IMPACT OF GOODS AND SERVICE TAX (GST)

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ABSTRACT

Goods and Service Tax or GST as it is known is all set to be a game changer for the Indian Economy. GST is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level. In India, there are different indirect taxes applied on goods and services by central and state government. GST is intended to include all these taxes into one tax charged on both goods and services. The government introduced GST especially to avoid corruption. The introduction of GST had many impact in each and every person’s life. Our Central Government has introduced this new taxation system and it created many impact in our country. It affected every sectors, every group of people. This paper is going to be the research regarding the impacts of GST.

This research is devoted to the study of the impacts of GST on Indian Economy. Thus the research paper starts with the evolution of GST. It includes the impact of GST created on different kinds of people. The study also explains the challenges being faced by the Indian people by the introduction of new tax system (i.e. GST). Finally, it will also suggest some ideas to get our present taxation system more effective.

KEYWORDS: Goods and Services Tax, Economic development, Low income households.

INTRODUCTION

Taxes are the only means for financing the public goods because they cannot be priced appropriately in the market. They can only be provided by governments, funded by taxes. It is important the tax regime is designed in such a way that it does not become a source of distortion in the market or result in market failures. The tax laws should be such that they raise a given amount of revenue in an efficient, effective and equitable manner. Tax policies play an important role on the economy through their impact on both efficiency and equity. A good tax system should keep in view issues of income distribution and, at the same time, also endeavor to generate tax revenues to support government expenditure on public services and infrastructure development. GST stands for Goods and Services Tax. It is a domestic trade tax that will be levied in the form of a value added tax on all goods and services - in practice with some exemptions. A value added tax exempts all inputs including capital goods. Hence, it becomes a general tax on domestic consumption. It is a convenient and economically efficient way of taxing consumption. In order to ensure that the tax burden is distributed according to the consumption of different individuals, it must be levied on the basis of the principle of destination, that is to say that the tax on a good should go to the state in which the concerned consumer lives. This automatically takes place if the tax is levied at only the central level, or if the state is a unitary one with only one level of taxation.
EVOLUTION OF GST

CONCEPT OF GST:

GST or Goods and Services Tax is applicable on supply of goods and services. It replaced the taxes of excise, VAT and service tax. There were different VAT laws in different states. This created problems, especially when businesses sell to different states. Also, most businesses had to pay and comply with 3 different taxes – excise, VAT, and service tax. GST brought uniform taxation across the country and allows 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 accountants etc. However, being an indirect tax, GST will be ultimately borne by the end consumers. India implemented the Canadian model of Dual GST, i.e., both the Centre and State will collect GST. GST is a destination based tax system. Supply of goods and services are base for charging tax. GST is very comprehensive indirect taxation system on manufactured product and services, sale and
consumptions of goods and services at national level. GST is being one of the biggest tax reform after independence till the date. GST is very comprehensive indirect taxation system on goods manufactured and services provided. It is one of the biggest tax reforms in country. Clause 366(12A) of the Constitution Bill defines GST as “goods and services tax” means any tax on supply of goods, or services or both except taxes on the supply of the alcoholic liquor for human consumption. Further the clause 366(26A) of the Bill defines “Services” means anything other than Goods. Thus it can be said that GST is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level. The proposed tax will be levied on all transactions involving supply of goods and services, except those which are kept out of its purview.

MODELS OF GST

For Intra State Transactions: In case of Intra State transactions, Seller collects both CGST & SGST from the buyer and CGST needs to be deposited with Central Govt. and SGST with State Govt.

For Inter State Transactions: Integrated Goods and Service Tax (IGST) shall be levied on Inter State transactions of goods and services which are based on destination principle. Tax gets transferred to Importing state. Moreover it is proposed to levy an additional tax on supply of goods, not exceeding one percent, in the course of inter-state trade or commerce, to be collected by the Central Government for a period of two years, and assign to the States where the supply originates. Exports and Supplies to SEZ units will be zero rated. Under this total amount of GST for any goods or service will be distributed in both State and Central exchequers. According to our Union Finance Minister, GST will add 2 percent to the National GDP.

IMPACT OF GST ON INDIAN ECONOMY

GST has a positive impact on the economy and on various sectors which are as follows:

Fast moving consumer goods sector:-

With the implementation of Goods and Service Tax, FMCG sector would really change. FMCG sector consist 50% Food and Beverage sector and 30% is Household and Personal care. FMCG sector is the major taxation contributor both direct and indirect in the economy. The multiplicity of the taxation influences the company’s decision on manufacturing location and distribution of Goods. FMCG companies set their manufacturing units and warehouses where they can avail tax benefits. To transfer the stock from the warehouses among the states they have to pay taxes. So, GST would surely impact on FMCG sector as taxes affect the cost to the company.
Food Industry:-

Since food constitutes a large portion of the consumer expense of lower income households, any tax on food would be regressive in nature. Therefore, extending GST to food processing sector will also cause difficulty in view of the fact that production and distribution of food is largely unorganized in India. On global front, most of the countries tax food at a lower rate keeping in view the considerations of fairness and equity. Even in countries such as Canada, UK and Australia where food constitute a relatively small portion of the consumer basket, food is taxed at zero rates. While in some countries, food is taxed at a standard rate which is as low as 3% in Singapore and Japan at the inception of the GST. Even in international jurisdictions, no distinction is drawn on the degree of processing of food. Hence, the benefit of lower or zero tax rates should also be extended to all food items in India regardless to degree of processing.

Infrastructure sector:-

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. Although this sector enjoys different exemptions and concessions as it is important on national front. With the implication of GST the multiplicity of taxes will be removed and it would increase the tax base with continuation of exemptions and concessions for national interest and growth.

Impact on small enterprises:-

In the small scale enterprises there are three categories:-

- Those below threshold need not to 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.

In respect of the central GST the situation is slightly complex. GST is expected to encourage compliance and which is also expected to widen tax base adding up to 2% to GDP. Manufacturers, traders will have to pay less tax with the implication of GST.

ADVANTAGES OF GST:

For Citizen

- Simpler tax system
- Reduction in prices of goods and services due to elimination of cascading.
- Uniform prices throughout the country.
- Transparency in taxation system.
- Increase in employment opportunities.

For Trade/Industry

- Reduction in multiplicity of Taxes
- Mitigation of cascading /double taxation
- More efficient neutralization of taxes especially for exports
- Development of common national market.
- Simpler tax regime-fewer rates exemption.
For Central/ State Governments.
- A unified common national market to boost Foreign Investment and “Make In India” campaign
- Boost to export /manufacture activity, generation of more employment, leading to reduced poverty and increased GDP growth.
- Improving the overall investment climate in the country which will benefit the development of the states.
- Uniform SGST and IGST rates to reduce the incentives for tax evasion.
- Reduction in compliance costs as no requirement of multiple records keeping.

Disadvantages of GST:
- There is a dual control on every business by Central and State Government. So compliance cost will go up.
- All credit is available on from online connectivity with GST Network.
- Hence, small businesses may find it difficult to use the system.
- VAT and service tax on some products may become higher than the current levels.
- States may lose autonomy to change their tax rates.
- Manufacturing states would lose big revenue.
- Service sector may oppose because they have to register in every state with central and state government. So every business at all India level will have around 60 registrations while they are having just one today. Moreover their rates will also go up.
- Retail business may oppose because their taxes will go up and they will also have to deal with Central Government now in addition to States.

Challenges of GST in Indian Context

GST is the biggest reform in Indian taxation since 1947, but there are many challenges for its successful implementation. These are as under

Consent of States: For implementing it is critical that GST bill is passed by the respective state Governments in state assemblies so as to bring majority. This is a herculean task.

Revenue Neutral Rate (RNR): It is one of Prominent Factor for its success. We know that in GST regime, the government revenue would not be the same as compared to the previous system. Hence, through RNR Government is to ensure that its revenue remains the same despite of giving tax credits.

Threshold Limit in GST: While achieving broad based tax structure under GST, Both empowered committee and Central Government must ensure that lowering of threshold limit should not be a “taxing” burden on small businessmen in the country.

Robust IT Network: Government has already incorporated Goods and service tax network (GSTN). GSTN has to develop GST portal which ensure technology support for GST Registration, GST return filing, tax payments, IGST settlements etc. Thus there should be a robust IT backbone situation; it would defeat the very purpose of GST in the country.

Extensive Training to Tax Administration Staff: GST is absolutely different from existing system. It, therefore, requires that tax administration staff at both Centre and state to be trained properly in terms of concept, legislation and Procedure.
Additional Levy on GST: The Purpose of additional Levy is to compensate states for loss of revenue while moving to GST. We acknowledge that fundamental purpose of GST is to make “INDIA” as one state where inter-state movement of goods is common. In this

CONCLUSIONS

Taxation plays a significant role in the development of the economy as it impacts the efficiency and equity. It is expected that a good system should control income distribution and at the same time it will endeavor to generate tax revenue which will support government expenditure on public services and development of infrastructure. GST mostly carries a positive impact on Indian economy. GST has faced lots of controversy and opposition in terms of its implementation. Finally the GST bill has been passed and it has been implemented. International trade, firms and consumer will have new system of tax which is single level and more transparent. This new system of taxation is considered to be more improved system over the existing central excise duty at the national level and sales tax system at state level. The new tax will be significant breakthrough and a logical step towards a comprehensive indirect tax reforms in the countries is not only Vat plus service tax but it is major improvement over previous VAT system. A single of tax will help maintain simplicity and transparency by treating all goods and services equal without giving a special treatment to some types of goods and services. It will reduce the litigation on classification of issues. It is also said that implementation of GST in Indian framework leading to commercial benefits which VAT has not given and hence it would essentially lead to economic development. GST assures the possibility of overall gain for industry, trade, agriculture and also to central and state government. Now Indian consumer need to have professionalism to acknowledge the GST. It is sure that India will join the international standards of taxation, corporate laws and managerial practices and also be among the world leaders.

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