DOI:10.26524/jms.2017.61

Gst – a historic tryst with destiny

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Abstract: GST is set to change the way trade and commerce is carried in our country. This paper serves to bring out a brief overview of GST and its structure of implementation in India. The objectives and features of GST gives a comprehensive understanding about it. It focuses on the impact it has on the common man and the various sectors in our Indian economy. This tax reform which was implemented on the midnight of june 30th 2017 purports to eliminate the cascading effect of taxes and is sure to augment the competitiveness in the industries in India. Eventually a conclusion is drawn based on the various issues discussed in this paper.

Introduction

Introduction of Goods and Services Tax (GST) will indeed be an important perfection and the next logical step towards a widespread indirect tax reforms in India. As per, First Discussion Paper released by the Empowered Committee of the State Finance Ministers on 10.11.2009, it has been made clear that there would be a ―Dual GST‖ in India, i.e. taxation power lies with both by the Centre and the State to levy the taxes on the Goods and Services.The scheme was supposed to be implemented in India from 1st April 2016, however it may get delayed since the NDA government does not have majority in Rajya sabha (‗The upper house of parliament' or ‗the house of states'). All states wanted to keep petroleum and alcohol out of the ambit of GST.

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Objectives of the Study

1. To bring out the meaning and objectives of GST.
2. To exhibit the features of GST.
3. To present the impact of GST on the various sectors and Indian economy.
4. To derive a conclusion based on the topics discussed.

Meaning Of GST

GST stands for Goods Services Tax. ―Goods and Service Tax (GST) is a comprehensive tax levy on manufacture, sale and consumption of goods and service at a national level under which no distinction is made between goods and services for levying of tax. It will mostly substitute all indirect taxes levied on goods and services by the Central and State governments in India. GST is a tax on goods and services under which every person is liable to pay tax on his output and is entitled to get input tax credit (ITC) on the tax paid on its inputs(therefore **a tax on value addition only)** and ultimately the final consumer shall bear the tax.

Objectives of GST

1. To eliminate the doubly taxation i.e. cascading effects of taxes on production and distribution cost of goods and services. The exclusion of cascading effects i.e. tax on tax till the level of final consumers will significantly

improve the competitiveness of original goods and services in market which leads to beneficial impact to the GDP growth of the country.

2. Introduction of a GST to replace the existing multiple tax structures of Centre and State taxes is not only desirable but imperative. Integration of various taxes into a GST system would make it possible to give full credit for inputs taxes collected. GST, being a destination-based consumption tax based on VAT principle.

Features of GST

- The GST shall have two components: one levied by the Centre (referred to as Central GST or CGST), and the other levied by the States (referred to as State GST or SGST). Rates for Central GST and State GST would be approved appropriately, reflecting revenue considerations and acceptability.
- The CGST and the SGST would be applicable to all transactions of goods and services made for a consideration except the exempted goods and services.
- Cross utilization of ITC both in case of Inputs and capital goods between the CGST and the SGST would not be permitted except in the case of inter-State supply of goods and services (i.e. IGST).
- The Centre and the States would have concurrent jurisdiction for the entire value chain and for all taxpayers on the basis of thresholds for goods and services prescribed for the States and the Centre.
- The basic features of law such as chargeability, definition of taxable event and taxable person, measure of levy including valuation provisions, basis of classification etc. will be uniform across these statutes as far as practicable.
- The GST would be levied in 3 different forms. CGST SGST and IGST. The scope of IGST Model is that centre would levy IGST which would be CGST plus SGST on all inter-state transactions of taxable goods and services with appropriate provision for consignment or stock transfer of goods and services. IGST will be combination of CGST and SGST and the same will be collected by the Centre in the Origin State.
- Tax Credit Mechanism Time bound refund of credit will be allowed in cases such as exports and inverted duty structure. It is clear that cross utilization of CGST and SGST is not allowed generally but the IGST mechanism will make this credit fungible.
- The proposed rates of GST are 5%, 12%, 18%, 28% (+luxury cess).

Positive Impact of GST in India:

- GST is a single taxation system that will reduce the number of indirect taxes. From now, a single taxation term would cover all of those indirect taxes.
- The Prices of products and services would reduce , thus this system would prove to be beneficial for the people who are fed up of paying high prices.
- This would reduce the burden from the state and the central government. With the introduction of GST, all indirect taxes would come under a single roof.
- GST would not be charged at every point of sale like other indirect taxes so in this way, market would be developed.

- Corruption-free taxation system. GST would introduce corruption-free taxation system.
- Companies will now insist vendors and suppliers to furnish invoices as GST will make it impossible for firms to evade taxes
- Big companies stand to benefit as they have a supply chain in order and can offset taxes paid on inputs.
- Smaller firms may end up spending more as compliance cost will rise.
- While the impact on companies varies following existence of production units in the excise exempted zones, implementation of GST should result in cost savings in the supply chain network and expedite a shift from unorganized to organized trade.
- It is purported to bring in the ‗one nation one tax' system, but its effect on various industries will be slightly different. The first level of differentiation will come in depending on whether the industry deals with manufacturing, distributing and retailing or is providing a service.

Negative Impact of GST in India:

- The introduction of GST in the country will impact real estate market. This would increase new home buying price by 8% and reduce buyers' market by 12%.
- GST is a mystifying term where double tax is charged in the name of a single tax.
- Most of the dealers don't pay central excise tax and cheat the government by simply giving the VAT. But all of those dealers would now be forced to pay GST.

Impact of GST on our Economy

The analysis of the role of Goods and Services Tax on our economy is of vital importance to monitor our growth and development. While the lower Goods and Services Tax (GST) rates may lead to a decline in inflation, economic growth may not improve significantly in the short term even though it will benefit both India Inc and the government in the medium term, experts say.. India Inc will have to reorganise their businesses as the country switches to the GST regime, which will bring in more small companies into the tax net.

Sector-wise Impact Analysis

Logistics

In a vast country like India, the logistics sector forms the backbone of the economy. We can fairly assume that a well organized and mature logistics industry has the potential to leapfrog the ―Make In India‖ initiative of the Government of India to its desired position.

E-com

The e-com sector in India has been growing by leaps and bounds. In many ways, GST will help the e-com sector's continued growth but the long-term effects will be particularly interesting because the model GST law specifically proposes a tax collection at source (TCS) mechanism, which e-com companies are not too happy with. The current rate of TCS is at 1%

and it‘ll remain to be seen if it dilutes the rapid boom in this sector in any way in the future.

Pharma

On the whole, GST is expected to benefit the pharma and healthcare industries. It will create a level playing field for generic drug makers, boost medical tourism and simplify the tax structure. If there is any concern whatsoever, then it relates to the pricing structure (as per latest news). The pharma sector is hoping for a tax respite as it will make affordable healthcare easier to access by all.

Telecommunications

In the telecom sector, prices are expected to come down after GST. Manufacturers will save on costs through efficient management of inventory and by consolidating their warehouses. Handset manufacturers will find it easier to sell their equipment as GST will negate the need to set up state-specific entities, and transfer stocks. The will also save up on logistics costs.

Textile

The Indian textile industry provides employment to a large number of skilled and unskilled workers in the country. It contributes about 10% of the total annual export, and this value is likely to increase under GST. GST would affect the cotton value chain of the textile industry which is chosen by most small medium enterprises as it currently attracts zero central excise duty (under optional route).

Real Estate

The real estate sector is one of the most pivotal sectors of the Indian economy, playing an important role in employment generation in India.The probable impact of GST on the real estate sector cannot be fully assessed as it largely depends on the tax rates. However, it is a given that the sector will see substantial benefits from GST implementation, as it will bring to the industry much required transparency and accountability.

Agriculture

Agricultural sector is the largest contributing sector the overall Indian GDP. It covers around 16% of Indian GDP. One of the major issues faced by the agricultural sector, is transportation of agri products across state lines all over India. It is highly probable that GST will resolve the issue of transportation. GST may provide India with its first National Market for the agricultural goods. However, there are a lot of clarifications which need to be provided for rates for agricultural products.

FMCG

The FMCG sector could see significant savings in logistics and distribution costs as the GST will eliminate the need for multiple sales depots. The GST rate for this sector is expected to be around 17% which is way lesser than the 24-25% tax rate paid currently by FMCG companies. This includes excise duty, VAT and entry tax – all of which will be subsumed by GST.

Freelancers

Freelancing in India is still a nascent industry and the rules and regulations for this chaotic industry are still up in the air. But with GST, it will become much easier for freelancers to file their taxes as they can easily do it online. They will be taxed as service providers, and the new tax structure will bring about coherence and accountability in this sector.

Automobiles

The automobile industry in India is a vast business producing a large number of cars annually, fueled mostly by the huge population of the country. Under the current tax system, there are several taxes applicable on this sector like excise, VAT, sales tax, road tax, motor vehicle tax, registration duty which will be subsumed by GST. Though there is still some ambiguity due to tax rates and incentives/exemptions provided by different states to the manufacturers/dealers for manufacturing car/bus/bike, the future of the industry looks rosy.

Startups

With increased limits for registration, a DIY compliance model, tax credit on purchases, and a free flow of goods and services, the GST regime truly augurs well for the Indian startup scene. Currently, many Indian states have very different VAT laws which can be confusing for companies that have a pan-India presence, specially the e-com sector. All of this is expected to change under GST with the only sore point being the reduction in the excise limit.

BFSI

Among the services provided by Banks and NBFCs, financial services such as fund based, fee-based and insurance services will see major shifts from the current scenario. Owing to the nature and volume of operations provided by banks and NBFC vis a vis lease transactions, hire purchase, related to actionable claims, fund and non-fund based services etc., GST compliance will be quite difficult to implement in these sectors.

Conclusion

It‘s not optimal, but let the best not be the enemy of the good. Even with its imperfections, it could usher in significant benefits, especially through a quantum leap in transaction trails and logistical efficiencies. The macroeconomic impact of a change to the introduction of the GST is significant in terms of growth effects, price effects, current account effects and the effect on the budget balance. In a highly developed open economy with a high and growing service sector, a change in the tax mix from income to consumption-based taxes is likely to provide a fruitful source of revenue. Despite falling outside the limited focus of this short note, we should record that some impact has also occurred in the administrative component of the compliance cost of the GST as well as a likely increase in tax revenue from the ―underground‖ or ―black‖ economy. The Goods & Services Tax is a transformational structural reform which will have multiple benefits - the creation of a national market; enhanced ease of doing business; greater productivity & efficiency; and improved tax compliance. All stakeholders are working together for a seamless transition to this new paradigm. This reform will result in benefits for all participants in the Indian economy, including both businesses & consumers.

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