

OVERVIEW OF GST AND IT'S EFFECT ON VARIOUS SECTORS

Shaivya Singh*

ABSTRACT

Traditionally Indian tax regime depended heavily on indirect taxes. Indirect taxes were the main source of tax revenue until tax reforms were undertaken during the nineties. The main argument put forward for heavy dependence on indirect taxes was that India's population was huge, poor, illiterate and thus the widening base of direct taxes had inherent and technical limitations. The system of indirect taxation in India is characterized by cascading, distorting tax on production of goods and services which results in hampered productivity and slow economic growth. There are various taxes in the present system, few levied by Centre and few levied by state. Thus, to remove the multiplicity of taxes and reduce the burden on the taxpayer a simple tax is the need of the hour and that is Goods and Service Tax (GST). This paper throws an insight into the Goods and Service Tax, concept, advantages, disadvantages and effect of GST on various sectors.

Keywords: GST in India, Goods and Service Tax, Tax Reform, Indirect Tax.

Introduction

Goods and Services Tax (GST) is most ambitious and biggest tax reform, which aims to stitch together a common market by dismantling fiscal barriers between states. The GST taxation laws will put an end to multiple taxes at various levels which are levied on different products, starting from the source of manufacturing to the end consumer. GST is based on the fundamental Principle of "One Country One Tax". The four GST slabs have been set at 5%, 12%, 18% and 28% for different items or services.

Research Methodology

The research technique is based on past literature from various respective journals, annual reports, newspaper articles and blogs covering a wide collection of academic literature and data on Goods and Service Tax. According to the objectives of the study, the research design is descriptive in nature. Available secondary data was extensively used for the study of the research article.

Objective of the Study

- To study the effect of GST on manufacturers, traders and other sectors of the economy.
- To study about the advantages and disadvantages of Goods and Service Tax (GST in India).
- To study the impact of Goods and Services Tax (GST) on central and state governments.

Classification of Taxes Subsumed under GST

Taxes merged under CGST	Taxes merged under SGST
Central Excise Duty	VAT/State Tax
Additional Excise Duties	Entertainment tax (unless it is levied by the local bodies)
The Excise Duty levied under the Medical and Toiletries Preparation Act	Luxury tax
Services Tax	Taxes on lottery, betting and gambling
Additional Customs Duty, Commonly known as Countervailing Duty (CVD)	State Cesses and Surcharges in so far as they relate to supply of goods and services
Special Additional Duty of Customs-4% (SAD)	Entry tax not in lieu of octroi
Surcharges and Cesses	

Source: Constructed from the Report Published by the Empowered Committee of State Finance Minister, Government of India (2009)

Results and Discussions

Sector Wise Impact

The impact of GST will be something, which will be difficult to accurately measure as the benefit can accrue to the companies from various fronts. It has not only impacted the amount of tax paid or the timing of tax, but it has impacted the entire business model for various sectors. The implementation has been facing a lot of issues and unrest from the small business.

- **Automobile & Logistics Sector**

The buyers of automobiles are one of the major beneficiaries of the new tax regime as the effective rate of tax under the GST regime will be 28% plus a cess (1%-Small Diesel, 2% small Petrol, 15% luxury). This rate is much less than the previous levy of 30%-45%, which is resulting in a net saving of 10%. This saving is not the reduction of cost, which will be achieved by availing credit for inputs at each stage of the value chain. It is estimated that the total price reduced to be nearly 8% of on road price.

The subsuming of various local taxes will improve movement for logistics companies, which would increase the efficiency of each vehicle. This will further be impacted by the new provision which mandates an E-way bill for transportation of goods over 100 km and Rs. 50,000 in value. This will make it difficult for logistics companies to make everyone involved in the process aware about the technology. Hence, this might result in a sluggish demand for commercial vehicles in the short run.

- **Real Estate**

GST will impact the builders in a positive way as they will get an input tax credit on important raw materials which they use, hence base price of property projects launched post 1st July are expected to decrease. *“For new projects with 100% input credit passed to the buyer and land cost being 50% of the project cost, it is expected property prices to decrease by around 1% in western and northern markets and around 3% in southern markets,”* said a report by Edelweiss.

- **Cab Aggregators**

Under the new regime, Tax rates are expected to increase from 14.5% to a range between 29% and 43% for drivers who are not car owners and are associated with cab-leasing programs. This increase is due to the lease being costly in the post GST regime.

- **Pharmaceutical Industry**

India has the 3rd largest pharmaceutical industry in the world and is the largest producer of generic medicines. This sector was imposed with 8 types of taxes, which made it very complex, and with the introduction of GST it will be reduced to one.

- **Manufacturing Sector**

The impact of GST on this sector is huge and which transforms the sector on various fronts. Under previous laws, a manufacturer pays around 28% — 30% as taxes but under GST they have to pay 18% tax. This will result in around 10% savings. The government has approved area based tax which helped in the prior benefits received by the manufacturing unit situated in the hills and north east. As GST is a destination-based tax, which is not the case for excise duty, which increases the working capital requirement for this sector. This reform will also affect the warehousing and logistics decision making as the movement of goods is simpler under the GST regime because this decision will be based on economic efficiencies.

- **E-commerce**

As per the changes, every e-commerce operator will collect tax at source @1 % and deposit applicable GST when payments are to be made to the supplier. Under the GST law, transfer of goods without consideration will be treated as a transaction and GST will be levied. This will result in blockage of cash till the company utilizes the credit.

Impact of GST

The implementation of GST will impact the State & central government in the various ways:

- **State Finance**

The impact of GST on state finances should be less as the GST rate structure emphasizes a Revenue Neutral Rate (RNR). In the medium to long run, GST may increase the tax buoyancy of the Central and state governments by 0.6 per cent which will reduce the gross fiscal deficit by 0.7–1.2 percent of GDP if disinvestment receipts and non-tax revenues remain same from the trend of the previous 5 years (CRISIL, 2014). GST will be credited where the supplies are consumed as compared to the situation where the producer state is credited with CST on interstate sales.

- **Integrating Informal Economy with Formal Economy**

The GSTN will act as a major step to force compliance of indirect tax laws which is often evaded by many dealers. Invoice matching assures that a rebate is given to a business only if tax on the item bought is paid to the government by the material or service supplier. It helps in plugging the hole which existed before the introduction of GST as input credit was available merely on the basis of invoice from the supplier. GST and Demonetization have also led to an increase in income tax returns. Integrating the informal economy with the formal economy is expected to eventually lead to a wider base of indirect taxes and of direct taxes. Actual receipts might go up further as citizens comply with the norms. While GST collections are nearly in line with the total target for the Union & state governments, it is highly possible that individual states have not met their goals.

- **Ease of doing Business**

The number of taxes has reduced making it easier for all businesses. The compliance burden on the small and medium industry was seen as a major concern which was resolved by the GST council by decreasing the frequency of return (Monthly to quarterly). GST and other reforms will improve India's rank in the World Bank ranking of countries for ease of doing business.

- **Reduction of Cascading Effect of Taxation**

Before the GST regime, no credit was available to non-manufacturer of goods for the capital goods purchased by them and no credit was allowed for the state VAT on capital goods acquired by the firms in the service sector. Hence, there was a tax on tax which is now changed under GST. This will also support in reducing the overall cost of goods.

- **Inflation**

It is observed by various countries who have implemented GST that there is a one off increase in inflation which comes down after one year of implementation. As per a RBI study, this will be more prevalent in selected sectors like healthcare (excluding medicines). This moderate inflation will help the economy to grow and create demand and supply of goods.

Advantages of GST

- GST is structured to simplify the present indirect system by removing multiple taxes. It makes India a single market.
- It taxes goods and services at similar rates so multiple disputes are eliminated on tax matters.
- GST will be levied at the final destination of consumption on the basis of VAT principle and not at different points (from manufacturing to retail outlets). This helps in removing economic distortions and bring about development of a national market.
- The procedural cost is decreased due to uniform accounting namely, CGST, SGST, IGST have to be maintained for all types of taxes.
- The reduced tax burden on companies will decrease production cost making exporters more competitive at national and international level.
- More business entities including the unorganized sector will be under the tax system thus widening the tax base. This will lead to better and more tax revenue collections.
- Many businesses go down in different states simply because there is a difference in tax rates. Now that GST will come, this difference between states will vanish. It would help to remove the tax difference as a bias, thereby helping businesses with more clarity.

Disadvantages of GST

- There will be dual control on every business by the Central and State Government. So compliance costs will increase.
- All credit data will be available online with the GST Network. Hence, small businesses may find it difficult to use the system.
- VAT and service tax on a few products may become higher than the current levels.
- States may lose autonomy to change their tax rates and this may affect cooperative federalism.
- Manufacturing states would lose a large amount of revenue.
- Service sector often opposes it because they have to register in every state with the central and state government. So every business at all India level will have more registrations while they used to have just one. Moreover, their rates will also go up.

- Retail businesses opposed it because their taxes went up and they also had to deal with the Central Government now in addition to States.
- GSTN often does not work optimally.

Conclusion

Goods and services tax is broad based and a single comprehensive tax levied at every stage of the production and distribution chain. It is basically a tax on final consumption. GST may be defined as a tax on goods and services, which is levied at each point of sale or provision of services in which at the time of sale of goods or providing the service the seller may claim the input credit of tax which he has paid while purchasing the goods or provide the service (Rajib, 2008).

Vasanthagopal (2011) explains in his paper the positive impact of GST on the different development areas such as agriculture, manufacturing industry, Micro, Small and Medium Enterprises, housing, poverty, employment, prices, export and import, GDP, government revenue etc. He explains that GST could increase the price of agricultural products and this will be a boon to millions of farmers, similarly GST also benefits the manufacturing industry. According to him a flawless GST decreases 50% of cost in the manufacturing sector which will ensure that this sector competes with their counterparts in the west. Flawless GST benefits all the above sectors of the country and has a positive effect on direct tax collection which will trigger an increase in the government revenue. He concluded that the positive impacts of GST are dependent on a neutral and rational design of the GST, and also the balancing conflicting ideas of various stakeholders, complete political commitment is necessary. In the end he says that the "switchover to flawless GST would be a big leap in the indirect taxation system and also give a new impetus to India economic change"

References

1. Kelkar, Vijay, et al (2004), Report on implementation of the fiscal Responsibility and Budget Management Act 2003, Ministry of finance, Government of India, New Delhi
2. Ministers, T.E., (2009) First discussion paper on good and service tax of India, New Delhi.
3. Indirect Taxes Committee, Institute of Chartered Accountants of India (ICAI) Goods and Services Tax (GST). 2015. Retrieved from: <http://idtc.icai.org/download/Final-PPT-on-GST>
4. Thirteenth Finance Commission (2009). Report of the Task Force on Goods and Services Tax, New Delhi.
5. Poddar, Satya and Amaresh Bagchi (2007), Revenue-neutral rate of GST, The Economic Times.
6. Empowered Committee of Finance Ministers (2009). First Discussion Paper on Goods and Services Tax in India, Empowered Committee of State Finance Ministers, New Delhi.
7. Jain, A. (2013). An empirical analysis on goods and service tax in India: Possible impacts, implications and policies. International Journal of Reviews, Surveys and Research (IJRSR)
8. Taqvi, S. M. A., Srivastava, A. K., & Srivastava, R. K. (2013). Challenges and opportunities of goods and service tax (GST) . Indian Journal of Applied Research
9. Garg, G. (2014). Basic concepts and features of goods and services tax in India. International Journal of Scientific Research and Management (IJSRM)
10. Shokeen, S., Banwari, V., & Singh, P. (2017). Impact of goods and services tax on the Indian economy. Indian Journal of Finance.

