national market, this can be dispersed, creating opportunities for others. Investment boost as for many capital goods, input tax credit is not available. Full input tax credit under GST will mean a 12-14% drop in the cost of capital goods. Expected: A 6% rise in capital goods investment, 2% overall. Instead of maintaining big records, returns and reporting under various different statutes, all assesses will find comfortable under GST as the compliance cost will be reduced. It will also help to build a transparent and corruption-free tax administration. Presently, a tax is levied on when a finished product moves out from a factory, which is paid by the manufacturer, and it is again levied at the retail outlet when sold. According to experts, by implementing the GST, India will gain $15 billion a year. This is because, it will promote more exports, create more employment opportunities and boost growth. It will divide the burden of tax between manufacturing and services. It will lead to development of common national market. Leakages can be controlled with the GST as tax structure.

Challenges of GST

There are few aspects with contradict the growth story and might be seen as hurdles. When the aviation industry was witnessing the much awaited growth with increasing domestic traffic, the GST implementation might slower
the rate at which the industry is expecting growth as flying will become expensive. Service tax on fares currently ranges between 6% and 9% (depending on the class of travel). With GST, the rate will surpass 15%, if not 18%, effectively doubling the tax rate. India, on one hand, has the lowest insurance penetration in the world (less than 5% of Indian population & half of the global average) and on the other GST will further make the insurance products dearer. Life, health & motor insurances will begin to cost more from April 2017 as taxes will go up by up to 300 basis points. if the rate of GST will be over 15% the all the services will be costlier. It is really required that all the states implement the GST together and that too at the same rates. Otherwise, it will be really cumbersome for businesses to comply with the provisions of the law. Analysts say that real estate market will be cramped by GST and it may result in 12% down turn in demanded of new houses because of increased cost up to 8%. As per the Constitutional Amendment Bill placed in the Lok Sabha, it was proposed that states would be allowed to levy an additional 1% non-vatable tax on inter-state supply of goods for the initial two years, in order to compensate the states for loss of revenue while moving to GST. This was supported by a few states, while some others criticised the same. A large part of the initial two years, in order to compensate the states for loss of revenue while moving to GST. This was supported by a few states, while some others criticised the same. A large part of the GST depends on two prominent factors – ‘RNR’ and ‘threshold limit’ for GST. RNR, i.e. the Revenue Neutral Rate, is the rate at which there will be no revenue loss to the government after implementation of GST. Needless to mention, RNR will impact India Inc adversely, if it is unduly higher than the present tax structure. These are some of the major challenges before the government and the industry, ahead of the actual implementation of GST.

Conclusion

Moving to GST regime will be beneficial for the economy on multiple counts. GST is not simply VAT plus service tax, but a major improvement over the previous system of VAT and disjointed services tax – a justified step forward. A single rate would help maintain simplicity and transparency by treating all goods and services as equal without giving special treatment to some 'special' goods and/or services. It can also be used as an effective tool for fiscal policy management if implemented successfully due to nation-wide same tax rate. It can be further concluded that GST have a positive impact on various sectors and industry. GST will soon be knocking the doors if Indian economy and thus we shall all be ready to deal with it. It’s the world wide accepted system of taxation and will result in India joining this system too. Though there are bottlenecks in adapting and ruining the system in India though it be political or growth and more research is yet to be done. Implementation of GST requires undivided efforts of all stakeholders though it be Governments both central and state, industries or consumer. Thus steps should be taken to successfully implement the tax. In India, Implementation of GST would also greatly help in removing economic distortions caused by present complex tax structure and will help in development of a common national market.

References


6. GNV consultancy, list of GST rates around the globe.