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A STUDY ON THE LIKELY IMPACT OF GOODS AND SERVICES TAX IMPLEMENTATION IN INDIA

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Abstract

Goods and services tax is one of the vital changes in the tax structure, which is basically introduced as substitute for all indirect tax levied by state and central government. GST Law was first implemented in the year 1954 in France. Since then, 159 other countries have adopted the GST Law in some form or other. In a number of countries the system of GST is being used in the name of VAT, but unlike the Indian VAT system, these countries have a single VAT tax which fulfills the same purpose as GST. In India, the discussion on GST Law was flagged off in the year 2000, when the then Prime Minister Atal Bihari Vajpayee brought the issue to the table. The 122nd amendment of the Constitution of India, officially known as The Constitution Act, 2016 (One Hundred and First Amendment) is being introduced in India from 1 July 2017. The idea behind having one consolidated indirect tax is to subsume multiple currently existing indirect taxes. This research paper studies its impact on the Indian economy.

Keywords: Implementation of GST in India; Indirect taxation; nullifying the cascading effect; Tax reformation

I. INTRODUCTION

The word tax according to the dictionary means "a compulsory contribution to state revenue levied by the government on workers' income and business profits, or added to the cost of some goods, services and transactions." In other words, it is a sum of money demanded by the government for its support or for specific facilities or services, levied upon incomes, property, sales and so on. Taxes primarily help in raising revenue for government expenditure, thought it is used for other purposes as well.

Taxes in Indian context can be understood based on the two broad classifications: Direct taxes and Indirect taxes. Direct tax is one that is levied on and paid by the tax payer to the government directly; its liability cannot be transferred to other individuals. The best example for direct tax is Income Tax paid by an individual. Other examples are corporate tax, wealth tax and gift tax. Indirect tax is one that is paid to the government by an entity in the supply chain, but is subsequently passed on to the consumer as a part of the price of goods or services. This implies that ultimately the consumer is paying this tax by paying more for the product, since indirect tax is shifted from one taxpayer to another. Examples of this tax are

Sales tax, excise duty, entertainment tax and service tax. The best example for indirect tax however would be Value Added Tax (VAT).

A value-added tax (VAT) is a type of consumption tax that is placed on a product whenever value is added at a stage of production and at final sale. It represents a tax on the "value added" to the product throughout its production process. It can be better understood with the help of the following example:

Every commodity passes through different stages of production and distribution before finally reaching the consumer. Some value is added at each stage of the production and distribution chain: for instance a manufacturer wants to make a sweater. For this he must buy wool. This gets turned into a sweater after the process of manufacture. So, the value of the wool is increased when it gets converted into a sweater. Then, the manufacturer sells it to the warehousing agent who attaches labels and tags to each sweater. That is another addition of value after which the warehouse sells it to the retailer who packages each sweater separately and invests in marketing of the sweater thus increasing its value.

Goods and Services Tax (GST), on the other hand, is a single tax on the supply of goods and services. It is a consumption-based tax levied on sale, manufacture and consumption on goods & services at a national level. This tax will be a substitute for all indirect tax levied by state and central government. Exports and direct tax like income tax, corporate tax and capital gain tax will not be affected by GST. GST applies to all goods other than crude petroleum, motor spirit, diesel, aviation turbine fuel and natural gas. It applies to all services barring a few to be specified. With the increase of international trade in services, GST has become a global standard. GST can be understood more clearly with the help of the following example:

Assume that the entire manufacture process of a product is happening in Mumbai and the final point of sale is Kerala. Since GST is levied at the point of consumption, the state of Mumbai will get revenue only in manufacturing and warehousing stages, but will no longer earn revenue once the product moves out of Mumbai and reaches the end consumer in Kerala. This means that Kerala will earn that revenue on the final sale, because GST is a destination-based tax and this revenue will be collected at the final point of sale/destination which is Kerala.

The proposed tax system will take the form of "dual GST" which is concurrently levied by central and state government. This will comprise of:

- Central GST (CGST) which will be levied by Centre
- State GST (SGST) Which will be levied by State
- Integrated GST (IGST) – which will be levied by Central Government on inter-State supply of goods and services.

This dual GST is necessary in India because it is a federal country where both the Centre and the States have been assigned the powers to levy and collect taxes through appropriate legislation. Both the levels of Government have distinct responsibilities to perform according to the division of powers prescribed in the Constitution for which they need to raise resources. A dual GST will, therefore, be in keeping with the Constitutional requirement of fiscal federalism.

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II. REVIEW OF LITERATURE

This study has reviewed the existing literature through an organized approach. Each of the published literature has been searched for concepts such as implementation of GST in India, indirect taxation, nullifying the cascading effect and tax reformation

Agogo Mawuli (May 2014)1 studied, "Goods and Service Tax-An Appraisal" and found that GST is not good for low-income countries and does not provide broad based growth to poor [Sehrawat et. al., Vol.3 (Iss.12): December, 2015] ISSN- 2350-0530(O) ISSN- 2394-3629(P) Impact Factor: 2.035 (I2OR) Http://www.granthaalayah.com ©International Journal of Research - GRANTHAALAYAH [133-141] countries. If still these countries want to implement GST then the rate of GST should be less than 10% for growth. Dr. R.

Vasanthagopal (2011)2 studied, "GST in India: A Big Leap in the Indirect Taxation System" and concluded that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy. Success of GST will lead to its acceptance by more than 130 countries in world and a new preferred form of indirect tax system in Asia also.

Ehtisham Ahmed and Satya Poddar (2009)3 studied, "Goods and Service Tax Reforms and Intergovernmental Consideration in India" and found that GST introduction will provide simpler and transparent tax system with increase in output and productivity of economy in India. But the benefits of GST are critically dependent on rational design of GST.

Nitin Kumar (2014)6 studied, "Goods and Service Tax- A Way Forward" and concluded that implementation of GST in India help in removing economic distortion by current indirect tax system and expected to encourage unbiased tax structure which is indifferent to geographical locations.

Pinki, Supriya Kamma and Richa Verma (July 2014) 7 studied, "Goods and Service Tax- Panacea For Indirect Tax System in India" and concluded that the new NDA government in India is positive towards implementation of GST and it is beneficial for central government, state government and as well as for consumers in long run if its implementation is backed by strong IT infrastructure.

III. STATEMENT OF THE PROBLEM

Goods and Services Tax implementation in India brings with it the necessity to understand it as a system as well as a process. This paper, along with addressing the said aspect, also aims to study the impact of the new tax reformation on different segments of the Indian economy.

IV. OBJECTIVES OF THE STUDY

- To comprehend the concept of GST
- To understand the procedure of GST registration
- To study the impact of GST
- To study the drawbacks of GST

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V. METHODOLOGY

The current research paper aims to study GST as an emerging tax reformation and answer the 'how' and 'what' questions. Hence a qualitative methodology of conceptual analysis has been adopted. An important reason for selecting this approach is that it studies a contemporary phenomenon within its practical context. Since GST is an emerging reformation a conceptual analysis renders the most comprehensive understanding of the same. For the purpose of this study, data has been collected from various secondary sources namely, newspapers, journals, websites, articles and magazines.

VI. DISCUSSION

In India, currently, the fiscal powers between the Centre and the States are clearly distinguished in the Constitution with almost no overlap between the respective domains. The Centre has the powers to levy tax on the manufacture of goods (except alcoholic liquor for human consumption, opium, narcotics etc.) while the States have the powers to levy tax on the sale of goods. In the case of inter-State sales, the Centre has the power to levy a tax (the Central Sales Tax) but, the tax is collected and retained entirely by the States. As for services, it is the Centre alone that is empowered to levy service tax. Introduction of the GST requires amendments in the Constitution so as to simultaneously empower the Centre and the States to levy and collect this tax. The Indian Constitution has been amended by the Constitution Act, 2016 (one hundred and first amendment) for the said purpose. According to the amendments, the government categorized 1211 items under various tax slabs. Here is a brief list on the tax slab these items would attract:

- Gold and rough diamonds do not fall under the current rate slab ambit and will be taxed at 3% and 0.25% respectively.
- **No tax (0%)**

  Goods**:** No tax will be imposed on items like Jute, fresh meat, fish chicken, eggs, milk, butter milk, curd, natural honey, fresh fruits and vegetables, flour, besan, bread, prasad, salt, bindi. Sindoor, stamps, judicial papers, printed books, newspapers, bangles, handloom, Bones and horn cores, bone grist, bone meal, etc.; hoof meal, horn meal, Cereal grains hulled, Palmyra jaggery, Salt - all types, Kajal, Children's' picture, drawing or colouring books, Human hair.

  Services: Hotels and lodges with tariff below Rs 1,000, Grandfathering service has been exempted under GST. Rough precious and semi-precious stones will attract GST rate of 0.25 per cent.

- **5% Tax**

  Goods**:** Items such as fish fillet, Apparel below Rs 1000, packaged food items, footwear below Rs 500, cream, skimmed milk powder, branded paneer, frozen vegetables, coffee, tea, spices, pizza bread, rusk, sabudana, kerosene, coal, medicines, stent, lifeboats, Cashew nut, Cashew nut in shell, Raisin, Ice and snow, Bio gas, Insulin, Agarbatti, Kites, Postage or revenue stamps, stamp-post marks, first-day covers

  Services**:** Transport services (Railways, air transport), small restaurants will be under the 5%

category because their main input is petroleum, which is outside GST ambit.

- **12% Tax**
  ***Goods*:** Apparel above Rs 1000, frozen meat products , butter, cheese, ghee, dry fruits in packaged form, animal fat, sausage, fruit juices, Bhutia, namkeen, Ayurvedic medicines, tooth powder, agarbatti, colouring books, picture books, umbrella, sewing machine, cell phones, Ketchup & Sauces, All diagnostic kits and reagents, Exercise books and note books, Spoons, forks, ladles, skimmers, cake servers, fish knives, tongs, Spectacles, corrective, Playing cards, chess board, carom board and other board games, like ludo

  Services: State-run lotteries, Non-AC hotels, business class air ticket, fertilizers, Work Contracts will fall under 12 per cent GST tax slab

- **18%**
  Goods: Most items are under this tax slab which include footwear costing more than Rs 500, Bidi Patta, Biscuits (All catogories), flavoured refined sugar, pasta, cornflakes, pastries and cakes, preserved vegetables, jams, sauces, soups, ice cream, instant food mixes, mineral water, tissues, envelopes, tampons, note books, steel products, printed circuits, camera, speakers and monitors, Kajal pencil sticks, Headgear and parts thereof, Aluminium foil, Weighing Machinery [other than electric or electronic weighing machinery], Printers [other than multifunction printers], Electrical Transformer, CCTV, Optical Fiber, Bamboo furniture, Swimming pools and padding pools, Curry paste; mayonnaise and salad dressings; mixed condiments and mixed seasonings

  Services: AC hotels that serve liquor, telecom services, IT services, branded garments and financial services will attract 18 per cent tax under GST, Room tariffs between Rs 2,500 and Rs 7,500, Restaurants inside five-star hotels.

- **28%**
  Goods: Bidis, chewing gum, molasses, chocolate not containing cocoa, waffles and wafers coated with chocolate, pan masala, aerated water, paint, deodorants, shaving creams, after shave, hair shampoo, dye, sunscreen, wallpaper, ceramic tiles, water heater, dishwasher, weighing machine, washing machine, ATM, vending machines, vacuum cleaner, shavers, hair clippers, automobiles, motorcycles, aircraft for personal use, will attract 28 % tax - the highest under GST system.

  Services: Private-run lotteries authorised by the states, hotels with room tariffs above Rs 7,500, 5-star hotels, race club betting, cinema will attract tax 28 per cent tax slab under GST.

In this research, the discussion involves four sections:

1. Concept of Goods and Services Tax

Goods and Services Tax is a comprehensive, multi-stage, designation-based tax that will be levied on every value addition. The word comprehensive means that the GST will subsume a majority of the existing indirect taxes. The word multistage indicates that it is levied at each stage of movement of goods, from the point of production to the point of sale, making it similar to VAT in this aspect. The word destination-based tax implies that GST is levied based on point of sale and not on point of origin, this being the major change from the current system of

VAT being practiced in the country. As it is clear from the above discussion, GST is levied on every value addition during the movement of the product being taxed.

The highlight of GST is its destination principle. This principle underlines the fact that imports would be subjected to GST (since the point of sale is India), where as exports would be zero-rated (since the point of sale is outside India). Another implication of this principle is that in the cases of the inter-state transactions with in India the tax would apply in the state of destination as opposed to the state of origin.

Central level taxes subsumed into GST:

- Central Excise Duty
- Additional Excise Duty
- Service Tax
- Additional custom duty (ACD, also known as Countervailing Duty)
- Special Addition Duty of Customs (SAD)
- Central Sales Tax (CST)

State level taxes subsumes into GST:

- State Sales Tax (VAT)
- Entertainment Tax (other than that to be levied by local bodies)
- Octroi and Entry Tax
- Purchase Tax
- Luxury Tax
- Taxes on lottery, betting and gambling

Exceptions to the GST/ Taxes not subsumed into GST:

- Alcoholic Liquor for human consumption (Shall be taxed exclusively by States)
- Tax on petroleum crude/ High speed diesel/ Motor spirit/ natural gas/ aviation turbine fuel (The states will continue to impose VAT on intra state sales, while inter-state sales will continue to attract CST. Excise duty will continue on petroleum products). However it can be noted that the said petroleum products shall be subject to GST at a future date as per the recommendation of GST council.
- Stamp duties (shall be taxed exclusively by States)
- Taxes by local bodies
- Basic Custom Duties (BCD)
- Export duty shall be imposed on certain goods which are not available in India in abundance.

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The system of GST is less burdensome to end users of goods and services as compared to VAT, in that it reduces the cascading effect which was a main drawback of VAT.

2. Registration of GST

The application to register under GST should be made within 30 days from the date the individual becomes liable to registration. The number will be PAN based and will serve the purpose for both CGST and SGST. The application to both the tax authorizes, namely Central and States will be unified. Upon successful registration each dealer will be given a unique ID GSTIN (Identity Goods and Services Tax Identification number).

Mandatorily liable to make registration: Every supplier making a taxable supply of goods or services or both and having an aggregate turnover of over 20 lacs in a financial year shall apply for registration. Every supplier making taxable supplies from Special States in Article 279A(4)(g) and having an aggregate turnover of over 10 lacs in a financial year shall apply for registration. The term aggregate turn over means the aggregate value of all taxable supplies, exempt supplies, exports of goods or services or both and inter-state supplies of persons having the same PAN, to be computed on an all India basis.

Shall not be liable to make registration: Any person engaged exclusively in the business of supplying goods or services or both that are wholly exempt from tax under CGST Act or under IGST Act shall not be liable to make registration. All agriculturalists, to the extent of supply of produce out of cultivation of land, shall not be liable to make registration. In addition to these, the Government may notify the category of persons who may be exempted.

A person without GST registration can neither collect GST from his customers nor claim any input tax credit of GST paid by him.

3. The impact of GST

GST is the Win-Win situation for the entire nation. It brings benefits to all the stakeholders namely the industry, government and consumer. It will lower the cost of goods and services, boost the economy, and make the goods and services globally competitive.

- Industry

  GST aims to make India a common market with common tax rates and procedures across all the states. GST will remove the economic barriers imposed by each State presently and create a national integrated economy. GST will do away the cascading effect of taxes by providing comprehensive input tax credit mechanism across the entire value chain (i.e,. from manufacturing to distributive trade chain to the final consumers) . Such a seamless availability of input tax credit across the States will enable the streamlining of business operations. GST is the destination based tax it falls the multistage collection mechanism. In this the tax is collected in every stage and credit of taxes paid at the previous stages is available. This shifts the tax incidents near the consumer and benefits the industry through better cash flows and better working capital management. GST is entirely technology driven. It will reduce the human interface to a great extent which will lead to speedy decisions. Genuine tax payers will be rewarded with immediate refund of 80% of their claims arising on account of exports.

- Government

  GST will give a major boost to the Make in India initiative of the government of India by making the goods and services produced in India, competitive in the national and international markets. Under the GST regime, the exports are zero-rated. This will boost our exports in the international market, thus improving the country's Balance of Payment position. GST is expected to bring buoyancy to the government revenue by widening the tax base, and increasing tax-payer compliance. The share of revenue from the services sector will increase versus the manufacturing sector, thus ensuring that all sectors of the economy will have an equitable contribution to the tax revenues. GST will improve India's ranking in the ease of doing business index, and is estimated to increase the GDP growth by 1.5% - 2%

- Consumer

  Majority of goods will be cheaper due to removal of cascading effect of taxes. GST will bring in more transparency in the indirect tax laws. Since the whole supply chain will be taxed at every stage with credit of taxes paid at the previous stages being available, the economic and tax value of supplies will be easily distinguishable. This will help the industry to take credit, the government to verify the correctness of taxes paid, and the consumer, to know the exact amount of tax to be paid. GST will boost the domestic demand, create more opportunities for domestic business and drive job creation.

4. Drawbacks of GST

GST is said to be the biggest tax reformation to be brought about in India ever since independence. It is known that no change is easy or flawless. In this context, it helps to get a brief overview about the drawbacks of such a change:

- Burdensome for Manufacturing SMEs: The small business units carrying on business of the nature of manufacture will bear the most damage from implementation of GST. This is because the turnover that calls for tax liability under the current excise laws is 1.5 crores, whereas, once GST is rolled out, the turnover limit is 20 lakh rupees, thereby increasing their tax burden.

- Increase in costs: GST being introduced as a new system in the country will require service of experts in the field to be hired by businesses. Along with this, it also makes it necessary to change the software in order to incorporate the changes in the tax system. This leads to additional operating costs being incurred by the firms.

- Temporary compliance issues: Since GST is being implemented from the month of July (middle of the financial year), some businesses will have to follow the old tax structure

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for the first 3 months and GST for the rest of the months. This may result in confusion and compliance issues.

- No anti-inflationary measures: Most countries that introduced GST experienced a rise in inflation when it was first introduced. Such a situation was countered by keeping tabs on prices or by initiating anti-profiteering measures at the retail level in order to protect the consumers from price swindling. In India, though there have been discussions about the same, no concrete measures have been rolled out to curb the potential hike in the rate of inflation.

However, despite the drawbacks, once GST is implemented completely, most of the current challenges of this move will be a story of the past.

VII. FINDINGS

- GST reduces the number of indirect taxes. Since there will be no hidden taxes it brings about transparency.
- Under GST, since the taxes are integrated, it would make possible the taxation burden to be distributed equitably between manufacturing of goods and services.
- It is a huge step in support of realizing Make in India and digital India initiative.
- It will remove economic distortions and contribute towards the development of a common national market.
- Since GST can be linked to PAN of the users, which in turn is mapped to their respective bank accounts, it enables the government to access the paper trials of all the transactions thereby contributing to curb the corruption in the economy.

VIII. SUGGESTIONS

- There is a need for the government to roll out concrete plans and policies to combat a possible hike in inflation
- An efficient network system has to be established and maintained to manage the digitization of GST system
- Special programs may be implemented to familiarize businesses and consumers with the functioning of GST.

IX. CONCLUSION

Change is never easy. When it is for a better future, any change will be fruitful not just if it is well designed and implemented, but only when well accepted. The organizations as well as the consumers, by embracing the new tax reformation, may help the government to accelerate the growth of the Indian economy and put the country on par with all others who have already adopted GST and are functioning efficiently. This step, because it results in opening doors to

Foreign Direct Investment, will go a long way in strengthening India's relationship with many other countries. No doubt that GST will give India a world class tax system, but at the same time it cannot be ignored that it may give way for a threat of control being diluted, because of the sheer number of foreign players in the country's market. So this means that the government must ensure that the domestic traders and their interests are well protected.

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