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Impact of gst after its implementation

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Introduction

Goods and Services Tax is defined as the giant indirect tax structure designed to support and enhance the economic growth of a country. More than 150 countries have implemented GST so far. However, the idea of GST in India was mooted by Vajpayee government in 2000 and the constitutional amendment for the same was passed by the Loksabha on 6th May 2015 but is yet to be ratified by the Rajyasabha. However, there is a huge hue and cry against its implementation. The purpose of GST is to replace all these taxes with single comprehensive tax, bringing it all under single umbrella. The purpose is to eliminate tax on tax.

India is the hub of taxes where people pay many taxes which create confusion for them. Presently we pay two types of taxes i.e. Direct and Indirect in various sectors. Direct Tax paid directly to the government by the taxpayer i.e. Income Tax, Wealth Tax, and Corporation Tax. Indirect Tax is a tax levied on goods and services rather than on income or profits. It is not directly paid to government but collected from intermediaries (such as retail stores) from the person who bears the ultimate economic burden of the tax (such as consumers). The intermediary later files a tax return and forwards the tax proceeds to government with the return for example Sales Tax, VAT, Excise Duty, and Custom Duty and so on. The Goods and Services Tax (GST) is a vast concept that simplifies the giant tax structure by supporting and enhancing the economic growth of a country. GST is a comprehensive tax levy on manufacturing, sale and consumption of goods and services at a national level. The Goods and Services tax Bill or GST Bill, also referred to as The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014, initiates a Value added Tax to be implemented on a national level in India. GST will be an indirect tax at all the stages of production to bring about uniformity in the system. On bringing GST into practice, there would be amalgamation of Central and State taxes into asingle tax payment. It would also enhance the position of India in both, domestic as well as international market. At the consumer level, GST would reduce the overall tax burden, which is currently estimated at 25-30%. Under this system, the consumer pays the final tax but an efficient input tax credit system ensures that there is no cascading of taxes- tax on tax paid on inputs that go into manufacture of goods. Since all In direct Taxes levied by the states and the centre will be merged into one GST then we would exactly know how much tax we pay which at present is difficult to understand. No distinction would be made between imported and Indian goods and they would be taxed at the same rate. The sellers or service providers collect the tax from their customers. The success of GST would rest upon efficiency, equity and simplicity. This paper will throw light on GST and its impacts.

Concept Of Goods and Service Tax

GST or Goods and Services Tax is applicable on supply of goods and services. It will replace the current taxes of excise, VAT and service tax. Currently there are different VAT laws in different states. This creates problems, especially when businesses sell to different states. Also, most businesses have to pay and comply with 3 different taxes – excise, VAT, and service tax. GST will bring uniform taxation across the country and allow full tax credit from the procurement of inputs and capital goods which can later be set off against GST output liability. This reform gives equal footing to the big enterprises as well as SMEs. The aim of GST is thus to simplify tax hurdles for the entire economy. Who will have to pay GST? GST will be paid by all manufacturers and sellers. It will also be paid by service providers such as telecom providers, consultants, chartered

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How GST is levied

GST will be levied on the place of consumption of goods and services. It can be levied on following states.

- Intra-state supply and consumption of goods and services.
- Inter-state movement of goods.
- Import of goods and services.

Impact of GST on prices of goods and services

Tax experts claim that the current practice of tax on tax- for example, VAT is being charged on not just cost of production but also on the excise duty that is added at the factory gate leading to cost building up, will go once GST is rolled out. This will help in bringing down the prices of consumer durables, electronic products and ready-made garments. On the other hand, for goods which are currently taxed at low rate, the impact of GST will bring price hike. Services barring essential ones like ambulance, cultural activities, pilgrimages etc. are exempted from levy, will become costlier. GST is the most powerful tax reform that India has seen, aims to do away with multiple - tax regime on goods and services and bring them under one rate. We can just predict the following impact of GST on prices.

Expect reduction in prices of goods

- Electronic Goods
- Restaurant Bill
- Medicines
- Small SUV Cars
- Cement
- FMCG Goods

Increase in prices of

- Luxury cars
- Tobacco
- Textiles
- Packed foods
- Diamonds, Jewellery, Ready-made Garments

Impact of GST on organized Sector:

Another major regime is that it will shift trade from unorganized to organized sector and improve efficiency in the system. India has significant presence of unorganized sector. According to some estimates in 2005, out of 485 million persons employed in India, 86% to 395 million worked in unorganized sector, generating 50.6% of GDP. Implementation of GST is expected to narrow the large indirect tax difference between organized and unorganized segments. This would be achieved by ensuring better compliance and enforcement by reducing the thresh-hold limit for exemption from indirect taxes, tracking the flow of GST in entire chain.

Impact on Employment:

Analysis say that the fear of job losses in GST regime persist as it hits the un-organized players, who have to now come under tax compliance while benefiting the mid large sized companies which are already under the organized sector.

Impact on Small Enterprises

There will be three categories of Small Enterprises in the GST regime. Those below threshold need not register for the GST Those between the threshold and composition turnovers will have the option to pay a turnover based tax or opt to join the GST regime. Those above threshold limit will need to be within framework of GST Possible downward changes in the threshold in some States consequent to the introduction of GST may result in obligation being created for some dealers. In this case considerable assistance is desired. In respect scale units manufacturing specified goods are allowed exemptions of excise upto Rs. 1.5 Crores. These units may be required to register for payment of GST, may see this as an additional cost.

Impact on Pharmaceuticals

The Indian pharmaceutical industry is the principal supplier of generic drugs all over the world, with 80% of all AIDS drugs produced in India. The UN has provided licenses to six Indian pharmaceutical labs to make generic anti-AIDS medicine for all the developing nations. Indian pharmaceutical companies manufacture 20% of all generic drugs used around the world. The pharmaceutical industry was hoping the GST rate on life- saving drugs would be zero, even as it has been capped at 5% and that of all other formulations at 12%. The rates in the GST regime are slightly higher than what prevail now.In the GST regime, essential drugs that treat malaria, HIV- AIDS, tuberculosis, and diabetes fall in the 5% bracket. Almost all other drugs are in the 12% net. Nicotine polacrilex gum is the only pharmaceutical product to be charged at the rate of 18%. Cipla, the brand which produces nicotine gums, will probably be impacted from the rate fixed at 18%.More than the tax rate, the bigger worry for the companies is the disruption the new tax regime will bring. Medicines to be get costlier as active pharmaceutical ingredient, or raw materials, will be taxed at 18%. Distributors and stockists are upset at the loss they might have to incur with the increase in the effective tax rate. The effective tax rate on formulations, now 9%, has been increased to 12%and trader margins have been built into the tax rate. Under the current tax laws on pharmaceutical products, in many states VAT is on maximum retail price, which is on a single point. Due to this,the distribution channel does not pay VAT. Thus, for them paying tax under GST coupled with three returns a monthis a humongous task.

Conclusion

India has witnessed substantial reforms in indirect taxes over the past two decades with the replacement of State sales taxes by Value Added Tax (VAT) in 2005 marking a watershed in this regard. Prior to VAT implementation, the tax structure was considered problematic primarily due to the –cascading effect of taxes‖ whereby an item is taxed more than once from the production to the final retail sales stage. The government has therefore recognised the need for harmonisation of goods and services tax so that both can be levied in a comprehensive and rational manner in a new taxation regime – Goods and Services Tax (GST). At the end, we can say no doubt it is the biggest ever change in tax structure of India. There will be fall in prices of some commodities but on the other hand price of some other goods and services will rise. There is a threat of inflation too and states may face reduction in their financial resources. But overall it will be a good change.

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