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IMPACT OF GOODS AND SERVICES TAX IN INDIA

Babal preet Kaur

Assistant Professor in commerce department, S.K.R.M. College, Bhagoo Majra, Kharar, Mohali, Punjab

ABSTRACT

The introduction of goods and services tax would be a significant step in the reform of indirect taxation in India. It would be levied and collected at each stage of sale or purchase of goods or services based on the input tax credit method. GST is the only indirect tax that directly affects all sectors and sections of our economy. Several countries implemented this tax system followed by France, the first country introduced GST. An attempt is made in this paper to study the concept of goods and service tax and tried to highlight the objectives of proposed GST is trying to achieve. The study also aims to know the impact of GST in Indian scenario.GST will be applicable from 1st July 2017 and is aimed at creating a single, unified market that will benefit both corporate and the economy.

KEYWORDS tax, consumption, reform, industry

AN INTRODUCTION- CONCEPT OF GOODS AND SERVICES TAX

Goods and Services Tax is expected to revolutionize the Indian tax system and is the biggest tax reform since Independence. A tax is not a voluntary payment or donation, but an enforced contribution imposed by government. Although it is charged on local consumption and is borne by end consumers, it is collected at each stage of the production and distribution chain by registered vendors that's why GST is also known as "Value-Added Tax" in some parts of the world. It is proposed system of indirect taxation in India merging most of the existing taxes into single system of taxation. It will integrate and simplify the process of indirect taxation and will replace the complicated taxes such as State/Local tax, Central Excise Duty, Service Tax, Additional customs duty, Entertainment tax, Surcharges, Entry Tax or Octroi and other levies which are currently applicable on inter-state transportation of goods are also likely to be done away with in GST regime. It will be applicable on transaction value which includes packaging, commission and other expenses incurred during sales. It will bring uniform taxation across country. As India is a federal republic GST would be implemented concurrently by the central government and by the state governments. The GST that is charged on the supply of goods and services is known as "output tax". On the other hand, the tax that is paid for the purchase of goods and services is known as "input tax". The vendor is required to remit the "net GST payable" (if the amount is positive) or "net GST refundable" (if the amount is negative) amount to tax authority. The biggest advantage to consumers would be in terms of a reduction in the overall tax burden on goods, free movement of goods from one state to another without stopping at state borders for payments of state tax or entry tax and reduction in paperwork to a large extent.

OBJECTIVES OF GST

1. GST would eliminate the cascading impact of taxes for individuals on production, distribution and cost of goods and services. It is also expected to boost revenue collection and reduce fiscal deficit in certain states to reduce the prices of goods.
2. Goods and services tax will significantly improve the competitiveness of original goods and services by reducing the cost of doing business and increase profitability, which in turn, would attract investments and ultimately help GDP growth.
3. GST would expect to result in major rationalization and simplification of the consumption tax structure at both Centre and State levels. It will affect how the companies operate their businesses, presenting significant opportunities for long-term revenue and margin improvement.
4. GST is also expected to result in a reduction in inventory costs. This fiscal reform is expected to replace all indirect taxes.
5. The elimination of the central sales tax will provide an opportunity to companies to re-evaluate existing procurement patterns, and distribution and warehousing arrangements. Dealers would be able to claim a credit for the tax paid on their inventories, leading to improved cash flows.

IMPACT OF GST ON INDIAN ECONOMY

GST is the most logical steps towards the taxation reform in our country since independence. All sectors of economy include Govt. departments whether the industry, business and service sector shall have to bear impact of GST. All sections of economy big, medium, small scale units, exporters, importers, intermediaries, consumers, professionals and traders shall be directly affected by GST.

- There will be a two-rate structure – a standard rate for goods in general and a lower rate for necessary items and items of basic importance. There will also be a list of exempted items and a special rate for precious metals.
- For taxation of services, there may be a single rate for both CGST and SGST but for CGST relating to goods, the States considered that the Government of India might also have a two-rate structure, with conformity in the levels of rate with the SGST.
- It will be total of the rate as applicable under CGST & SGST.

The Government is considering pegging the revenue neutral rate of GST at a rate 18% to 22%. This represents the aggregate of CGST and SGST payable on the transaction.

Impact on prices

Due to full credit, manufacturers or traders do not have to include taxes as a part of their cost of production, which is a reason for reduction in prices. However, if the government seeks to introduce GST with a higher rate, this might be affect adversely. If GST rate is higher than 18-22% effect on inflation is anticipated. Expected increase in gross domestic product by 1%-2%. Many products would become cheaper, except goods on which lower rate of excise duty is charged. Services like eating out, travelling etc. would become more expensive. Tax base will increase due to wide coverage on all goods and services and increase in number of taxpayers. GST is expected to reduce fiscal deficit.

Impact on retail

In the retail sector, the implementation means a seamless integration of goods and service transaction across the states. It will have benefit at different stages of the value chain. Under GST services would be available for set off against taxes on goods. Thus the retailers would be positively impacted.

Impact on real estate
Currently, a builder or a real estate developer incurs various kinds of expenses involved with taxes during the construction phase of a project. The GST compliance rules should not have any serious impact on real estate builders and developers. This will definitely help in strengthening the real estate industry.

Impact on exports and imports
GST on export would be zero rated. Both CGST and SGST will be levied on import of goods and services into the country. Full set-off will be available on the GST paid on import on goods and services. Similar benefits will be given to Special Economic Zones. Area based exemptions will continue up to legitimate time. No new exemption, remission etc. would be allowed

Impact on IT sector
Combined rate of GST for the product is 27%. According to proposed GST if the software is transferred through electronic form it would be regarded as service (intellectual property) and if it is transferred through media or any other tangible property then it should be treated as goods. GST will be calculated on uniform bases.

Impact on banking industry
Services offered by banks and financial institutions are taxed at 14.5% currently which under GST regime are likely to become costlier at standard rate of 17-18%.several activities of banks are currently exempt from service tax which would incur GST unless otherwise exclusively exempted**.**

Impact on FMCG sector
FMCG sector is the major taxation contributor both direct and indirect in the economy. FMCG sector consist 50% Food and Beverage sector and 30% is Household and Personal care. 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.

Impact on healthcare
GST is relied upon to positively affect the Pharmaceutical part. It will help the business by streamlining the tax structure since eight different taxes are exacted in this industry right now. A solidification of all these into one tax would ease working together. It will help pharmaceutical companies rationalize their production network; they should audit their circulation system and technique.

Impact on jewellery industry
Currently, there is no duty on the import of diamonds with cut and polished diamonds being under zero duty regimes. India exports 93% of the diamond products. Any adverse tax on import of diamonds or trading of cut and polished diamonds will hurt India. In the GST council meeting a four slab structure 6%, 12%, 18% and 24% with additional cess for luxury and demerit goods- was proposed. Gold is to be proposed to be taxed at4%. It will hamper the growth of the industry, result in dropping tax compliances and will encourage smuggling.

Impact on telecommunication
GST will allow deeper penetration of digital services duty on manufactured goods is going to go up from existing 14-15% to 18%, which means the cost of electronics from mobile phones to laptops will rise. It may increase administrative cost for e-commerce companies. Call charges data rates may go up if the tax rates in the GST regime exceed 15%.

Impact on 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, 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.

Impact on Infrastructure sector
It would remove multiplicity of taxes and wide the tax base with continuation of exemptions and concessions for national interest and growth. The Indian infrastructure sector largely comprises power, road, port, railways and mining. Indirect taxes levied on this sector are different, unique and complex in nature.

Impact on small enterprises
GST will boost competitiveness of SMEs and is expected to widen tax base by adding up to 2% to GDP. Manufacturers, traders will have to pay less tax. Currently, the Sales Tax department has various turnover slabs for VAT registration. A business with multi-state operation has to follow varied tax rules applicable to different states. It creates burden of excess complication with additional procedural fees, for the price sensitive SMEs. Uniform GST will standardize the process. GST will be nullified as tax credit will transfer irrespective of location of buyer and seller. This allows SMEs to expand their reach across borders. According to a CRISIL Analysis, the crucial logistical costs for companies manufacturing bulk good will reduce by around 20%. Good news for the SMEs that GST will not distinguish between sales and services and will be calculated on total. GST will allow flexibility in transfer of goods across states as the reform will cut down multiple taxes imposed by state and central government.

CONCLUSION
GST will have a positive impact on various sectors and industry. It will boost India's economic development by breaking tax barriers between States and integrating India through a uniform tax rate. It is expected that the number of exemptions would be reduce. The tendency of tax evasion by producers and distributors will be low. Ignorance of law will punishable. Therefore, we all need to learn it whether willingly or compulsory to avoid the cost of ignorance. After the implementation of GST, India is expected to play important role in the world economy. The expectation of GST being introduced is high not only in India, but also in neighboring countries. Efficient formulation of GST will lead to economic growth and improvement in tax compliance. Implementation of GST requires concentrated efforts of all stake holders