

GST: IT's Impact in India

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Abstract

Goods and Service Tax is a comprehensive tax levy on manufacture, sale and consumption of goods and services. GST is termed as biggest tax reform In Indian Tax Structure. It will not be an additional tax, it will include central excise duty, service tax additional duties of customers at the central level, VAT, central sales tax, entertainment tax, octroi, state surcharge, luxury tax, lottery tax and other surcharge on supply of goods and services. The purpose of GST is to replace all these lottery tax and other surcharge on supply of goods and services. 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. This paper will throw light on GST its features and also effect of GST on price of goods and Services.

Keywords: GST, mechanism of GST, feature, impact, price, organized sector, employment

Introduction

The Rajya Sabha unanimously passed the constitution bill 2014, on 3rd August 2016 with 203 votes in favour. All parties, except the AIADMK, backed the bill. GST would be a comprehensive indirect tax on manufacture consumption and sale of goods and services through out India, to replace taxes levied by central Govt. and state Govt. GST would be levied and collected as each stage of sale or purchase goods and services. Taxable goods and services are not distinguished from one another and are taxed at single rate in supply chain till goods and services reach the consumer. The easy passage was facilitated by the congress after the Govt. made key changes, including scrapping of 1 percent manufacturing tax and incorporating clearer provision for compensating state for revenue loss for five years. Mr. Arun Jaitly assured the house has the tax rates would be kept as low as possible.

As today some taxes are levied by the states Govt. and some are levied by central Govt. How nice will it be if there is only one unified tax rates instead of all these taxes, GST is applied on goods and services at the place where actual consumption happens. It is based on the Destination Principle. GST would be levied and collected at each stage of sale or purchase of goods and services. Goods and services are not distinguished and are taxed at single rate in supply chain till the goods and services reach consumer. It is the consumer of goods and services who bears the tax. The manufacture or wholesaler or retailer will pay the applicable GST rate but will claim back through tax credit mechanism.

Administrative responsibility would be generally rest with single authority to buy tax on goods and services. Under the current system, levies are charged at multiple points and by different authorities, for example at the police at check points, by state Govt. agencies at inter-state borders. This encourages corruption, that a common nationwide tax is eliminate. It believed that it would make the tax procedure more fair, transparent and efficient. The current tax structure does not allow business person to take credit. There are many chances

of overlapping or doubling of taxation at every step of supply chain. This will be eliminated with the implementation of GST. Indian Govt. is opting for dual system of GST. This system will have two components which will be known as:-

- Central Goods and Service Tax (CGST)
- State Goods and Service Tax (SGST)

The current taxes like excise duties, service tax, custom duty etc. will be merged under GST. The taxes like sales tax, entertainment tax, VAT, and other state taxes will be included in GST.

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.

Features of GST

1. Most of the important indirect taxes of the centre and states are to be integrated under the GST. The most important tax of the central government (in terms of revenue collection) the Central Value Added Tax (or Union Excise Duty), Additional Customs Duty (CVD), Special Additional Duty of Customs (SAD), Central Sales Tax (levied by the Centre and collected by the States, the fasted growing tax revenue of the centre- Service Tax, the most important tax revenue of the states the state VAT (Sales tax) are now merged into a single tax under the Goods and Service Tax.
2. The GST integrates Goods and Service Taxes into one unified tax regime. Previously, the goods and services were imposed and administered differently.
3. Rate structure: the GST proposes a four-tier rate structure. The tax slabs are fixed at 5%, 12%, 18% and 28% besides the 0% tax on essentials. The centre has strictly demanded and got an additional cress on demerit luxury goods that comes under the high 28% tax. Essential commodities like food will be exempted from taxes under GST. Other

consumer goods which are common items will be taxed at 5%.

4. Standard rate: The new GST will have two standard rates 12% and 18%. The list of goods and services that fall under GST rate slab will be determined soon.
5. Service tax rate under GST: Services are taxed at a common rate of 15% at present. But under the GST, there will be a differential tax structure. A low tax rate of 5% is expected to be imposed on essential services. Common services will be charged at 12% and the remaining commercial services at 18%. A proposal for 28% on luxury services is also proposed by the states that may be considered at the final stage of deliberations. The standard GST rate on services will be 18%.
6. Tax right over low turnover entities: States will tax 90% of the assesses whose turnover is upto Rs. 1.5crore. The remaining 10% will be taxed by the centre.
7. Right to impose tax on economic activities that are done on territorial waters: Here, the both centre and states have decided that states can impose and collect tax on those falls within 12 nautical miles.
8. IGST: IGST is charged when movement of goods and services from one state to another occurs. Here, the center will levy and collect it barring exceptional cases.

Impact of GST on Prices of Goods and Services

Tax experts claim that the current practice of 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.

Some of Sector Wise Impacts of GST

IT and Ites

IT & Ites industry is paying 14 percent of tax to the authority and subjected to 18-20 percent after the imposition of GST. Also an important point to notice here, that the long disputed issue of canned software taxation will also come to end as their will no difference arise between goods and services after the GST. Overall impact could be suggested here is neutral or slightly negative.

Telecom

In the current stage, the Telecom sector is paying 14 percent of tax to the governing body box the scenario will take the shift after the imposition of GST. The expected rate of tax will arise to 18 percent and the companies would expect to pass the burden on the postpaid customers. There will also a lower input tax credit in this sector's capex cost. Overall, it seems that this regime will be negative to the input tax credit in this sector will also be in state where they can't pass all the tax

burden to the consumers especially their prepaid segment with lower Arpu.

Automobiles

Automobile sector pays around 30 to 47 percent of tax to the Indian government which is now expected to range between 20-22 percent, after the implementation of GST. And the overall cost cutting can be expected for the end user by around 10 percent. Transportation time should also be reduced as the check points and octroi is cleared hands before. Overall GST will bring a smile into the automobile sector.

Consumer Durables

This sector will typically be neutral or negative for the companies who enjoying tax exemptions before and falling under any concessional tax bracket. On the other hand, it will be some how beneficial for the companies who were not exempted from any tax scheme before. The 7th pay commission will also give demand to the sector and the warehousing will see certain boost in their profitability by 300-400bps.

FMCG

Here again, the scenario will be either neutral or negative for those companies who fall under any concessional tax bracket or taking some kind of exemptions. The companies who are likely to get any benefit would be Havells, Blue Star, Bajaj Electricals, Symphony, Hitachi etc.

Furnishing and Décor

The sector pays above 20 percent of his share to the tax authority, and the organized sector composes of 65-70 of the total. The main agenda is to minimize the tax liability of both organized and unorganized sectors and to give more opportunities to the organized sector for being more loyal to the tax authority.

Logistics

The finding are into the pocket of organized players as there are many unorganized players who evade tax therefore creating a cost gap. After the implementation of the GST, the organized players get the cost effectiveness and would be enjoying the benefits of large setup. Also, the inter state flow of goods would accelerate demanding for more services of logistics.

Cement

In the current scenario, cement sector is presenting 27 to 32 percent of their share to the tax authority. After the rolling out of GST, this improve the sector growth in various terms, like transportation by 20-25 percent and in the warehouse scheme as the rationalization would be easy in terms of state wise fragmentation and also in the transportation cost as reduced transit time.

Textiles/Garments

The range is 6to 7percent which the sector is paying. Somehow there is no idea about the impact of GST on this sector but the output tax rate high reason will be negatively

impacted. Therefore, various export companies, will get some extra benefit from the duty drawback from the new GST implementation.

Pharmacy

The impact could be neutral as the sector only shares 6 percent of his share to the tax authority. The sector also avails the incentives in tax benefits of location wise. There are various concessional benefits and exemptions held for this sector and will extend till the expiry of the period. The implications of GST would also try to reduce the logistics cost and would also try to see in to the matter of inverted duty structure.

Metal

This sector is totally unknown from the imposition of GST tax regime on to him. But, the sector is currently paying 19-21 percent of tax to the tax body, with 4 to 5 percent of VAT in particular state, Excise duty of 12.5 percent and GST 2 percent with variable entry taxes in particular state.

Banking and Financial Institutions

The sector is paying 14 percent right now, but not on the interest part of transaction. After the GST implied, the tax horizon can expand up to 18 to 20 percent on the fee based transactions. Overall input expense of operations will likely to increase and also hike in the transactions of financial in nature such as loan processing fess, debit/credit charges, insurance premiums etc.

Impact on Employment

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

Conclusion

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 threat of inflation too and states may face reduction in their financial resources. But overall it will be a great change.

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