



ORIGINAL RESEARCH PAPER

Management

A STUDY ON THREE DIMENSIONAL EFFECTS OF TAX REFORMS IN INDIA: GST

KEY WORDS: Goods And Service Tax, Indirect Taxation System, Economic Changes.

Parameshwar H.S	Assistant Professor IFIM Business School Bangalore
Austin Bernard*	PGDM Student, IFIM Bangalore *Corresponding Author
Arabindo Rajan	PGDM Student, IFIM Bangalore
Shikhar Jhunjunwala	PGDM Student, IFIM Bangalore
Saravana Balaji	PGDM Student, IFIM Bangalore

ABSTRACT

Present article discusses the effects of GST considering three dimensions namely economy, industries, and individuals. This study depicts the clear picture of tax reforms which was announced recently by the government. Furthermore, the paper also shows the effect of GST on economic indicators, different sectors and addition in tax amount while consuming various goods and services by individuals. The study reveals that GST has positive effect on all three dimensions.

Introduction

As everyone are in a mixed feeling as GST bill is implemented. So, the implementation of the GST is reality now. Some of the common questions running in a common man mind were, how GST can have impact over their lives when introduced? Can they benefit out of GST? Or yet another an additional burden? What are the advantages and disadvantages of GST? So, this article may give you an overall idea and answers to the above questions. Keep reading further to get the deep insights about the positive and negative impacts which GST have on a common man. Before getting into impacts let's have a look at what is GST is all about?

GST or Goods and Services tax as the name implies, it's an indirect direct taxation for both goods and service at uniform rate and both the price are treated at par value. So, this single form of indirect taxation will be applied to the country replacing number of other indirect taxation systems like VAT, CST, CAD, Service tax etc.

Conceptual Background

Goods and services tax (GST) is a broad based and a single comprehensive tax levied at every stage of the production and distribution chain with applicable set-off in respect of the tax remitted at previous stages. It is basically a tax on final consumption integrates the union excise duties, custom duties, services tax and state VAT. Presently around 140 countries have adopted the GST pattern, including India. The GST would be beneficial for the consumers as it reduces the final burden of taxation. For Government it leads the reduction of tax compliance efforts and administrative costs and for business units it leads transparency, complete set-off and removal of cascading effect of taxation. This indirect tax reform provides a uniform and simplified way of indirect taxation in India. GST can improve the tax revenues, efficiency of the tax collection and reduces the tax evasion techniques.

Even though implementation of GST has called many arguments from various parties and criticism from all over the nation due to fake news like higher slab rate on basic needs, increased living cost etc. It's the opposite to all this news because it's a replacement indirect tax system to the old inefficient techniques and not an extra tax burden. So, even if there is an increase in the price of goods and services certainly there will be some amount of exceptions and exemptions to it.

Literature Review

This paper is in Malaysian context as how GST have impact on middle income earners in Malaysia. This study suggest that majority of the people weren't satisfied with the information provided by government regarding GST implementation so they are unsure about the impact of GST so GST should be promoted

through media by government in Malaysia. Secondly, due to less information, in current people's mind-set, GST will increase goods prices. Therefore, the government should convince that GST will not increase goods prices significantly and if GST increases the prices, the government should have alternatives planning to reduce the burden of lower and middle-income earners such as lowering the income tax rates or increasing exemptions for individuals. Thirdly, as this study suggested that people's consumptions behaviour would change significantly due to the implementation of GST, it is believed that respondents would be more prudence and selective in their purchasing behaviour. This would potentially distort the economic growth particularly on aggregate demand. As this paper was published in 2014, the GST was implemented in the year 2015 in Malaysia and it has improved their tax revenues and efficiency provided that Malaysia received a considerable support and cooperation from all parties not only from business entities but also from consumers. (Palil and Ibrahim, 2014)

The GST have different impact over different aspects. The ongoing tax reforms on moving to a goods and services tax would impact the national economy, International trade, firms and the consumers and also there has been a good deal of criticism as well as appraisal of the proposed Goods and Services Tax regime. It 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. Hence GST may usher in the possibility of a collective gain for industry, trade, agriculture and common consumers as well as for the Central Government and the State Government (Gupta, 2014).

In India, GST would have both positive and negative result. The positive result will be more dependent on a neutral and rational design of the GST, balancing the conflicting interests of various stakeholders, full political commitment for a fundamental tax reform with a constitutional amendment, the switchover to a 'flawless' GST would be a big leap in the indirect taxation system and also give a new impetus to India's economic change (Vasanthagopal, 2011).

GST can bring "one nation and one tax market". GST have a positive impact on various sectors and industry. Although implementation of GST requires concentrated efforts of all stake holders namely, Central and State Government, trade and industry. 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, Therefore It is necessary on the part of the

government to educate, conduct proper training, continuous seminars and workshop on GST is need of the hour. (Lourdunathan and Xavier, 2017)

GST will give more relief to industry, trade and agriculture e through a more comprehensive and wider coverage of input tax set-off and service tax set-off, subsuming of various Central and State taxes in the GST and phasing out of CST. The transparent and complete chain of set-offs which will result in widening of tax base and better tax compliance may also lead to lowering of tax burden on an average dealer in industry, trade and agriculture. The subsuming of major centre and state taxes would reduce the cost of locally manufactured goods and services. This is likely to increase the competitiveness of Indian goods and services in the international market and to boost Indian exports (Beri, 2011).

Effects of Tax Reforms in India: GST

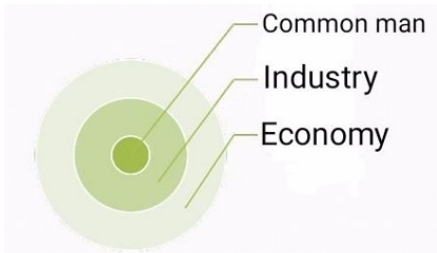


Figure 1 Three-dimensional effect of GST

The present paper talks about three-dimensional effect of GST. The analysis of economy, industry and common man constitute the main activity in the fundamental approach to effects of tax reforms in India. And can be viewed as different stages of effects level.

Main tax reforms in India

- 1999 Centre announces decision to introduce VAT in India.
- 2002 CENVAT or introduced on all commodities at central level
- 2006- 07 Proposal for GST first mooted in the Budget Speech for the financial year. Negotiation with States started began soon after
- 2008 Empowered Committee of State Finance Ministers (EC) engaged
- 2009 EC released its First Discussion Paper
- 2011 Constitution Amendment Bill on GST introduced
- August 2013 Parliamentary Standing Committee submitted its report. Recommendations of Standing Committee incorporated in the Bill
- September 2013 Revised Bill sent to EC for consideration
- March 2014 Incorporating recommendations of EC another revised Bill sent to EC
- December 2014 Constitution Amendment Bill introduced in Lok Sabha
- May 5, 2014 Lok Sabha passes GST Bill
- May 2015 Lok Sabha passes Constitution Amendment Bill for GST
- August 2015 Congress insists on capping GST rate at 18% and specified in the Constitution amendment Bill
- July 2016 Centre and states agree against capping GST rate in the Constitution amendment Bill
- August 2016 Centre to move modified Constitution Amendment bill in Rajya Sabha
- On November 10, 2017, The GST Council in its 23rd meeting recommended widespread changes in the Goods and Services Tax (GST) slab rate.

Effects on Economic Indicators

It will reshape the indirect tax structure by a 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 and Reshapes Indirect Tax Structure

Exports: Exports will become competitive as the GST regime will eliminate the cascading impact of taxes. GST could boost India's GDP growth by 0.9-1.7 per cent. GST is a key for India's gross domestic product in times of challenging global environment

Gross Domestic Product: The GST will bring about a qualitative change in the tax system by redistributing the burden of taxation equitably between manufacturing and services. Impact on growth due to reduction in direct cost and cost reduction on capital inputs pegged the improvement in growth rates between 1.5 and 2 per cent.

Inflation: If the rates are set at 6, 12, 18, 26 CPI (Consumer price index) could decreased by 0.06 percentage points.

Foreign Exchange: The passing of the GST will be welcome news for the Indian rupee (INR). GST will lead to higher foreign direct investment inflows and a narrow current account deficit-factors that should help the rupee increase.

Impact on Make-in- India: The tax reforms through GST will play a crucial role to attract large-scale investment. The impending GST promises a progressive tax system which avoids tax cascades and helps establish India as a true common market. GST will reduce the cost of production and allows the hassle-free supply of goods

Unification of Market: 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. Presently 11 categories of taxes are levied on the road transport sector. The GST will help bring down logistical costs.

Effects on Different Sectors

As there many industries to cover, we have taken only the most important industries in India.

Logistics: In a vast country like India, the logistics sector forms the backbone of the economy. We can fairly assume that a well-organized and mature logistics industry has the potential to leapfrog the "Make in India" initiative of the Government of India to its desired position.



Figure 2 Warehouse under tax regime (Source: cleartax.com)

E-Com: The e-com sector in India has been growing by leaps and bounds. In many ways, GST will help the e-com sector's continued growth but the long-term effects will be particularly interesting because the model GST law specifically proposes a tax collection at source (TCS) mechanism, which e-com companies are not too happy with. The current rate of TCS is at 1% and it'll remain to be seen if it dilutes the rapid boom in this sector in any way in the future.

Pharma: On the whole, GST is expected to benefit the pharma and healthcare industries. It will create a level playing field for generic drug makers, boost medical tourism and simplify the tax structure. If there is any concern whatsoever, then it relates to the pricing structure (as per latest news). The pharma sector is hoping for a tax respite as it will make affordable healthcare easier to access by all.

Telecommunications: In the telecom sector, prices are expected to come down after GST. Manufacturers will save on costs through

efficient management of inventory and by consolidating their warehouses. Handset manufacturers will find it easier to sell their equipment as GST will negate the need to set up state-specific entities, and transfer stocks. The will also save up on logistics costs.

Textile: The Indian textile industry provides employment to a large number of skilled and unskilled workers in the country. It contributes about 10% of the total annual export, and this value is likely to increase under GST. GST would affect the cotton value chain of the textile industry which is chosen by most small medium enterprises as it currently attracts zero central excise duty (under optional route).

Real Estate: The real estate sector is one of the most pivotal sectors of the Indian economy, playing an important role in employment generation in India. The probable impact of GST on the real estate sector cannot be fully assessed as it largely depends on the tax rates. However, it is a given that the sector will see substantial benefits from GST implementation, as it will bring to the industry much required transparency and accountability.

Agriculture: Agricultural sector is the largest contributing sector the overall Indian GDP. It covers around 16% of Indian GDP. One of the major issues faced by the agricultural sector, is transportation of agri products across state lines all over India. It is highly probable that GST will resolve the issue of transportation. GST may provide India with its first National Market for the agricultural goods. However, there are a lot of clarifications which need to be provided for rates for agricultural products.

FMCG: The FMCG sector could see significant savings in logistics and distribution costs as the GST will eliminate the need for multiple sales depots. The GST rate for this sector is expected to be around 17% which is way lesser than the 24-25% tax rate paid currently by FMCG companies. This includes excise duty, VAT and entry tax – all of which will be subsumed by GST.

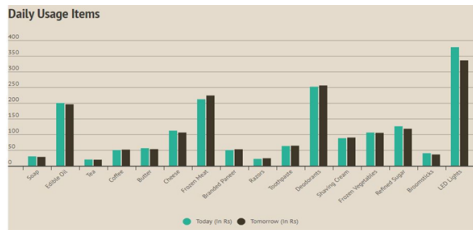


Figure 3 Daily usage items (Source: news18.com)

Freelancers: Freelancing in India is still a nascent industry and the rules and regulations for this chaotic industry are still up in the air. But with GST, it will become much easier for freelancers to file their taxes as they can easily do it online. They will be taxed as service providers, and the new tax structure will bring about coherence and accountability in this sector.

Automobiles: The automobile industry in India is a vast business producing a large number of cars annually, fuelled mostly by the huge population of the country. Under the current tax system, there are several taxes applicable on this sector like excise, VAT, sales tax, road tax, motor vehicle tax, registration duty which will be subsumed by GST. Though there is still some ambiguity due to tax rates and incentives/exemptions provided by different states to the manufacturers/dealers for manufacturing car/bus/bike, the future of the industry looks rosy.

Table 1 Comparison of VAT and GST (Item-wise)

Segment	Excise	*Ncd + auto cess	VAT	*Road tax	*Motor vehicle tax	Total	CGST	SGST	TOTAL	Difference
Small Cars <1200cc	12.50%	1.10%	14%	State based	State based	28%(ap prox)	9%	9%	18%	10%
Mid-Size Cars from 1200cc to 1500cc	24%	1.10%	14%	State based	State based	39%	9%	9%	18%	21%
Luxury Cars >1500cc	27%	1.10%	14%	State based	State based	42%	14%	14%	28%	14%
SUV's >1500cc, >170mm ground clearance	30%	1.10%	14%	State based	State based	45%	14%	14%	28%	17%

Start-ups: With increased limits for registration, a DIY compliance model, tax credit on purchases, and a free flow of goods and services, the GST regime truly augurs well for the Indian start-ups scene. Currently, many Indian states have very different VAT laws which can be confusing for companies that have a pan-India presence, specially the e-com sector. All of this is expected to change under GST with the only sore point being the reduction in the excise limit.

BFSI: Among the services provided by Banks and NBFCs, financial services such as fund based, fee-based and insurance services will see major shifts from the current scenario. Owing to the nature and volume of operations provided by banks and NBFC vis a vis lease transaction, hire purchase, related to actionable claims, fund and non-fund based services etc., GST compliance will be quite difficult to implement in these sectors.

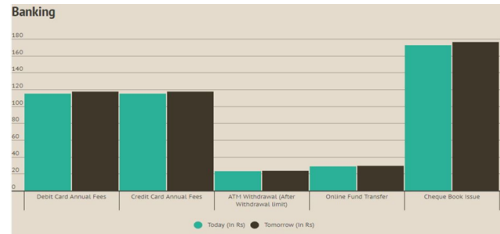


Figure 4 Banking transaction (Source: news18.com)

Effects on Individual (Common man)

GST will reduce tax evasion: There is a very logical reason as to how GST will help in reducing Tax evasion -All traders will insist on taking bills for all their purchases. Let us understand this with an example. Suppose you are a mobile phone distributor. You are buying mobile phones from the manufacturer and selling to wholesaler. This is the net position after introduction of GST.

Table 2 Purchase scenario (Before and after GST)

	Present Scenario		After GST	
	With invoice	Without invoice	With invoice	Without invoice
Manufacturer to distributor				
Sale price of phone	10,000	11,000	10,000	11,000
Add: Excise Duty @ 12%	1,200	-	-	-
Add: VAT @ 4%	448	-	-	-
Add: GST @ 16%	-	-	1,600	-
Final payment	11,648	11,000	11,600	11,000
Distributor to wholesaler				
Sale price of phone	15,000	15,000	15,000	15,000
Add: VAT @ 4%	600	-	-	-
Add: GST @ 16%	-	-	2,400	-
Final Receipt	15,600	15,000	17,400	15,000
Payment of Tax by distributor				
	152	-	800	-
Net profit to distributor				
Sale price	15,600	15,000	17,400	15,000
Less: Purchase cost	11,648	11,000	11,600	11,000
Less: Net tax paid	152	-	800	-
Net profit to distributor	3,800	4,000	5,000	4,000
Final Result	Distributor will prefer without invoice		Distributor will prefer with invoice	

(Source: <http://www.cii.in/>)

Eating out to get expensive: For eating out, if you spend RS 1000. Currently you pay on an average 18.5 per cent as service tax and vat. So apart from the service charge, you usually have to bear the burden of RS 1185. Under the GST regime, it's expected that the rates can be fixed at 18 per cent or above. Accordingly, at 20 per cent approximate tax rate, your bill is set to go up, to at least 1200 rupees.

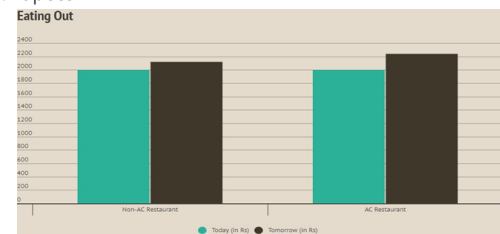


Figure 5 Eating out expenses (Source: news18.com)

Services will get more expensive if GST is implemented as states will now have the services under their net and hence it will mean they can fix higher rates.

Buying car is cheaper: Buying a car will not only be easier in different states with price similarity between manufacturing and non-manufacturing states but tax experts believe it will be cheaper as well.

For example, a RS 5 lakh car attracts excise duty of 12.5 per cent, and along with vat roughly comes to RS 6.25 lakh. Now under the GST it is expected to go down as much as RS 35,000 if the rate is fixed at 18per cent, so for you the price will be RS 5.9 lakh rupees We will see more tax competitive rates and will reduce prices for consumers.

Jewellery to get expensive: Tax experts have pointed how currently only 2 per cent of effective taxes is passed on to the consumers but as per the GST model, at least 6 per cent rates could be imposed, impacting the jewellery purchase.

Online buying: Buying bags, shoes, and electronics online will be getting more expensive as the e-commerce industry comes into a tax net and will have to pay tax deducted at source for every purchase from its sellers. So, e-commerce companies which will see shrinking of profit margins & increase tax compliance net could slash discounts & freebies that they offer.

Discussion

"E-commerce will see revision of its tax compliance and it's time we understand the industry in India. But consumers can benefit from lower logistical cost and faster delivery. Overall tax collection will be a challenge.

Table 3 Overall Tax difference and results

SECTOR	VAT (%)	GST (%)	DIFFERENCE	RESULT (BENEFIT OR BURDEN)
	Before	After		
	2017	2017		
Banking & Financial Services	15	18	-3	Burden Because GST compliance will be quite difficult to implement in these sectors.
FMCG	28	18	10	Benefit Because GST will eliminate the need for multiple sales depots.
Food & Beverages	12.5	5	7.5	Benefit, thanks to the reduced rates.
Media & Entertainment	30	28	2	The impact of GST on the entertainment industry can be both positive and negative, depending on the state. Owners of movie halls, parks etc.
IT	29.5	30	-0.5	IT industry will definitely benefit from GST, thanks to the immense boost in the sale of the software.
Pharma	12	12	0	GST is expected to benefit the pharma and healthcare industries in terms of simplified tax system.
Real Estate	15	18	-3	Benefit, as it will bring to the industry much required transparency and accountability.

As per the table 3 will now look at major gainer and loser of this tax reform (GST)

Gainers:

Logistics: With 'Make in India' gaining ground along with rapidly increasing e-commerce, companies involved in logistics are likely to be gainers.3/4 PLs will receive a boost.

Media: DTH, film producers and multiplex players are levied service tax as well as entertainment tax, GST will bring major change and uniformity in businesses. Taxes could go down by 2-4%.

Automobiles: Small car manufacturers like Maruti, Hyundai and Tata Motors and 2-wheeler companies like Hero Motors, Eicher, Bajaj Auto will be big beneficiaries as costs are likely to drop significantly.

FMCG: Large FMCG companies like Hindustan Levers, P&G, Godrej and ITC are likely to benefit a lot from lower taxes and logistics cost.

Consumer Durables: Most companies in this sector will benefit from lower taxes and logistic costs. White goods manufacturers, electrical appliances etc. are mostly expected to benefit.

Losers:

Airlines: Flying to become expensive, as service tax will be replaced by GST. Service tax on fares currently range between 6% and 9% (depending on the class of travel). With GST, the rate will surpass 15%, if not 18%, effectively doubling the tax rate.

Luxury car manufacturers: Though the small car buyers will be benefitted but there could be a pinch on the luxury car manufacturers, as the luxury cars are going to become costlier thereby adding to the pressure of the existing low sales.

Mobile phones: Mobile phone buyers will now have to pay more for their phones.

Restaurants: Eating out is now going to cost more hitting the salaried class the maximum.

Branded Jewellery: Branded jewellery will become more expensive hitting companies like Titan that are already suffering due to high cost of gold imports.

Pharmaceutical: Most pharma companies are likely to see an increase in indirect taxes with consumers having to pay more than existing prices. This is likely to see protests in coming days.

Utilities: With sale of electricity being kept out of GST, the cost to companies using coal-based power and renewable energy are likely to see an increase in costs.

Oil and Gas: Aviation Turbine Fuel, high speed diesel, crude oil and other petroleum products excluded from GST will see a rise in costs, if dual indirect taxes are not removed.

Insurance policies: life, health and motor will begin to cost more from April 2017 as taxes will go up by up to 300 basis points.

Conclusion

GST will have a positive impact on Indian sectors, industries and common man. A well-designed GST tax system can bring a qualitative change in the indirect taxation system in India. When talking about the different sectors, many may gain, many may lose also. But, we should get used to this tax reform as country needs to develop in all aspects and taxation system is no exceptions to it.

Acknowledgement

The satiation and euphoria that accompany the successful completion of this research would be incomplete without the mention of the people who made it possible. We thank Ms.

Rajeshri Parmar, Research Associate, Accendere Knowledge Management Services and the research team for their unflinching guidance, continuous encouragement and support to successfully complete this research work.

References

1. Akanksha Khurana (2016), "Goods and Services Tax in India - A Positive Reform for Indirect Tax System", 4(3), 500-505.
2. Monika Sehrawat (2015), "GST in India: A Key Tax Reform", International Journal of Research – Granthaalayah, 3(12), 133-141.
3. Gritish G (2014) Basic concepts and features of Goods and Service Tax in India. International Journal of Scientific Research and Management, 300-306
4. Nitin K (2014) Goods and Services Tax in India: A way forward. Global Journal of Multi-disciplinary Studies.
5. Sinha A (2016) Impact of GST on various sectors in India. Business world.
6. Bureau ET (2016) GST impact across sectors: Take a look at winners and Losers. The Economic Times.
7. Forbes India (2016) Rajya Sabha passes GST Bill: How it will impact various sectors.
8. Nitin Kumar (2014), "Goods and Service Tax in India-A Way Forward", Global Journal of Multidisciplinary Studies, 3(6), 50-66
9. Pradeep Chaurasia et. al., (2016), "Role of Goods and Services Tax in the Growth of Indian Economy", International Journal of Science Technology and Management, Vol. 5, Issue 2, February 2016, Pp. 152 -157.
10. Rizal Palil et. al., (2011), "The Impact of Goods and Services Tax (GST) on Middle Income Earners in Malaysia", World Review of Business Research, Vol. 1, Issue 3, July 2011, Pp. 192-206.
11. Srinivas K. R (2016), "Issues and Challenges of GST in India", International Journal of Management and Social Science Research Review, Vol. 1, Issue 4, Pp. 228 – 233.
12. <http://fintrakk.com/gst-what-is-the-impact-of-gst-on-common-man>
13. <http://indiatoday.intoday.in>
14. <http://www.businessinsider.in/GST-decoded-Heres-how-common-man-corporateare-going-to-benefit-from-GST/articleshow/53521455.cms>
15. SSRN: <https://www.ssrn.com/en/>
16. IFIM OPAC: <http://1.186.42.146/opac/>
17. CII: <http://www.cii.in/>
18. EY: <http://www.ey.com/>
19. GOVT: <https://www.gst.gov.in/>