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A STUDY ON GOODS AND SERVICE TAX (GST) THE MOST PROMINENT REFORM IN INDIAN TAX REGIME

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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 enhances the economic growth of a country. More than 150 countries have already implemented GST. However, the idea of GST in India was suggested by Vajpayee Government in 2000 and the constitutional amendment for the same was passed by the Loksabha on 6th May 2015 and was to be ratified by the Rajyasabha. The introduction of the Goods and Services Tax will be the most remarkable step in the field of indirect tax reforms in India. By integrating a large number of Central and State taxes into a single tax, GST is expected to considerably ease double taxation and make taxation overall easy for the industries. Ultimately, most significant benefit to customer in terms of reduction in the overall tax burden on goods and services. Introduction of GST will also make Indian products competitive in the domestic and international markets. Last but not least, the GST, because of its transparent character, will be easier to administer. However, there had been a huge hue and cry against its implementation. After the enactment of various GST laws, finally GST - Goods and Services Tax was launched all over India with effect from 1 July 2017. An effort has been made in this article to study the brief history, implementation of GST Bill and advantages and limitations of GST bill in context of Indian Economy.

Key words: Tax, GST Bill, CGST, SGST and IGST

INTRODUCTION

The Goods and Services Tax (GST) is defined as 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 integration of Central and State taxes into a single 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 One of the main objective of Goods & Service Tax(GST) would be 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. Introduction of a GST to replace the existing multiple tax structures of Centre and State taxes are not only desirable but also 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.

Objectives of the study

To study the brief history of GST worldwide and in India.

To understand the concept of GST and components of GST Bill in context of Indian economy.

To understand main advantages and limitations of GST Bill.

To assess the impacts of GST on different sector.

Scope of study

This study will be helpful to business men in knowing the GST Bill in India economy.

This study provide the base to researchers and scholars who want know GST Bill, its impacts on Indian economy and who wants to conduct the further research in this area.

This study will be helpful to those who want to know the impacts of GST Bill on different sectors so they can assess impacts on their sectors and can compare it.

Readers can get idea about not only the advantages and limitations of GST but also can compare the old tax regime and new tax regime.

Common man can also check how they are affected by GST.

METHODOLOGY

The study is a descriptive type in nature. Secondary data has used for the study. Secondary data is collected from library, text books, and journals, articles from news papers and from relevant websites available on internet. By using that information I am trying to come up with some assumptions and recommendations.

BRIEF HISTORY

France was the first country to introduce GST in 1954. Almost 150 countries have introduced GST in one or the other form since now. Most of the countries have a unified GST system. Brazil and Canada follow a dual system with reference to India is going to introduce. In China, GST applies only to goods and the provision of repairs, replacement and processing services. GST rates of some countries are as follows:

Country	Rate of GST
Australia	10%
France	19.6%
Canada	5%
Germany	19%
Japan	5%
Singapore	7%
New Zealand	15%

Now let's have a quick look on brief history of GST Bill implementation. Following points will highlight the brief history of GST Bill in India:

1999: A single common "Goods and Services Tax (GST)" was proposed and given a go-ahead in 1999 during a meeting between the Prime Minister Atal Bihari Vajpayee and his economic advisory panel, which included three former RBI governors IG Patel, Bimal Jalan and C Rangrajan.

2000: PM Vajpayee set up a committee headed by the Finance Minister of West Bengal, Asim Dasgupta to draft GST law.

2004: A task force concludes GST must be implemented to improve the current tax structure.

2006: Finance Minister P Chidambaram proposes GST introduction from April 1 2010.

2007: CST to phase out. Rates reduced from 4% to 3%.

2008: EC finalises dual GST structure to have separate levy, legislation.

2010: Project to computerise commercial taxes launched but GST implementation postponed.

2011: Constitution amendment bill to enable GST law introduced.

2012: Standing committee begins discussion on GST but stalled it over clause 279B.

2013: Standing committee tables its reports on GST

2014: GST Bill reintroduced in Parliament by Finance Minister.

2015: GST Bill passed in Lok Sabha but not in Rajya Sabha.

2016: Amended Model GST law passed in both houses. President Pranab Mukherjee gave assent, paving way for GST.

2017: Four supplementary GST Bill passed in Lok Sabha and approved by Cabinet. Rajya Sabha passed four supplementary GST Bills. And Final GST was launched in July 1st 2017.

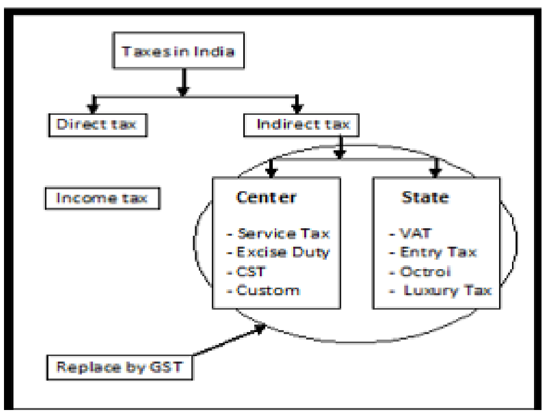
What is GST?

'G' – Goods

'S' – Services

'T' – 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". GST or Goods and Service Tax is common tax system proposed by the government. As the name suggest it is a common tax for Goods and Services. In simple words today we are paying multiple taxes such as excise duty, custom duty, value added tax, octroi, service tax etc. After implementation of GST all these taxes will be substituted by a single tax which is called as GST. GST rate is expected to be 18-20% which is lesser than tax burden of indirect taxes.



Major components of GST:

There are 3 taxes applicable under this system: CGST, SGST & IGST.

CGST: Collected by the Central Government on an intra-state sale (Eg: transaction happening within Gujarat)

SGST: Collected by the State Government on an intra-state sale (Eg: transaction happening within Gujarat)

IGST: Collected by the Central Government for inter-state sale (Eg: Gujarat to Maharashtra)

In most cases, the tax structure under the new regime will be as follows:

Transaction	Old Regime	New regime	
Sale within the state	VAT + Central Excise/Service tax	CGST+SGST	Revenue will be shared equally between the Centre and the State
Sale to another state	Central sales tax + Excise/Service tax	IGST	There will only be one type of tax (central) in case of inter-state sales. The Centre will then share the IGST revenue based on the destination of goods.

Example:

Suppose, a dealer sells goods to consumer in Gujarat worth Rs. 100000. The GST rate on the good is 12%. This rate comprises of CGST at 6% and SGST at 6%. The dealer has to collect Rs. 12000 as GST. Rs. 6000 will go to the Central Government and Rs. 6000 will go to the Gujarat government as the sale is within the state. Now assume for a while, if the same dealer in Gujarat sells the good to a dealer in Punjab worth Rs. 100000. The rate is 18% comprising of only IGST. In such cases, the dealer has to charge Rs. 18000 as IGST. This revenue will go the Central Government.

Advantages

Removal of numerous Taxes:

The biggest benefit of GST is an removal of numerous indirect taxes. All taxes like excise, octroi, sales tax, CENVAT, Service tax, turnover tax etc will be replaced by GST and all that will fall under common tax called as GST.

Tax Credit Benefit

GST will be applicable at all stages from manufacturing to consumption. GST will provide tax credit benefit at every stage in chain. In past at every stage margin was added and tax was paid on whole amount, in GST you will have tax credit benefit and tax will be paid on margin amount only. For example if there is a tax paid on Rs 50000 at 15% at the first stage then the tax will be Rs 7500. During the next stage when the same goods are sold by adding margin of Rs 20,000 at Rs 70000 then the tax would be Rs 10500 but here tax credit of Rs 7500 available so the actual tax at that stage will come to just Rs 3000.

Removal of Cascading Effect (i.e., tax on tax):

GST will be applicable at all stages from manufacturing to consumption. GST will provide tax credit benefit at every stage in chain. Today at every stage margin is added and tax is paid on whole amount, in GST you will have tax credit benefit and tax will be paid on margin amount only. It will reduce cascading effect of tax thereby reducing cost of product.

Cascading tax effect can be best described as ‘Tax on Tax’. Let us take this example to understand what Tax on Tax is:

Old tax regime:

A consultant offering services for say, Rs 50,000 and charged a service tax of 15% (Rs 15% of 50,000 is Rs 7,500).

Then say, he would buy office supplies for Rs. 20,000 paying 5% as VAT (Rs 20,000 *5% = Rs 1,000).

He had to pay Rs 7,500 output service tax without getting any deduction of Rs 1,000 VAT already paid on stationery. His total outflow is Rs 8,500.

GST regime:

GST on service of Rs. 50000 @ 18% 9000

Less: GST on office supplies (5% 20000) 1000

Net GST to pay 8000

Saving more Money

For a common man, GST applicability means the removal of double charging in the system. This will reduce the price of goods and services & help common man will be able to save more money. It is expected that price of FMCG products, small cars, cinema tickets, electrical wires etc is expected to reduce.

Ease of doing business

GST will bring one country one tax concept. This will prevent unhealthy competition among states. It will be beneficial to do interstate business.

Documentations and Return Filing will be Easy:

For a businessman, GST will be a boon. No multiple taxes means compliance and documentation will be easy. Return filing, tax payment, and refund process will easy and hassle free.

Increase in Employment

As GST will reduce cost of product it is expected that demand of product will increase and to meet the demand, supply has to go up. The requirement of more supply will be addressed by only increasing employment.

Increase in GDP

As demand will grow naturally production will grow and hence it will increase gross domestic product. It was estimated that GDP will grow by 1-2% due to GST.

Decline in Tax Evasion, Transparent and Corruption Free:

GST is a single tax which will include various taxes, making the system efficient, transparent so there will be fewer incidences of Tax Evasion and corruption.

Increase competitiveness:

The retail price of the manufactured goods and services in India reveals that the total tax component is around 25-30% of the cost of the product. After implementation of GST, the prices have gone down, as the burden of paying taxes has been reduced to the final consumer of such goods and services. Resultantly, production increases and competition too.

Increase in Tax Revenue for state and central government:

GST will replace all 17 indirect taxes with single tax. Increase in product demand will ultimately more tax revenue to the treasury of state and central government. Goods and service tax is a boon for the Indian economy and the common man. It is a welcome step taken by the government.

Easy to implement and follow:

GST will be paid only at point of sale. In past different taxes were payable at different stages like excise, octrio, sales tax. Under GST all these will be eliminated which will be easy to implement and follow.

Limitations

Buying or up gradation of Software/ERP will increase the cost:

For the smooth functioning of Business either they will have to update their existing accounting or ERP software to GST-compliant one or buy GST software. But both the options lead to increased cost of software purchase and training of employees for an efficient utilization of the new billing software.

Being GST-compliant

It was difficult for Small and medium-sized enterprises (SME) to keep pace with GST tax regime. They will have to issue GST-complaint invoices, be compliant to digital record-keeping, and of course, file timely returns. This means that the GST-complaint invoice issued must have mandatory details such as GSTIN, place of supply, HSN codes, and others. So it took longer time for SME.

Increase in operational costs

As we have already established that GST is changing the way how tax is paid, businesses will now have to employ tax professionals to be GST-complaint. This will gradually increase costs for small businesses as they will have to bear the additional cost of hiring experts.

Also, businesses will need to train their employees in GST compliance, further increasing their overhead expenses.

Confusion and Compliance Issue as GST came into effect in the middle of the financial year

As GST was implemented on the 1st of July 2017, businesses followed the old tax structure for the first 3 months (April, May, and June), and GST for the rest of the financial year. Businesses may find it hard to get adjusted to the new tax regime, resulted in confusion and compliance issues.

It will be difficult to adopt GST as an online taxation system

Unlike earlier, businesses are now switching from pen and paper invoicing and filing to online return filing and making payments. This might be tough for some smaller businesses to adapt to.

Higher tax burden on SMEs:

Smaller businesses, especially in the manufacturing sector will face difficulties under GST. Earlier, only businesses whose turnover exceeded Rs 1.5 crore had to pay excise duty. But now any business whose turnover exceeds Rs 20 lakh will have to pay GST. However, SMEs with a turnover upto Rs 75 lakh can opt for the composition scheme and pay only 1% tax on turnover in lieu of GST and enjoy lesser compliances. The catch though is these businesses will then not be able to claim any input tax credit. The decision to choose between higher taxes or the composition scheme (and thereby no ITC) will be a tough one for many SMEs.

Lack of IT infrastructure:

There are still a few states in India which lack IT Infrastructure so it will be difficult for them to adopt GST.

Impact of GST on Different Sectors:

Affordable Housing:

Purchase of houses is non-taxable, however under construction house will carry a GST tax rate. The GST rates for homes purchased under CLSS, EWS, LIG, MIG1/11 will be 8%, after deducting cost of land. However, those doesn't qualify CLSS, etc, will have to pay 12% GST on constructed houses.

Alcohol Industry

There is no GST on alcohol, instead there is an increase in the price of alcohol. Price of a beer is going to raise by 15% and wine and other hard drinks will be increasing by 4%.

Automobile Industry

GST absorbed indirect tax regime, which attracted several duties and taxes on the sale of vehicles and spares and accessories.

Aviation Sector

The industry has mixed feelings about the introduction of GST, especially the GST rates for airline fuel.

Cement Industry

GST will not affect this industry drastically, the tax rates imposed will get absorbed in the cost of cement production.

Chemical Industry

Implementation of GST is believed to be positive to the chemical industry, especially in the long term.

Coal Sector:

After the GST implementation, the coal transportation rates have done down to 5% through trains, and thus the logistics costs has been decreased.

Consumer Goods & Services:

The GST rates for the FMCG industry is set at 18-20%. While most are happy with the introduction of GST, the ones who are heavily affected are opposed.

Digital Advertising Industry:

This industry which is fast growing is a cheaper method for companies as GST will have less effect in this sector, as compared to traditional marketing.

Domestic appliances and Electrical Machinery:

There is not a huge impact in this industry as the new GST rates around 25%, which is similar to the rates pre-GST.

E-Commerce:

Post GST, e-commerce operators collect 1% of the net value of the taxable supplies, which is called Tax Collected at Source (TCS).

Entertainment & Hospitality Sector:

This sector was affected as this sector falls in the 28% category. Movie tickets, hotel rates will now be costlier.

Export of Goods & Services:

At all stages of the supply chain there is no tax, post GST. Moreover, the availability of input credits is welcomed.

Exports:

In the pre-GST tax system, import of the goods carried several import duties, however, after GST, IGST has replaced the indirect taxes that was earlier imposed on import of goods and services.

Financial Products and Services:

The financial services such as funds and insurances, (Non-Banking Financial Company) are most impacted.

Gold and Gold Jewellery Prices:

Post GST the tax rate was set to 18% initially then brought down to 5% tax rate

Handicraft Sector:

One of the largest sector of the country, which is most affected by GST. Therefore, GST is not welcomed by the artisans.

Hospitality Industry:

This is another industry that has benefited as the previous tax regime levied up to 27% tax. Post GST, the tax rates have been reduced.

Inflation and Economic Activity:

GST is a Inflationary measure. However, the rise in the tax rate on services to 18% is expected to raise inflation.

Job works:

Special provisions exist for removal of goods for job-work and receiving back goods after processing from the job-worker carry no GST. The benefit of these provisions is extended both to the principal and the job-worker.

Logistics:

The rate pre-GST was above 26% and post the implementation of GST there was reduction to 18-21%, which was good news for the sector.

Manufacturing Industry:

GST, demands businesses to set-up mechanism for meeting the requirements of GST. Therefore, once the companies adapt the requirements, the compliance costs will go down drastically.

Pharmaceutical Industry:

This industry will see an increase in costs after GST implementation as the cost of medicines will rise by 2.3% in the 12% bracket and medicines with 5% will see no increase in MRP.

Power Sector:

Overall impact of GST on power sector is positive. Domestic coal, is in the 5% tax slab. The impact of GST will be positive for the electrical and the lighting sectors as the rate is now 18%.

Real Estate Sector:

This sector has mostly benefitted from the introduction of GST, as much of this sector is becoming more transparent.

Rent:

Since the implementation of GST the exemption limit for renting out commercial property is Rs. 20 lakhs and there is no GST on house rent.

SEZ:

Under GST regime, SEZ's have benefitted from a zero-tax rate.

Transportation:

The rates for cabs has been lowered to 5% and for air travel also. So, this is a welcome move for those in this sector.

Start-Ups:

GST has a positive influence towards start-ups. It had got both advantages and disadvantages for start-ups. However, as a start-up, already facing the stress of a new business, the question of how the new GST will impact your business, must be difficult for you.

Stainless Steel Industry:

GST had made a very good impact on steel industry. After issuing new tax rates, it has become more favourable to steel industry. The GST rate for primary steel industries is imposed at 18%, which is helpful for them to grow.

Stock Transfer:

Post the introduction of GST, tax is levied on branch transfers and input tax can be claimed later.

Sweet makers:

They are trying to figure out if they need to pay 28% tax on it as many of our chocolate variations have more than 5% cocoa content. Badam milk, basundi and rasmalai are also a concern as we aren't sure if they are sweets (5% tax) or beverages (12% tax).

Textile Industry:

Despite some changes under the GST regime, the textile sector benefitted with the implementation of the regime.

Tobacco Industry:

The new GST rates are less than the combined taxes during pre-GST regime.

Various segments of Indian Railways:

The impact of GST in this sector is very minimal as the rate is kept at the lowest tax rate of 5% to ensure passengers benefit the most.

CONCLUSION

Change is definitely never easy. The government has been trying to smoothen the road to GST. It is important to take a leaf from global economies that have implemented GST before us, and who changed their tax structure and avail the advantages of having a unified tax system and easy input credits. I personally appreciate the structural changed in our current tax regime in form of GST Bill. Different states and people will no doubt take time to understand the GST and its importance in changing environment but whenever they understand, they will surely appreciate this bold step of government which changed our old tax regime.

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