

Pros and cons of indian goods and services tax in economic

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Abstract:

The Goods and Service Tax Bill passed recently by the Rajya Sabha and the Lok Sabha has been getting a lot of attention lately. Mainly because it is 'The Next Big Thing' after the Financial Reforms of 1991 in the history of India's economy. We all know that the multiplicities of indirect taxes have driven up the prices of goods and services. Moreover, they make taxation complicated. Further, these taxes are different in each state and businesses end up paying tax on taxes. So basically, GST rationalizes this whole bucket of indirect taxes and attempts to unify most of them to make for a destination base tax, thereby making India a unified market. It is estimated that the GDP of the country will rise by 1 – 2 %. Let's have a look at the GST impact on business in the country. Consumers are expected to benefit from reduced prices of goods and services, which in turn increase consumption. Improved demand and simplified tax structure will help attract increased FDIs and FIIs and boost overall economic growth. At the same time state and Central governments are likely to benefit from a broader tax base.

Key words: Indian economic, GST, VAT

Introduction:

GST is a form of Value Added Tax that would include all the indirect taxes into one throughout all the regions of India. That means every state will have the same GST rate unlike now where the states can fix their own rates. In simple terms, GST means the state will share the Central Sales Taxes that it is currently receiving fully with the center. The Center in return will share the Service Tax with the states. GST is the much-needed reformation in the taxation structure, it is expected to be a big element in the growth of Economy as well as business sector. Since the economy of a country depends on the circulation of currency, trade and business would play a big role. In a long-term perspective, it is believed that GST will have a positive impact on Business bodies. It is perhaps the most significant economic reform which will be taken in the country's financial structure as the introduction of GST will bring endless opportunities to the business entities while laying a decent corporate structure for them to grow. The GST will be an effective method of tax collection as it is in various countries like France, Canada, the UK where it has done a great work to reduce the tax evasions and making the countries overall growth very stable. The government has purposefully implemented the power of the digital platform to the new taxation reform in order to successfully cater a humongous base of taxpaying community. Moreover, companies from sectors such as automobiles, pharmaceuticals, consumer products and food processing, which enjoy benefits of tax (excise, VAT, income tax) concessions by setting up factories in the states, which offer concessions, will be affected adversely by GST. Their cost of production could go up, in turn, leading to increased prices. The phenomenon of a spike in inflation was observed in other countries where GST was implemented. In these countries, prices shot up in the short run. Inflation stabilized as the implementation gained pace and there was more clarity among consumers and manufacturers. In India, a sharp increase in inflation is likely to be tricky.

Types of GST

There are three kinds of taxes under the GST. SGST, CGST AND IGST

1. SGST

State Goods and Service Tax is the part of tax diverted to the state government which is credited to revenue department of state government. This is generally equivalent to CGST. This compensates the loss of existing VAT or Sales tax revenue to state government. In the case of local sales, 50% quantum of tax amount under GST is diverted to SGST TAX.

2. CGST

Central Goods and Service Tax is the share of GST TAX Diverted to revenue department of central government and same it's also equivalent to SGST. This share of tax compensates the loss of existing excise duty and service tax to the central government. In the case of local sales, balance 50% quantum of GST is transferred to CGST.

3. IGST

Integrated Goods and Services Tax is levied when inter-state sales and purchase is made. One part of this tax transferred to central government and another to state government to whom goods and services belong. The IGST is the separate tax which is charged only in case of inter-state sales or when transactions between two states involved

Tax Rates under GST

GST rates are divided into five categories which are 0% , 5%, 12%, 18%, 28%.

All the basic need requirement goods are placed in 0% category like food grains, bread, salt, books etc. Goods like paneer, packed food, tea coffee etc are placed under 5% category. Mobiles, sweets, medicine, are under 12%. All type of services are under 18% category. All other remaining luxury items are placed under the last head of 28%. Patrol, Gas, Crude Oil And Diesel etc. are still out from the criteria of GST.

Benefits of GST:-

- **GST will end cascading effects:-**

This will be the major contribution of GST for the business and commerce. At present, there are different state level and center level indirect tax levies that are compulsory one after another on the supply chain till the time of its final consumption.

- **Growth of Revenue in States and Union:-**

It is expected that the introduction of GST will increase the tax base but lowers down the tax rates and also removes the multiple point taxation. This will lead to higher amount of revenue to both the states and the union.

- **Reduces transaction costs and unnecessary wastages:-**

If government works in an efficient mode, it may be also possible that a single registration and a single compliance will suffice for both SGST and CGST provided government produces effective IT infrastructure and integration of states level with the union.

- **Eliminates the multiplicity of taxation:-**

One of the great advantages that a taxpayer can expect from GST is elimination of multiplicity of taxation. The reduction in the number of taxation applicable in a chain of transaction will help to reduce the paper work and clean up the current mess that is brought by existing indirect taxation laws.

- **One Point Single Tax:-**

Another feature that GST will hold is it will be 'one point single taxation'. This also gives a lot of comforts and confidence to business community that they would focus on business rather than worrying about their taxation that may crop at later stages. This will help the business community to decide their supply chain, pricing modalities and in the long run helps the consumers being goods competitive as price will no longer be the function of tax

components but function of sheer business intelligence and innovation.

- **Reduces average tax burdens: -**

Under GST mechanism, the cost of tax that consumers have to bear will be certain and it is expected that GST would reduce the average tax burdens on the consumers.

- **Reduces the corruption:-**

It is one of the major problems that India is overwhelmed with. We cannot expect anything substantial unless there exists a political will to root it out. This will be a step towards corruption free Indian Revenue Services.

Real Benefits of GST

The real benefits of GST to the consumer and businesses are long term and can be stated as following:-

1: Merger of Taxes

At present, there are a large number of taxes at central and state level. They shall all be merged and become one GST as shown in figure.

2: One Law One Country

At present, you have multiple central laws and state laws for taxations. If you are trading your goods at all India level, you must know and follow all the different laws of India. It is due to this reason that many people avoid trading goods in different states.

3: Increased Input Credit

At present, input credit is not available for inter-state sales of goods. This would now be available under GST regime. Thus the next tax liability to businesses would come down.

4: More Export Incentive

An exporter presently gets the refund/drawback on mostly the central taxes. Now they shall be able to get the refund/drawback of State taxes as well. This will boost export.

5: GST Network

Since all registration and return filing shall be done online, the scope of evasion shall be reduced considerably. This will boost the tax revenue and cause more development of the country. The experience of over 160 countries is that GST provides for a simpler tax collection and makes it very hard to evade taxes. For legal businesses it makes running their concerns easy and also reduces the competitive disadvantage they traditionally had from tax evading competitors.

Future impact of GST:

1. Like any change in tax structure, it will bring inflation in the short term. Most products and services we buy will go up in price over the next 1 year. That has been the case in most countries adopting GST. The fear of inflation is one reason that successive Indian governments have been going slow on GST implementation.
2. If you have been running a business without paying VAT/Sales Taxes, things are going to get harder to avoid taxes. Profits will go down.
3. If you are running any business, there will be chaos and confusion for the next 1 year until the accountants and businessmen understand the rules better.
4. Tax collection will go up as more people will be brought under the tax loop. That could allow governments to either reduce tax rates or increase services.
5. It will become easy to run pan-India businesses as you would have to deal with less number of tax men. When more people run businesses the competition will bring down price [for a sample look at what is happening with the price of your mobile data after Jio came].
6. It will bring down the overall cost of moving goods across India and that would mean

a drop in prices.

GST to the Indian Economy

- Removal of bundled indirect taxes such as VAT, CST, Service tax, CAD, SAD, and Excise.
- Less tax compliance and a simplified tax policy compared to current tax structure.
- Removal of cascading effect of taxes i.e. removes tax on tax.
- Reduction of manufacturing costs due to lower burden of taxes on the manufacturing sector. Hence prices of consumer goods will be likely to come down.
- Lower the burden on the common man i.e. public will have to shed less money to buy the same products that were costly earlier.
- Increased demand and consumption of goods.
- Increased demand will lead to increase supply. Hence, this will ultimately lead to rise in the production of goods.
- Control of black money circulation as the system normally followed by traders and shopkeepers will be put to a mandatory check.
- Boost to the Indian economy in the long run.

These are possible only if the actual benefit of GST is passed on to the final consumer. There are other factors, such as the seller's profit margin, that determines the final price of goods. GST alone does not determine the final price of goods.

GST impacts on Indian Economy:

- Significant reduction in product and area-based exemptions under GST will widen the tax base with a consequent reduction in revenue neutral rate.
- Major beneficiary of GST would be sectors like FMCG, Pharma, Consumer Durables and Automobiles and warehousing and logistic industry.
- GST regime will boost the 'Make In India' programme as manufacturers will get input tax credits for capital goods.
- The service tax rate could shoot up from the current level of 15 per cent.
- GST will not be a cost to registered retailers therefore there will be no hidden taxes and the cost of doing business will be lower.
- Benefit people as prices will come down which in turn will help companies as consumption will increase.
- There is no doubt that in production and distribution of goods, services are increasingly used or consumed and vice versa. Separate taxes for goods and services, which is the present taxation system, requires division of transaction values into value of goods and services for taxation, leading to greater complications, administration, including compliances costs.
- GST will be levied only at the final destination of consumption based on VAT principle and not at various points (from manufacturing to retail outlets). This will help in removing economic distortions and bring about development of a common national market.
- 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.

Benefit of GST for the Centre and the States

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.

Benefit of GST for individuals and companies

In the GST system, taxes for both Centre and State will be collected at the point of sale. Both will be charged on the manufacturing cost. Individuals will be benefited by this as prices are likely to come down and lower prices mean more consumption, and more consumption means more production, thereby helping in the growth of the companies.

Disadvantages of GST

Presently, more than 160 countries of the world have implemented GST. Regarding India, eminent economists are very optimistic about its positive effects on the economy. However, each country where GST was implemented experienced inflation for next 3 to 5 years. Some possible disadvantages of GST are as following:

1. Critics say that GST would affect negatively on the real estate market. It would add up to 8 percent to the cost of new homes and reduce demand by about 12 percent.
2. Some Economist says that CGST, SGST and IGST are nothing but new names for Central Excise/Service Tax, VAT and CST and hence GST brings nothing new for which we should cheer.
3. As GST brought small traders in the tax net, it will difficult to small traders to compete with strong / big traders. Their survival can become something difficult.
4. There is need of various expositions (Monthly, annually, total 37 expositions are required as per present situation) are complicated would difficult to the traders and at the same time I. T. infrastructural support with safety and reliability is required.
5. As GST is on purchasing/consumption, its revenue will goes to state in which article sold or service is rendered instead of produced. Means, state from which resources are used to produce goods will not receive tax revenue. For instance, Andrapradesh and Telangana are producing cement that is sold in other states of the country; they will get revenue. Sales Tax on inter-State sales of goods; numerous intra-State taxes; and the extensive nature of countervailing duty exemptions that favors imports over domestic production.
6. The GST would rectify all these distortions: the GST would be eliminated; most of the other taxes would be subsumed into the GST; and because the GST would be applied in imports, the negative protection favoring imports and disfavoring domestic manufacturing would be eliminated.
7. As taxable sale limit is brought down i.e. only Rs. 10 lakh, it is expected that tax base will be comprehensive in the country. (It was 1.5 crore for excise duty). It will also diversify tax system and put equal burden on goods and services. These are the main advantages of upcoming GST.
8. Some Economist say that GST in India would impact negatively on the real estate market. It would add up to 8 percent to the cost of new homes and reduce demand by about 12 percent.
9. Some Economist says that CGST(Central GST), SGST(State GST) are nothing but new names for Central Excise/Service Tax, VAT and CST. Almost 140 countries have already implemented the GST including Australia, Canada, Germany, Japan and Pakistan.

Suggestion for GST:

Even though, GST is one of the revolutionary reforms about indirect taxes in the country after independence there are some possibilities that can effect on the public interest and the common predetermined objectives of the Governments.

We should take care of following things:

1. GST should not increase the vertical imbalances of resources and responsibilities

among governments, particularly for Urban Local Bodies. Hope, finance commissions will take sufficient care of it.

2. If GST led to regional imbalance of development, there should be legal provision to correct the same.

3. Reliable I. T. infrastructure, trained man power and tax payers attitude should be changed.

4. The definition of goods and services should be clear otherwise it would lead to conflicts.

Conclusion

Implementation of GST is one of the best decisions taken by Indian government. For the same reason July 1 was celebrated as Financial Independence day in India when all the Members of Parliament attended the function in Parliament House. This would not be in the favor of small dealers, as it will restrict their growth or force them to get registered. Hence a provision of threshold limit should be there to allow the small dealers to indulge in inter-state sale. Based on the above discussion, we can say that the different bodies have not reached on any consensus while the DOR seems nearer to the suggestions of the task force. As SSIs absorb surplus amount of labor in the economy and helps the system in scaling down the extent of unemployment as well as poverty; every measure should be taken in the forthcoming GST to protect it.