IMPACT OF GOODS AND SERVICE TAX (GST) ON PRESENT TAXATION SYSTEM–A STUDY

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Abstract:

Goods and Service Tax (GST) is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level. GST is a part of proposed tax reforms in India having an extensive base that instigate the applicability of an efficient and harmonized consumption tax system. GST has been commonly accepted by world and more than 140 countries have acknowledged the same. Generally the GST ranges between ***15%- 20%*** *in most of the countries. This study presents the GST Impact on the Economy, on the Government revenue, on the consumer and on the industry sector with the comparison of existing tax system in India. Conclusions may be drawn from the data collection from the various sources with suitable technique analysis.*

Introduction:

The Constitution Amendment Bill for Goods and Services Tax (GST) has been approved by The President of India posts its passage in the Parliament (RajyaSabha on 3rd August 2016 and LokSabha on 8thAugust 2016 and ratification by more than 50 percent of state legislatures. The Government of India is committed to replace all the indirect taxes levied on goods and services by the Centre and States and implement GST by April 2017.

With GST, it is anticipated that the tax base will be comprehensive, as virtually all goods and services will be taxable, with minimum exemptions.GST will be a game changing reform for the Indian economy by creating a common Indian market and reducing the cascading effect of tax on the cost of goods and services. It will impact the tax structure, tax incidence, tax computation, tax payment, compliance, credit utilization and reporting, leading to a complete overhaul of the current indirect tax system.GST will have a far-reaching impact on almost all the aspects of the business operations in the country, for instance, pricing of products and services, supply chain optimization, IT, accounting, and tax compliance systems.

The introduction of GST would be a very significant step in the field of indirect tax reforms in India. By amalgamating a large number of Central and State taxes into a single tax, it would mitigate cascading or double taxation in a major way and pave the way for a common national market. From the consumer point of view, the biggest advantage would be in terms of a reduction in the overall tax burden on goods, which is currently estimated at 25%-30%. Introduction of GST would also make Indian products competitive in the domestic and international markets. Studies show that this would instantly spur economic growth. Last but not the least, this tax, because of its transparent character, would be easier to administer. GST would bring in significant change in doing business in India. Advocacy for best practices, gearing up for changes in processes, training teams and developing IT systems for being GST compliant are the key areas to be assessed.

The Government is committed to introduce GST by April 2017. Tax payers need to be GST compliant to be able to test system changes in time. Depending on the operating geographies, size and sector, the changes would be substantial and may require proactive planning with a time-bound action plan. In order to prepare for the implementation of GST, companies need to understand GST policy development and its implications for scenario planning and transition roadmap preparation.

Rate of GST:

India's federal and state governments are likely to approve four main tax slabs ranging from 5 to 28 percent under a proposed Goods and Services Tax (GST). The long-delayed tax, which would transform Asia's third largest economy into a single market, could boost revenues through better compliance while making life simpler for business that now pay a host of federal and state levies.

The brackets, discussed at a meeting of the GST Council overseeing plans to introduce the national sales tax next spring, are steeper than the rates of 6, 12, 18 and 26 percent earlier proposed by the government. Food grains are likely to be exempted from the GST, and tobacco products may be taxed at 40 percent. There was a broad consensus on four rate slabs. The council had yet to decide on the controversial issues of additional levies on luxury items and so-called "dual control" of tax administration by federal and state tax officials. Finance Minister ArunJaitley will seek parliamentary approval for bills later that would set the rate and scope of the GST. State assemblies must also to approve similar bills for the tax to enter force as planned 1st April 2017[1].

Objectives of the study:

1. To Study the impact of GST on Indian economy
2. To examine the pros and cons of GST

Methodology of the study

Secondary data to collect from various sources like web pages. Primary data collected from following respondents.

Table - 1: Distribution of Respondent sample wise

Sl. No	Respondent Cadre	Number of Respondents
1	Chartered Accountants	100
2	Business Entrepreneurs	100
3	Tax consultants	100
4	Tax Teachers	100
5	Tax payers	100
Total		500

Source: Primary source of information obtained through schedules

Descriptive analysis

Impact of GST on Indian economy

The current indirect tax structure is major impediment in India's economic growth and competitiveness. Tax barriers in the form of CST, entry tax and restricted input tax credit have fragmented the Indian market. Cascading effects of taxes on cost make indigenous manufacture less attractive. Complex multiple taxes increase cost of compliance. In this scenario, the introduction of GST is considered crucial for economic growth. GST will have quite a favorable impact on Indian economy. Some sectors will have more favorable impact compared to others under the proposed GST.

Removal of tax barriers on introduction of uniform GST across the country with seamless credit will make India a common market leading to economy of scale in production and efficiency in supply chain. It will expand trade and commerce. GST will have favorable

[1]https://in.finance.yahoo.com/news/top-rate-gst-likely-28-102718728.html

impact on organised logistic industry and modernised warehousing. GST will remove cascading effect of taxes imbedded in cost of production of goods and services and will provide seamless credit throughout value chain. This will significantly reduce cost of indigenous goods and will promote 'Make in India'. The sectors which have long value chain from basic goods to final consumption stage with operation spread in multiple states such as FMCG, pharma, consumer durables, automobiles and engineering goods will be the major beneficiaries of GST.

GST will facilitate ease of doing business in India. Integration of existing multiple taxes into single GST will significantly reduce cost of tax compliance and transaction cost.Stable, transparent and predictable tax regime will encourage local and foreign investment in India creating significant job opportunities.Electronic processing of tax returns, refunds and tax payments through 'GSTNET' without human intervention, will reduce corruption and tax evasion. Built-in check on business transactions through seamless credit and return processing will reduce scope for black money generation leading to productive use of capital.

Significant reduction in product and area-based exemptions under GST will widen the tax base with a consequent reduction in revenue neutral rate. This will enable the government to keep GST rates lower which may have favorable impact on prices of goods in the medium term. The tax rate for services however may go up by 2 to 3% from the present level of 15%. The adverse impact of rate increase on services will be partially neutralised by availability of seamless input tax credit.

GST will eliminate the scope of double taxation in certain sectors due to tax dispute on whether a particular transaction is for supply of goods or provision of service such as licensing of intellectual properties like patents and copyrights, software, e-commerce and leasing.While the GST will simplify tax structure, it will increase the burden of procedural and documentary compliance. Number of returns will increase significantly so also the extent of information. For instance, a real estate developer or contractor will have to file 61 returns in a year compared to 24 returns at present. Similarly a taxable person providing services from several states will have to take registration and file return in all such states. Currently a single centralised registration is required in such cases.

GST will also have impact on cash flow and working capital. Cash flow and working capital of business organisations which maintain high inventory of goods in different states will be adversely affected as they will have to pay GST at full rate on stock transfer from one state to another. Currently CST/VAT is payable on sale and not stock transfers.It is also pertinent to note that all indirect taxes will not be subsumed in GST. Electricity duty, stamp duty, excise duty and VAT on alcoholic beverages, petroleum products like crude, natural gas, ETF, petrol and diesel will not be subsumed in GST on its introduction. These taxes will form part of the cost of these goods when used as inputs in downstream products. Hence those sectors where these goods form significant input cost such as plastics and polymers, fertilisers, metals, telecom, air transport, real estate will not get full benefit of GST.

Major beneficiary of GST would be sectors like FMCG, Pharma, Consumer Durables and Automobiles and warehousing and logistic industry.High inflationary impact would be on telecom, banking and financial services, air and road transport, construction and development of real estate, While GST is eagerly awaited by the industry, the legal process to implement GST in India is quite long and complex. After the Constitution Amendment Bill is passed by the Parliament with two-thirds majority, it will have to be passed by at least 15 states. There after GST council has to be constituted which will recommend model GST law and GST rates. On such recommendation, GST Act and Rules have to be enacted by the Parliament and each state assembly. Then implementation date has to be notified. It is therefore quite important that the Constitution Amendment Bill is passed in the current Monsson Session if GST is to be implemented during the tenure of present Parliament which ends during 2019[2].

Justification in Implementation of GST

Despite the success with VAT, there are still certain shortcoming in structure in the levy of VAT both at Central level and State level. The shortcoming in CENVAT of the Government of India lies in non-inclusion of several taxes in the overall framework of CENVAT such as VAT, ACD, Surchargeetc[3].Moreover, in the present State-level VAT scheme, CENVAT load on the goods remains included in the value of goods to be taxed under State VAT, and contributing to that extent a cascading effect on account of CENVAT element. Furthermore, any commodity, in general, is produced on the basis of physical inputs as well as services, and there should be integration of VAT on goods with tax on services at the State level as well, and at the same time there should also be removal of cascading effect of service tax.

Further, by removing cascading effect, layers of taxes and simplifying structures, the GST would encourage compliance, which is also expected to widen the tax base. But virtually every media report that mentions the GST says that the tax reform has the potential to add up to 2 percent to India's GDP.If VAT is considered to be a major improvement over the pre-existing Central excise duty at the national level and the sales tax system at the State level, then GST will be a further significant breakthrough – the next logical step – towards a comprehensive indirect tax reform in the country.However, the paper makes some crucial assumption such as pegging the revenue-neutral rate in the range of 6.2 percent and 9.4 percent. The revenue-neutral rate is the rate for GST that will not make a net difference to the overall tax collection of centre and states.

Salient Features of GST

The GST Framework could easily be one of the most important tax reforms to be tabled for discussion in the Parliament. It does bring with some problems, like division of taxation power between Centre and State. The GST will be applicable on the basis of Destination principle.

The GST would be levied in 3 different forms.

CGST	**SGST**
This is applicable in the case of **Inter-State** sale of goods and provision of service	In case of sale of goods **Intra-state** then tax will be charged as per this form.
Taxes/Duties Covered under CGST	**Taxes/Duties Covered under SGST**

[2]*Nihal Kothari is executive director at corporate law firm Khaitan& Co. Views are personal.*

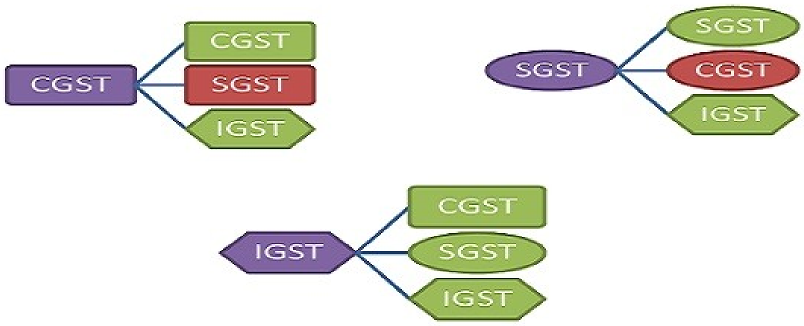
[3]SamyakSanghvi

Central Excise Duty	Entry tax (not octroi)
Service Tax	Entertainment tax
CVD, SAD	VAT/Sales Tax
Excise duty on M&TP etc.	Luxury tax etc.

Integrated GST (IGST)

GST would diminish the cascading effect of tax (or double taxation, whereby the same product is taxed at the stage of manufacturing as excise, then as VAT/ sales tax on sale and so on..), which is prevalent in the current tax framework. Being a consumption-destination-based tax, GST would be levied and **collected at each stage of sale or purchase of goods or services based on the existing input tax credit method**. Current tax structure works on production-origin-based system i.e. goods and services are taxed differently on each stage of production.

Tax Credit Mechanism



Example:

Current System (Cascading taxes)	GST (avoidance of double taxation)
Machine Manufactured in Mumbai and sold in Pune @ Rs 10,000/-	Machine Manufactured in Mumbai and sold in Pune @ Rs 10,000/-
VAT 10% = ₹ 1000	CGST 5% = ₹ 500 SGST 5% = ₹ 500
Same Machine sold from Pune to Delhi @ Rs. 25,000/-	Same Machine sold from Pune to Delhi @ Rs. 25,000/-
Central Sales Tax @ 10% = ₹ 2500	IGST = 10% = ₹ 1500 (i.e. ₹ 2500 – CGST – SGST)

- The scope of IGST Model is that centre would levy IGST which would be CGST plus SGST on all inter-state transactions of taxable goods and services with appropriate provision for consignment or stock transfer of goods and services.
- IGST will be combination of CGST and SGST and the same will be collected by the Centre in the Origin State.

- **Time bound refund** of credit will be allowed in cases such as exports and inverted duty structure.It is clear that **cross utilisation** of CGST and SGST is not allowed generally but the IGST mechanism will make this credit fungible.

  Following example will give clear idea above utilisation of credit and costing under present system & GST.

  Example:-

  Assumption:- (1) Rate of Excise Duty – 8%; (2) VAT Rate – 12.5%; (3) Central GST Rate – 12%; (4) State GST Rate – 8%; (5) Profit Margin – Rs. 5,000/- fixed (6)All parties are located in one state.

GST Impact on Economy:

1. The GST will reshape the indirect tax structure by subsuming majority of indirect taxes like excise, sales and services levies. This will do away with the complex indirect tax structure of the country, thus improving the ease of doing business in the country.
2. Exports will become competitive as the GST regime will eliminate the cascading impact of taxes. A National Council of Applied Economic Research study suggested that GST could boost India's GPP growth by 0.9-1.7 per cent. GST is a key 'brahmastra' for India's gross domestic product in times of challenging global environment, says trade body Assocham president Sunil Kanoria.
3. GST will lead to the creation of a unified market, which would facilitate seamless movement of goods across states and reduce the transaction cost of businesses. A UBS Securities study found that truck drivers in India spend 60 per cent of their time off roads negotiating check posts and toll plazas. The foreign brokerage said that 11 categories of taxes are levied on the road transport sector. The GST will help bring down logistical costs.
4. Under the GST, manufacturers will get credits for all taxes paid earlier in the goods/services chain, thus incentivising firms to source inputs from other registered dealers. This could bring in additional revenues to the government as the unorganised sector, which is not part of the value chain, would be drawn into the tax net.
5. To claim input tax credit, each dealer has an incentive to request documentation from the dealer behind him in the value-added/tax chain. Thus, the new tax regime is seen as less intrusive, more self-policing, and hence more effective way of reducing corruption.
6. The supplier, because of the paper trail left by the GST, knows that his evasion will be more likely to be detected once his client is audited. Experts say that GST will improve tax compliance.
7. A Finance Ministry report said that the GST regime will boost the 'Make In India' programme as manufacturers will get input tax credits for capital goods.
8. The clean-up of the Indian taxation system will reduce the number of excise duty exemptions. According to the government's estimates, excise tax exemptions result in foregone revenues of Rs. 1.8 lakh crore. The comparable figure for the states is about Rs. 1.5 lakh crore. Together, India loses about 2.7 per cent of GDP because of exemptions.
9. The service tax rate could shoot up from the current level of 15 per cent (including KrishiKalyanCess). Under the GST tax regime, this tax rate may go up to 18 per cent. This has led to fears that inflation could rise in the short term.
10. Implementation of GST is expected to lead a temporary rise in inflation, which will typically last a year, DBS Bank said in a note. But the bank expects the impact on inflation to wear off gradually due to base effect. Inflation in the second year after GST implementation will

benefit favourably as the numbers would be compared to already-high figures of the first year of implantation.

IMPACT OF GST AND ITS IMPLICATIONS

1. **Price reduction**:
   - Unification of different indirect taxes under GST will give boost to the existing tax-credit system, which will drive tax efficiency for manufacturers, wholesalers and also for consumers of goods. This will decrease the overall cost incurred by manufacturing sector which will reflect in various inflation indices in long-term.
   - GST could have a negative impact on service sector, which contributes over 50% of Indian GDP. The existing Service Tax of 15% would surge to Goods and Service Tax rate which is anticipated at 18-20%. But at the same time, in current tax framework service sector is unable to enjoy tax-credit on VAT and Sales Tax, which is likely to change in favor of service providers after GST implementation. However, this might be lost if the GST rate is higher than anticipated.
2. **Less Compliance and Procedural Cost:** The cost of collecting various taxes, maintaining big records and their respective reports by the government bodies would see a definite decrease as these taxes would come under one big umbrella of GST.
3. **Pricing and Profitability:** The resultant tax expenditure after GST bill being passed would have a direct impact on pricing and profitability of different goods and services which will vary across different sectors. Given that Margin and Price Bands would also be reexamined, decline in prices is probable, which will have direct impact on consumer demand.
4. **Government Revenue:** Despite the expected change in pricing, the government is expected to set GST @ revenue neutral rate, so there might be no significant change in Government Revenue.
5. **Cash Flow:** Goods and Service Tax is set to boost cash flows through the removal of concept of excise duty. Being a consumption-based tax, GST would now be collected at the time of sale/supply over current tax predicament of tax being collected at the production/removal of goods.
6. **Redress Location Bias:** This would enable uniformity through states and would not let investors discriminate states on basis of tax advantage. The only thing that would drive investor's capital will be profitability, cash flows, and performances promoting smaller businesses and entrepreneurship without location bias.
7. **Uniform Per Capita Taxation:** As mentioned above, Goods and Service Tax being destination-based consumption tax would allow poverty stricken states like Bihar to increase its tax revenue. As GST would be paid to states where the consumption of goods takes place, the states' tax revenue would be driven by population (more the population, more the consumption) rather than number of businesses/industries. This would ultimately even out the tax per capita of each state.
8. **Fight Tax Evasion:** Another perk of being destination based system, Goods and Service Tax Framework would ideally reduce tax evasion by large extent and promote use of bills and invoices.

Positive impact on Indian economy

- Speeds up economic union of India
- Better compliance and revenue buoyancy Replacing the cascading effect [tax on tax] created by existing indirect taxes Tax incidence for consumers may fall Lower transaction cost for final consumers

- By merging all levies on goods and services into one, GST acquires a very simple and transparent character
- Uniformity in tax regime with only one or two tax rates across the supply chain as against multiple tax structure as of present
- Increased tax collections due to wide coverage of goods and services
- Improvement in cost competitiveness of goods and services in the international market

Points to be reviewed

- Taxation of inter-state services and their method of taxation
  - Difficulties in defining Place of supply, place of delivery
- Road Permit and Check posts
- Stock Transfer
- Integration of certain Central and State taxes (Various Cess, Electricity duty etc.)
- Constitutional amendment authorizing state to collect and retain tax on service
  - Group Health Insurance
    Consulting services
  - However most of the B2B services not a problem because of availability of credit
- Disputes even with regard to classification of goods
- Jurisdictional Issues with regard to registration and SCN / Assessments

In the first place, the macroeconomic impact of a change to the introduction of the GST is significant in terms of growth effects, price effects, current account effects and the effect on the budget balance.

Secondly, in a highly developed open economy with a high and growing service sector, a change in the tax mix from income to consumption-based taxes is likely to provide a fruitful source of revenue.

Thirdly, the aggregate consumer price impact of the introduction of the **GST in India**on the macro-economy was both limited and temporary. Finally, despite falling outside the limited focus of this short note, we should record that some impact has also occurred in the administrative component of the compliance cost of the GST as well as a likely increase in tax revenue from the "underground" or "black" economy.

The task of fiscal consolidation for this government will not be easy. There will be little scope to cut overall expenditure, as it has already been trimmed sharply in the last 2 years. The government must instead focus on switching expenditure from unproductive subsidies towards spending on sector such as health, education and infrastructure. The only way to reduce fiscal deficit, therefore, is to raise revenues as a share of GDP. To do so, the government must implement structural tax reforms such as GST, improve tax compliance and widen tax coverage.

The scope to lower fiscal deficit in fiscal 2015 is limited given large roll-over of subsidies from last fiscal and little possibilities of implementation of GST within this year. Beyond that, however, implementation of GST could facilitate a much needed correction in fiscal deficit. In the base case, it is believed that partial GST – one that excludes petroleum goods is most likely. Even with this, fiscal deficit could correct to 3.3% of GDP by fiscal 2017. On the downside, a complete failure to implement GST would result in the fiscal deficit being higher at around 4-4.2% in fiscal 2016-2017.

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