GST AND ITS IMPACT ON INDIAN ECONOMY

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Abstract

With the GST becoming an Act, the country is adopting `One Nation One Tax' regime which is going to benefit each and every one. This is likely to make the country one of the fastest growing economies in the world. Goods and service tax (GST) is a biggest tax reform to inspire and confidence of manufacturers and investor to push the economy forward. GST will bring more transparency in the tax regime and all the stakeholders are brought under tax net. GST will stay focused on the main objective of making tax laws simple to make life easier for the individuals as also business besides bringing in larger populations in to the tax net and make every Indian conscious of his social obligation towards paying taxes, making the country more tax compliant. Tax reforms have been one dynamic process through successive government. The principles have largely remained the same, a transparent, just equitable and fair taxation system that was easy to administer. In the longer run, the GST is expected to attract foreign investment reducing the cost of capital goods, raise manufacturing and exports, increase tax collection and most important creates jobs, the need of the hour. The Indian government has significantly stepped up efforts to expose black money from the system which is only set to expand going forward with help of technology such as project insight. While the efforts using technology are in the right direction, the focus must be on discouraging cash transactions and encouraging card payment in the economy. This will be the key to cub black money circulation.

However, only worrying factor as of now is the tax rates, declared by the central government. Some tax rates are higher than the existing tax rates therefore some goods will be costlier as compare to present. The GST will also have its impact on commodities market, industries and many other sectors either directly or indirectly. Overall, the GST is expected to bring a dynamic change in the country and making the India a global leader in terms of economic performance in the years ahead.

Keywords: Goods and Service Tax, Tax Reform, Indirect Tax, Manufacturing Sector, Investment, Industrial Development, Economic Growth, Tax Law, Black Money.

‟Great Steps by Team India, Great Step towards Transformation, Great Steps towards Transparency, this is GST''

Shri Narendra Modi, Prime Minister of India

Section I - Introduction

We all pay taxes to the government in our daily lives, in different foams. These taxes take important part in financing different functions that the government performs. There are many responsibilities that the government is required to fulfil. These taxes providing public goods and services, building physical and social infrastructure, investing in education, alleviating poverty etc. Taxes are essential for development of any economy.

Indian tax system is the most complicated one in the world with the Centre, the State and the local bodies have power to levy of taxes to earn revenue. Various kinds of taxes are collected at different levels like direct taxes which affect the common man directly like income tax and wealth tax and indirect taxes which the common man pays for goods and services availed of like VAT and services tax, corporate tax etc.

Section II - Review of Literature

Agarwal Anubhav, Controllar, UBS Securities India Pvt. Ltd., Executive Director (2016) revealed that GST implementation poses a big challenge in terms of modifications to global IT system, especially in an era of global system, global vendors and increasing cost pressures.

Doshi Ketan C., Managing Director of Pay Point India Network Pvt. Ltd (2016) said that GST should be rolled out a centralised location and the allocation of taxes for the state should be handled by IGST mechanism.

Mariwala Harsh, past president of Federation on Indian Chamber of Commerce & Industry (FICCI) (2016) said that a minimum of six months from the date of the adoption of the GST Law by the proposed GST council to prepare for stress-free roll-out of the new indirect tax regime. The delegation said it preferred a reasonable standard rate that would evasion while ensuring compliance.

Modi Narendra, Prime Minister of India (2017) told that law marks as he hailed them for supporting the key legislation in the national interest. Indian Moved a step closer to rolling out the much talked about GST regime when Parliament passed the 122nd Constitution Amendment Bill. ‟GST is an important move to free the nation from tax terrorism. This can't be seen as a victory of a party or a government, it is a win for the democratic ethos of India and victory for everyone.''

Nair Vinod, Head of Research, Geojit Financial Services (2017) analyse that the market welcome the new tax regime with a positive note while shrugging off the initial hiccups of investors during the last couple of week where market witnessed consolidation spending is likely to increased sales volume will continue to benefit the earning potential in future.

President, Naushad Forbes, Confederation of Indian Industry (CII) (2016) said that for Industry which seeks to be competitive in the global market place a standard rate of 18% will be advantageous. The CII is point out that the average standard rate of value added tax in high income countries is 16.8% while that in emerging market economies is 14.1% although rates in countries like China and Mexico are a little higher than this. India should position itself correctly in order to boost exports and generate to boost export and generate employment.

Sitharaman Nirmala, Commerce Minister (2017) said GST is only going to help in improving our exports and also since the input credits have been very well worked out the inputs for exporters is going to cost less and they are going to be far more competitive. Exports are zero rated will be refunded. There will be an ease of refund in the system.

Sharma Dinesh, Deputy Chief Minister (2017) examined that GST prove to be a boon for the state, whose GDP growth rate has never crossed 6%. After two years, it will be over 7%. Both consumers and traders should be happy with the GST. Traders will get rid of the Inspector Raj, while consumers get products at lowers prices.

Section III - What is GST?

Over the year India has experienced unprecedented rates of economic growth. This growth required reform in the taxation to make it simpler and attractive for the foreign as well as domestic investors. Indian taxation system has undergone remarkable reforms during the last decade with rationalization and simplification of tax laws.

The goods and services Tax which was passed recently is one of the most historic tax reform in Indian taxation history. The GST regime law aims to simply and harmonize the indirect tax regime in the country. GST is a broad based consumption tax levied on the import of goods, as well as nearly all supplies of goods and services. GST bill covers the Goods and Services Tax and shall be the biggest indirect tax reform, it will replace a number of taxes like VAT, CST, Service tax, CAD, SAD, Excise duty, Entry tax, Purchase tax etc.

One of the stated objectives of introducing the GST is to eliminate multiple taxes, remove cascading of taxes, rationalise taxes and enhance the spectrum of the input tax credit. This would reduce the incidence of indirect taxes on the products and services.

GST will be game changer for the Indian economy. It will provide fillip to manufacturing, promote growth and provide vigour to `Make in India' campaign. It will also bring about transparency, efficiency and compliance-all of which are the hallmark of a competitive economy (ASSOCHAM, 2016). It is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level. One of the biggest taxation reforms is all set to integrate State economies and boost overall growth. The GST is a consumption tax, everyone must pay it. As long as it is not too excessive, people adapt to it. If the level is right, it also allows a government to freeze or reduce income tax rates. In addition, the new tax regime will be easy to monitor and operate and will relatively increase the competitiveness of Indian products and services in domestic and international markets. This will give a boost to the economic growth. The idea of this tax is so powerful.[6]

The current tax regime is based on origin-based taxation. GST will be destination-based tax regime. GST will levied by both Centre and states on a common base. The one imposed by Centre will be known as Central GST (CGST) and the one by states will be known as state GST (SGST). On all inter-state supply of goods and services, an Integrated GST (IGST) will be levied which will go to the Centre to avoid any disruptions in the credit chain. Imports of goods and services will be treated under the blanket of IGST. Customs duty will be added to the same. An additional non-VAT able tax of 1% will be imposed on inter-state supply of goods. It will be retained by the state in which it originated for a period of 2 years. GST Council headed by Finance Minister and including Finance Ministers of states will monitor and recommend the GST rates of CGST, SGST and IGST. Value Added Tax has been widely accepted by many countries in the past four decades and it has been an important indirect source. GST regime in India will lead to efficient allocation of factors of production and a substantial increase in GDP and exports. However, the interesting point is that almost all parties as well as Indian business and intelligentsia were united in the need for the taxation measure. The move is expected to reduce black money flow as the tax measure will capture trade and industry better, eliminate roadblock at border crossing by abolishing octroi.

It will reduce double taxation, making the economy more efficient. The action on the GST front will now shift to the states as the central government will now have to geek to get the bill ratified by a majority of the Indian states.

Multiple indirect taxes at the Central and States levels are being replace by GST. Backed with a robust end-to-end IT system, GST would be simpler and easier to administer than all. The GST is being introduced to create a common market across states, not only to avoid enfeebled effect of indirect tax but also to improve tax compliance. GST will lead a more transparent and neutral manner to raise revenue. Many countries like Canada, New Zealand, Australia have successfully implemented GST, when effectively implemented it will lend many benefits to the economic growth of the country.

Section IV - Why GST Needed?

It is approximate that GST can boost India's GDP by 1-2%. GST will convert the country into unified market, replacing most indirect taxes with one tax. GST is expected to provide the benefits of simplification of tax regime, broadening of tax base, elimination of tax cascades, enhancing export competitiveness, ensuring greater regional equity and improvement in transparency. GST is a Value added tax, i.e., the final consumer will bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages.GST has become a preferred global standard. All OECD countries, except the US, follow this taxation structure.

GST is structured to simplify the current indirect system. It is a long term strategy leading to a higher output, more employment opportunities, and economic boom.

According to the National Council of Applied Economic Research, government's tax revenue will increase by about 0.2% because of GST implementation, while GDP growth could go up by 0.9%-1.7%. Exports will also get a boost as they are zero-rated for taxes and also because the fall in cost of manufactured goods and services under GST will increase the competitiveness of Indian goods and services in the international market.

A truck is moving from Delhi to Chennai and pass through about 8 states. During that time, it will pay a variety of taxes. Each source of tax collection is a source of confusion, corruption and delay. By the time the truck arrives at a destination in a couple of weeks, a huge amount of cost is indirectly added to the consumer. Instead of India being a common economy, we are a patchwork of dozens of economies making growth slow, business impossible and corruption high.

Today, with the taxes (and bribes demanded) at every state boarder it's cheaper and faster to ship something around the world from Bombay to the U.S. to Calcutta than it is to ship something domestically through India from Bombay to Calcutta. It's a very clear illustration of the problem with the current system.

The inter-state taxes make it impossible for any competent foreign multinational company to even consider producing anything in India. Mostly export services to the foreign countries China cannot compete with India providing "services" because their population doesn't speak English. However, with government reforms (and some infrastructure improvements) India could compete with china providing goods. If India wants to grow faster than China, and become the economic/political power-house of Asia, it needs to be able to export high enough volumes of both goods and services to ensure China cannot keep up.

GST is the first step for India if it ever wants to become competitive in the manufacturing and shipping of physical goods in the global economy. It is first step to India becoming the most important Asian economy.

Section V - International Scenario

There are around 160 countries in the world that have implemented GST. There are 7 countries in ASEAN, 19 in ASIA, 53 in Europe, 7 in Oceania, 44 in Africa, 11 in South America and 19 in Caribbean Central and North America. Europe has north the high number of countries which have implement GST. France was the first country who implements GST in 1954, followed by the Germany in 1968 and the United Kingdom in 1973. GST is a unified tax system in most of the countries, but Canada and Brazil have dual GST like India proposed GST.

If we look at some of the major countries like Australia, Canada, New Zealand, Japan, Korea United Kingdom etc. we find that they have done fairly well in most of the macroeconomic indicators. The type of GST framework varies from country to country.

Similarly to the Indian context, it is only Canada that has the concept of dual GST. While there was a strong opposition to the introduction of GST in Canada by various political faction. In Canada, the GST replaced the Manufacturer’s Sales Tax and came into force in 1991. The tax did not apply to products such as groceries, residential rent and medical services and services such as financial services. The macro economic performance in term of growth, government finance tax revenues and price stability have improved in case of Canada during post-GST period.[7]

Section VI - Tax Slabs of GST

The Empowered Committee of the Finance Minister Suggested two guiding principal for finalising GST council too. First of the guiding principle says that the rate of taxation as it is legible today with the implementation of the GST will gradually come from its present level so that it is more citizen friendly. The second principle prescribes that the taxation should be adequate enough to maintain the present levels of revenue to make sure that the central and State Government are able to discharge their duties and obligation with the fullest amount that they collect. It is believed that the GST council will follow these two principal before arriving on the final rates.

GST council body of centre and states has agreed on rate structure as 5%, 12%, 18% and 28%. Having a slab rate structure in GST is departure from popular international practice of having on rate of tax for all goods and services. Council has not announced schedule of goods and services under each slab rate. The FM has mentioned that highest tax slab rate will be applicable to items currently taxed at 30% to 31% (excise duty plus VAT) will be taxed at a demerit rate of 28% will be charged with an additional cess for five years.[9]

After having opted for multiple rates under the upcoming GST regime, India is now looking to keep variations in rates on the same types of products at minimum to ensure that the tax structure does not get any more complicated. For example, all types of footwear or mobile phones could attract the same rates.

Single rate for one product group up will bring simplicity in the structure and make implementation easier. Different rates structure within one segment could lead to unnecessary could lead to unnecessary disputes and litigation. Globally, most regimes have a single rate. India has adopted a four tier tax structure of 5%, 12%, 18%, and 28%. The rate applicable on most products will be 18%. The highest rates have been pegged in the GST law at 40%.

Section VII - Exempted Goods and Services in GST Regime

The Centre and state are expected to keep the expectation list short to about 100 under the goods and services tax regime even as North Block is flooded with request from multiple industry association to keep their products out of tax net or in the lowest slab. The centre currently has 299 items and states have 99 items out of tax net. A minimal exemption makes sense. The reason is simple. Exemptions break the GST chain, increase the chances of evasion and lead to systemic inefficiencies, defeating the goal of GST. Moreover, industry's demand for a lower rate can be met only when all indirect taxes get subsumed in GST, and exemptions are minimum.

Some common use items such as salt fruits vegetables milk tea coffee etc come under exemption. In case of services, differential taxation allows a service above certain threshold exempted may be brought under the tax broaden the base. For example, budget hotels with tariff below Rs 1,000 do not face service tax while others do. Similarly differentiation exists in luxury tax as well. Essential services such as healthcare and education are expected.

Section VIII - Impact of GST on Various Sectors

1. Impact of GST on Manufactured and Imported Consumer Goods

In the supply chain today, excise duty, CVD and CST are not available as set off against VAT or CST on sale of goods. This cascading impact of tax is not likely to continue in GST. Entry tax and octroi levied on goods will not be levied in GST regime. With slab wise rate structure, most of the goods will be taxed to at nearest tax slab. In case of goods where combined rate of excise duty and VAT is 30%-31%, the effective rate under the current regime appears to be lesser than 28%. Hence, subjecting these goods at 28% in GST is likely to increase the price of goods. For goods that are classified under 5% 12% and 18% slab rates, effective tax cost might be lesser as compared to current tax regime. Manufacturing costs will be reduced, hence prices of consumer goods likely to come down. Due to reduced costs some products like cars, FMCG etc. will become cheaper. Lower prices will increase demand/consumption. Increased demand will lead to increase supply. Hence, rise in production of goods. The increased production will lead to more job opportunities in the long run. But, this can happen only if consumers actually get cheaper goods.

2. Impact of GST on Services

It is likely that all services will be taxed at standard rate of 18%. Cascading of VAT, CST entry tax, octroi and additional customer’s duty will not exist in GST regime. Most of the services are likely to be costlier due to increase in tax rate.

Transport services will be taxed at 5% leading to a small drop in economy class air travel which currently attracts 6% service tax. Non AC Train travel, including in local trains and metro, as well as religious travel including Haj Yatra will remain exempted from GST.

Five per cent rates will also apply to cab aggregators like Ola and Uber, which currently pay 6% tax. AC train travel will attract 5% service tax same as freight levy.

The GST Council finalised four tax rates 5, 12, 18, and 28% for services including telecom, insurance, hotel and restaurants under the biggest reform since independence. The rates are in line with those finalised for goods. With this, rates of all items except a handful including gold, have been decided ahead of the roll out of the goods and services Tax.

Restaurants with Rs.50 lakh or below turnover will go under the 5% composition. AC restaurants and those with liquor licence will be 18%, while five star hotels will charge 28% GST.

Entertainment tax will be merged with service tax under the GST and a composite 28% levy charged on cinema services as well as gambling and betting race course. Space selling for advertisement in news papers will attract 5% levy in GST. It is exempted from tax currently.

Revenue secretary Hasmukh Adhia insisted that the tax incidence on telecom services will be unchanged at 15% after the input credit is taken on equipment. While economy class air travel will attract 5% GST, the business class will be charged at 12%. Services tax on telecom like phone bill payment totals to 15% at present. Telecom services are set to become costlier under the upcoming GST regime with the government placing them under the 18 per cent rate. Debt ridden telecom players, looking for a bailout package, expressed disappointment with the rates saying telecom services will become expensive for consumers and impact the government projects like digital India and digital payments. At present telecom consumers are charged 15% in form of tax and cess over their phone bills.

The Cellular Operators Associations of India (COAIs) Director General Rajan S Mathews said in a statement Telecom industry hails GST as an iconic reform but we are disappointed with announced rate of 18%. Existing rate for the telecom services is 15%. The 18% tax under GST regime will augment the existing burden of the telecom industry. The telecom sector pays around 30% of its earnings in taxes and levies, including spectrum usage charge and licence fees.

3. Impact of GST on Banking and Financial Services Sector

In India, most of the banking and financial services are exposed to services tax, at the rate of 14.5%, while GST is expected to be 18% to 20%. Thus services are likely to get costlier. GST may make things cumbersome as financial services providers may be required to adhere to compliance across multiple states instead of the current single, centralised registration compliances.

The GST council has increased the service tax on financial services 18% from 15%. Many industry executives feel this will impose a burden on consumers and dampen demand. But recent data, at least in insurance, seem to suggest that consumers take tax increases in their stride. Whenever the government raised the service tax rate or levied a cess to shore up its finances to fund welfare projects, industry did not see much impact on sales. So while the increase in service tax rates would mean higher premiums on life, health and motor insurance that may not necessarily affect business. Ajit Ranade, group chief economist, Aditya Birla Group said there are some financial products that are less elastic in nature. At an individual level insurance is not so price sensitive.

Service tax of 3.5 is now levied on the protection part of endowment and unit-linked life insurance policies in the first year and 1.75% from the second year onwards. This will now go up to 4.5% in the first year and 2.25% from the second year. The big change in the tax structure this time is the introduction of input tax credit for services.

4. Impact of GST on Agriculture Sector

GST is basically the amalgamation of the various taxes at central and state levels. The biggest advantage would be the logistics where transportation of Agri-products many of them perishable will be seamless without any major hindrances. Moreover, farmer as seller can market his produce in any of the state without any confusing taxation system. Agriculture Product Market Committee play a big part in the value chain of Agri-Commodity, it has variety number of taxes like mandi cess, VAT etc., which varies from stable to state, it needs to be seen how these differences are minimized.

5. Impact of GST on Education Sector

The education sector currently enjoys various tax exemptions and benefits, services provided by schools and colleges are either not taxed or are covered in the negative list. The situation is likely to continue even after the implementation of GST. In case it doesn’t, the sector may be able to avail of input credit or CENVAT credit on the duty paid on purchase of inputs and services. These are likely to bring down the final cost for the industry.

6. Impact of GST on Pharmaceutical Industry

The current cascading tax structure on import duty makes it expensive for the industry to import machinery. The current cascading tax structure on import duty makes it expensive for the industry to import machinery. GST is expected to have a positive effect on the pharmaceutical sector. It will help the industry by simplifying the tax structure, since eight different taxes levied in the pharmaceutical industry at the moment. A consolidation of all these into one tax would ease doing business, as well as mitigate the cascading effect of multiple taxes applies on one product.

Apart from this, GST will also result in operational efficiency by streamlining the supply chain which can alone add 2% to India's pharmaceutical market size. Because GST will help pharmaceutical companies rationalize their supply chain, they will have to review their distribution networks and strategy.

Additionally, GST implementation will also envisage a seamless flow of tax credit, account for improvement in overall compliance and is also expected to create a level-playing field for pharmaceutical companies in India.

A big advantage for companies will be the reduction in transaction costs with (CST). GST is expected to bring down the manufacturing cost and even down the manufacturing cost and even a 2% reduction in production or distribution cost is believed to add over 20% to profits. If the rate of GST is below the current total tax rate, it will eventually help consumers by making health care and medicines more affordable which already is a goal for the Indian government.

7. Impact of GST on Travel, Tourism and Hospitality Industry

Indian's travel, tourism and hospitality industry have multiple taxes, levied by both the Centre and the States. It is expected that under GST, supplies of hotels and restaurant will be subjected to a single tax.

At present, no credit is available on input services related to renovation or construction of hotels and resorts. This is expected to change under GST. R&D cess, payable on franchise fees and technical know-how, is likely to be subsumed under GST, thus simplifying compliance procedures and reducing multiple taxes. However it is unclear whether various benefits available under the existing Foreign Trade Policy will continue under GST. If such benefits are provided, input credit may not be available, resulting in higher costs. On the whole, GST is likely to eliminate multiplicity of taxes and lack of credits. However, it may also lead to increase in tax rates.

8. Impact on Cement Industry

The government has missed out on an opportunity to spur growth in the struggling cement and housing segment by putting the commodity at the highest tax slab 28% under GST. Cement Manufacturers Association (CMA) also lamented that tax incidence on cement in India, which is highest in Asia Pacific, has affected health of the industry that is witnessing only 70% capacity utilisation due to low demand.

The president of CMA Shailendra Chouksey said that on a 50 kg bag of cement costing Rs 300, Rs 180 is tax plus cost of logistics. This is very capital intensive industry with low margins. CST was an opportunity to provide relief but has been missed. A lower tax rate would have reduced price which could have benefitted the housing segment.

9. Impact of GST on Textile Industry

Textile industry which has been cow to India economy in terms of foreign exchange generation will get required to lower input cost once GST is implemented. Indian textile industry, which is categorized in different subsectors based on nature of raw material having non uniform taxes varying from 4% to 12% based on these categories. Cotton as nature product is exempted from all taxes where as 12.5% of excise duty is levied on manmade fibre segment. Similarly composite mills are taxed at a higher rate than the power looms discouraging integration of production. Indian taxation system has been production based imposing different input taxes resulting higher cost of production. A uniform rate of tax will be levied after implementation of GST which will remove blocked input taxes to encourage the production at competitive prices as GST is consumption based. At the same time, zero rating on exports under GST will boost textile exports further without the need for explicit subsidy. Apart from this, GST erase all interstate taxes promoting free movement of goods across India to improve the productivity and efficiency of the textile industry.

10. Impact of GST on Sugar Industry

Sugar Industry is likely to witness lots of implications after implementation of GST. Unlike to other essential commodities sugar is kept under GST whereas other by products like electricity and ethanol is being kept out of GST. Indian sugar mills exports about 5000 MW electricity and supply about 120 Cr. Litres of ethanol for blending with petrol. GST exemption to ethanol will lead to higher input taxes on other by products like bagasse and molasses and will prompt state government to levy higher taxes on ethanol and to control movement of ethanol. Being as an essential commodity, sugar should be exempted from GST like other essential commodities. As per Indian Sugar Mills Association a special category of renewable energy or bio-fuels should be created and keep it under GST exempt molasses and bagasse from GST to lower the tax burden of sugar mills.

11. Impact of GST on Entertainment Industry

The Categorisation of the entertainment tax on movies tickets in luxury goods under the goods and service slab of 28% has been fiercely disputed by industry participants. But, it impact on operations of the two listed multiplexes, PVR and Inox Leisure, is likely to be muted given the offsetting effect in major states of Maharashtra and Delhi. The two states contribute over one third of the total revenue of PVR and Inox. These states currently collect 40% tax on movie tickets and 11% tax on food and beverages (F&B) sold in multiplexes. Under GST, movie tickets will be taxed lower at 28%, while F&B will attract a higher tax of 21%. Thus, the net effect of these changes is expected to be neutral in these states. In the remaining regions, where the current tax on tickets is 22%, a higher GST on tickets and F&B will have an adverse impact. What may reduce this impact is input tax credit (ITC). Multiplexes are likely to gain from ITC on F&B and services like rental payments, and security costs.

At present, municipal bodies do not have share in taxes collected by states and the centre. According to media report, some states such as Madhya Pradesh, Rajasthan and Gujarat may ask local bodies to charge entertainment tax. If that happen, box office collections and, operating margins may be impacted.

12. Impact of GST on Real Estate Sector

Transfer of properties may continue to be outside the purview of GST and be liable only to applicable stamp duties. The GST is likely to result in transparency in the real estate sector, which will significantly reduce tax evasion through more efficient transaction-tracking method and improved enforcement and compliance. Since GST may be levied on a single value, the current issue of levying tax on tax is likely to be removed. At present, developers pay various non-creditable taxes on supplies. GST may replace these multiple taxes with a single tax, credit on supplies may also be available, thus reducing costs for all players. However, if real estate output is exempted, then input GST credit could be a substantial cost for the sector, resulting in a blockage of credit and higher costs to end consumers.

13. Impact of GST on Business

GST will ensure that indirect tax rates and structure are common across the country, thereby increasing certainty and ease of doing business. In other words GST, would make doing business in the country tax neutral, irrespective of the choice of place of doing business.

Companies can pay goods and service tax on 90% of the market value in case of supply of goods to entities such as subsidiaries, branches and joint ventures. The declared invoice value will be accepted but only where the recipient is eligible to clam credit of GST charged. In cases where credit is not available GST will be applicable on open market value, which is the full value of money payable by the recipient to obtain such goods or services where supplier is not related and price is the sole consideration.

The main reason to implement GST is to abolish the cascading effect on tax. A product on which excise duty is paid can also be liable for VAT. A product on which excise duty is paid can also be liable for VAT. Suppose a product A is manufactured in a factory. As soon as it releases from factory, excise duty has to be paid to central government. When that product A is sold in same state then VAT has to be paid to state government. Also no credit on excise duty paid can be taken against output VAT. This is termed as cascading effect since double tax is levied on same product. A system of seamless, tax-credits through the value-chain, and across boundaries of states, would make sure that there is minimal cascading of taxes. This would reduce hidden costs of doing business. Reduction in tax burden on transaction costs and production cost, of doing business would eventually lead to an improved competitiveness for the trade industry.

The GST will cut down the large number of taxes imposed by the central government (eg. central VAT or excise duty, services tax, central sales tax on inter-state sales, etc.) and states (VAT on sales, entertainment tax, luxury tax and octroi and entry taxes levied by municipalities).This will lead to the creation of a unified market, which would facilitate seamless movement of goods across states.

Currently, companies have to pay taxes on entire underlying value of the product/service, but under GST, companies in a chain will have to pay tax only on the value-addition. So the actual tax paid will likely be small and reduce the incentive for evasion.

14. Impact of GST on Unorganised Sector

GST will give credits for all taxes paid earlier in the goods/services chain incentivising tax-paying firms to source inputs from other registered dealers. This will 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. The subsuming of major Central and states taxes in GST, complete and comprehensive set-off of input goods and services and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports. The uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cost.

15. Impact of GST on Energy Sector

Currently crude oil, natural gas motor spirit, high speed diesel and aviation turbine fuel (ATE) are kept out of the GST. However other products such as Liquefied Petroleum Gas (LPG), naphtha, kerosene, fuel oil etc. are included in it. With applicable of GST, industry will have to obey current tax policies along with the GST. As per the ICR, refiners will have to pay for GST while procuring plant, machinery and services used in production of motors spirits, aviation turbine fuel and high speed diesel.

16. Impact of GST on Oil Firms

Oil companies will have to take a collective hit of about Rs.25, 000 crore a year after the roll-out of the goods and services tax since most of their output is outside the ambit of the new system the finance chief of the state run Oil and Natural Gas Corporation has said.

India will roll out GST that includes most goods and services but excludes crude oil, natural gas, petrol, diesel and jet fuel. The exclusion of these goods from GST is part of the trade-off Centre conceded to address states fear of losing out on revenue from taxes on oil sales, a key source of their income. Other oil products such as kerosene, liquefied petroleum gas and naphtha are included in the GST.

This means oil companies will have to comply with both the old and the new tax regimes. But the tax credit can’t be transferred between the two systems. So, the GST paid by oil company on the procurement of plant, machinery and services will not be creditable against the excise duty and value asses tax on the output such as crude oil, petrol and diesel not covered by GST.

Analysts said higher tax burden for oil companies will have an inflationary impact on the overall economy. Under GST 5% tax rate will apply to subsidised kerosene and LPG used for domestic cooking. At present, most major states have 5% tax on kerosene. Many states impose no tax on cooking gas while others levy up to 5%. The compliance burden will increase for oil companies as they will have to deal with dual tax regime For state oil marketing companies, the products under GST regime comprise about a quarter of the total output in terms of value, according to a state firm executive.

17. Impact of GST on Bullion Sector

The new law recommends tax slab somewhere in the range of 2-6 per cent on the jewellery segment, which is certainly going to be higher than the existing 1 per cent VAT applicable in most of the states. The argument that goes supporting the higher rate of tax is that taxing precious metals closer to the upper limit of 6 per cent would help in keeping the standard GST rate lower for most of the goods, also experts feel that the new tax rate despite being higher actually engulfs many hidden taxes in the sector and bring many parts of the jewellery industry into the tax base, which is so far evading the proper tax liability.

At present the lower rate of 1 per cent VAT is a visible indirect tax on gems and Jewellery items, but additionally there are other taxes that also apply in this sector, that would get included in the proposed GST.

Currently the refining of gold by melting the scarp does not attract any excise duty which has built a significance difference in the margins of local and branded jewellers as the imported gold is charge 10 per cent customs. The recommendation of levying the new tax argues that the new tax rate will bridge this gap between the two players as it also plans to raise the services tax.

The Centre and States have done well to fix a 3% goods and services tax on gold. It will create audit trails, prevent people from using unaccounted money to buy gold and jewellery, and it will bring in revenues to the exchequer. This is broadly in sync with the recommendations of the Arvind Subramanian panel. It had suggested a 4-6% GST on gold and other precious metal to bring down the standard GST rate-the standard rate worked out was 17.3% with a 4% levy, and 16.9% with a 6% levy. Today, states charge a value added tax (VAT) on gold. But no tax is charged on jewellery-making charges. But GST allows manufacturers to claim credit on all input taxes paid on goods and services used to make the final product. That should hold for making charges as well. Nevertheless, the GST Council should clear the air to remove uncertainty.

18. Impact of GST on Solar Projects

GST would raise solar power projects costs by 12% to 18% while the cost of power generation can rise by 40-50 paise per unit, some industry leaders said although the government believes the new taxation regime would not have much of an impact.

Official said that in case there was increase in costs. It would not affect project economics because the additional charges would be passed on to customers.

Sunil Jain, chief executive officer of Hero Future Energies, said that solar modules, which had zero tax, will now have an 18% levy, while inverters-a major component in solar projects used for converting DC current into AC current-would now be taxed at 28% instead of zero.

19. Impact of GST on Households

GST which is set to be rolled out on July 1, is likely to have a begin effect on household budget. A host of daily consumption items such as milk, fruit and vegetables, gur or jiggery, food grain and cereals have been exempted from tax while others such as sugar tea, coffee, edible oil and sweets have been placed in the lowest tax slab of 5%.

Luxury cars will attract 28% GST plus cess of 15%, while small petrol cars will face 28% plus 1% cess and diesel small cars 28% tax plus 3% cess. Consumer durables which face total tax of about 32% now, it will be in the 28% slab. In the case of some goods deliberately brought down tax. A number of items that faced 30 -31% tax now have been placed in the 28% and 18% slabs.

Revenue secretary Hasmukh Adhia said that 81% of the goods will attract tax equal to lower than 18%. ``Of the 1211 items at the four digit harmonised system of nomenclature, 7% have been exempted, 14% will attract 5% tax, 17% will face 12%, 43% will face 18% and 19% will face 28%. Overall tax burden on the average household will decline after implementation of GST.

Section IX - GST Council Cuts Tax Rates on 66 Essential Items

Restaurants, Manufacturers and traders having turnover of up to Rs.75 lakh can avail of the composition scheme with lower rates of 5%, 2% and 1% respectively with lower compliance against Rs. 50 lakh previously. A GST rate of 5% will be applicable on outsourcing of manufacturing or job work in textiles and the gems and jewellery sector. Bleaching and cleaning of human hair, a big industry in Midnapore, will not face any tax.

After considering recommendation of the fitment committee, tax rates are being reduced in the case of 66 items. There were 133 representations these were considered at length. Revenue buoyancy and prices remaining in check will balance out the change, it is hoped. The weighted average of all the rates that we have decided is significantly lower than what we are paying today, adding that therefore there would be an adverse revenue impact if other things remained equal. But we are also hoping on revenue buoyancy and a check on inflation that will ensure so as to make up for that loss.[9]

A number of household items in the packaged food category that had been placed in the 18% bracket such pickles, mustard sauce, ketchups fruit preserves and services and sandwich topping will now attract 12% GST.

The rate on agarbattis has been lowered to 5% from 12% proposed earlier. School bags will face a rate of 18% instead of 28%, exercise books will attract 12%, instead of 18% and colouring books will be exempt.

Section X - How GST will benefit the Nation

It is time to reflect on the possible benefits of this new tax regime to trade and industry, to consumers, to the government and to entire economy. The most important benefit of GST is that India will become common market. One product or service has a single tax rate in country. No more taxes that are barriers to industry such as octroi or entry tax. This means that trade and industry will have much lesser compliance burden compared with the current regime in which they have to file different returns with different authorities for different taxes. The consumers also would better understand the total incidence of tax on the product or the service they buying.

The total incidence of taxation on a product or service is likely to come down for most items. This will happen because of the removal of cascading of taxation, availability of seamless credit across the value chain. If goods are produced in which services are used, the input tax credit of taxes paid on services will be available and vice versa. Also, there is a provision in the GST law that, by chance, if taxes paid on the inputs are more than the tax rate of output liability; refunds will also be given except in certain items such as work contracts. Such scientific system of taxation removes all hidden taxes and brings down the overall burden of taxes. This will benefit consumers immensely.

GST is going to be a big milestone for Make in India also. Today, when goods are imported there is a levy of countervailing duty (CVD), which is equivalent to excise duty paid by the domestic manufacturers of the same product.

In many cases there are CVD exemptions even where local goods attracted excise duty. Under GST, all these exemption will go away.

Also, while local manufacturers of goods pay full value added (VAT) in addition to excise, imported goods attracted only 4% special additional duty. Under GST, all these exemption go away.

local manufacturers of goods pay full value added tax (VAT) in addition to excise, imported goods attract only 4% special additional duty. This also gave negative protection to domestic manufacturers of goods. Under the GST regime, all goods that are imported will pay the full rate of central and state GST in the form of integrated or IGST. That will provide a complete level playing field to domestic manufacturers imported goods. Importers can use this IGST credit to discharge their liability for CGST and SGST when the same goods are sold in the country.

Hasmukh Adhia revenue secretary (2017) stated that GST is likely to promote exports from India. When goods are exported, the taxes paid on those products within the country are supposed to be fully refunded. While there is a system of duty drawback today by which central taxes paid on exported items are refunded, the same is not true of VAT paid on the inputs of exported items. There are many states that either do not refund VAT paid on exports or give such refunds after one or two years. Under the new GST regime, the entire refund of CGST or SGAT paid on inputs of exported items will be fully paid by a single authority- either the state government or the central government. It is is also decided that 90% of refunds will be given provisionally within seven days of receiving the complete application for online refunds. Also, for special economic zones (SEZs), there is a provision to bring goods from abroad or from domestic tariff area without payment of IGST. This means that as far as SEZs are concerned, there will be no blockage of working capital. With exports being boosted, Make in India will also get a big lift.[1]

These traders are pocketing the benefits of tax evasion while the government is deprived of revenue and consumers are also not benefited. When this activity of tax theft will go away under GST, both consumers as well as the government will gain. So basically, the extra revenue of the government will not come from the consumer’s pocket but from reduction of tax.

Section XI – Issues with GST Regime

Some critics consider GST to be a regressive tax, meaning the poor pay more, as a percentage of their income, than the rich. However, defenders contend that GST can be considered a proportional tax if tax payments are expressed as a percentage not of income, but of lifetime consumption; savings and investments are tax-deferred, and when converted to consumption are subjected to GST. [4]

The costs of the goods will increase which will burden the people in the country. Although the government claim that the implementation of GST will not hurt the businesses and people as the tax paid on the inputs at the previous stage is claimable or deductible, overall the cost of goods will still increase as the producers-pass the full value added to the end consumers at the first stage. There might have inflation effect since the GST is applied to the prices of all goods, at every stages which result in inflation as the general products prices may go up and the hyperinflation might occur from the continuously of inflation.

The demand of the market might substantially decrease due to the limited purchasing power of households. Many people argue against the GST is that the people would not have the ability to pay for it as the high cost of living can't be met by their current income needs and GST would unduly burden the low income working group. Due to the increased products prices and high cost of living, people may not willing to spend so much as their limited purchasing power and the market demand will substantially affected. This is because of the low demand in the market due to the high cost of product pass to the end consumers, the businesses have to decrease the supply to meet the current condition of lower demand, thus the businesses have to cut down the expenses such as labour cost due to the lower output needed and eventually there might occur high rate of unemployment.

Many people are worrying the rate of GST may possibly increase in the future in order to increase for the government revenue. This is because many countries have increased the rate of GST after its inception. People expectation and estimation on the increasing rate of GST in the future will lower the public consumptions as they are unwilling to spend more on the goods.

Currently the GST rate is around 5 to 28 % which would not have any major impact on the economy on the positive side, furthermore the rate of service tax is around 14 % which will be hyped and currently the contribution of service tax is highest in indirect taxes kitty of central govt thus there are chances that inflation may go up. We can also understand this by going throw our restaurant bills i.e. currently we pay 14% VAT plus 5% service tax (due to abatement notification) however with GST in place the effective rate will also rise thus overall service sector industry may take a little hit.[2]

The government made its intension clear by introducing an anti-profiteering clause in the GST law to ensure that a commensurate cut in the prices on account of a reduced tax rate, or the benefit of higher input tax credit, is passed on to the consumer. It also proposed to set up an authority to monitor such instances of profiteering.

The prices are mainly driven by elasticity of demand, supply constraints and competition. As pricing is a function of multiple factors, it is difficult to attribute only one factor responsible for increase or decrease in prices. Therefore, the actual implementation of this provision is quite challenging both for business and government. It may be possible that the incidence of taxes for a given commodity has reduced. However, due to high demand and supply constraints, the prices have increased. Thus, the procedure to be followed by the anti-profiteering authority becomes critical to examine cases where the changes in price are on account of incidence of tax or any other factors.

Section XII – Challenges face by GST Regime

Financial services sector is facing services cost escalation and compliance challenges under the format of GST. Most of the problems can be traced, essentially, to three factors: the multi-location nature of both providers and consumers of financial services, making state-wise allocation of business tough, the likely accumulation of input tax credit that cannot be utilised, and the time available to configure complex IT systems to comply with the tax. The GST regime is rather straightforward: tax financial services solely under integrated GST (IGST), rather than jointly under state GST and Central GST has been devised to deal with inter-state supplies and is levied by the Centre and shared with and among the states. Financial services and the goods and services tax may not go well together in Australia; things have been simplified for both the government and the financial services industry by the tax being collected only by the Centre. The industry has to deal with only one layer of tax administration. This is not the only thing India could learn from Australia's experience with GST. The industry had 12 clear months, once the rules were finalized and notified, to adapt their tax, according and enterprise resource planning software to meet the compliance requirements.

Tax expert said that the new formulation could bring down overall tax incidence for goods supplier, but for services providers it may difficult to find comparable value in case of services. A major challenge arise in case of infra-company cross charges as they are deemed to be distinct persons. It is not clear as to whether the expenses such as salary of employees, depreciation etc. Need to be considered. This would be particularly relevant if the recipient office is not eligible for entire credit, which may not be unusual. Business need to evaluate all the transactions, specifically those relating to related party or intra-company, and arrive at the value carefully.

A major challenge arises in case of intra-company cross charges (from one office to another as they are deemed to be `distinct persons'. Pratik Jain, leader, Indirect taxes PwC said that ``It is not clear as to whether the expenses such as salary of employees, depreciation etc. Need to be mandatorily included or only third party costs need to be considered. This would be particularly relevant if the recipient office is not eligible for entire credit, which may not be unusual.” [3]

According to Sachin Menon as par the clause, the prices need to be reduced only on account of lower tax rates and higher input tax credit. The issue is whether the business that reorganise their supply chains and reduce costs on account of such business efficiency be required to reduce prices. Can this be covered within the purview of the anti-profiteering clause? and how can such benefit be measured at a unit price level? These remain a challenge. Authority should examine the cases where the prices were increased even before the introduction of the goods and services tax.[5]

Section XIII – Suggestions

GST is great taxation reform for country needs since rather than focusing on the black spot on a white cloth, we should focus on the white sheet but still, if govt wants to make the best of this opportunity it must take suitable & essential steps.

In order to achieve the objective of reduced prices to consumers, the government should adopt a balanced approach to ensure that honest business are not unduly put into difficult situations or come under legal action. It should also ensure that the anti-profiteering authority does not act as a price regulator in a free and competitive economy. A well thought-through and detailed procedure should be issued by the government to achieve the stated objective of determining the extent of benefit that is to be passed on to consumers.

Others point out that the more important question to ask is not whether GST is regressive, but whether GST is more regressive than the substitute indirect taxes. Poverty and equality is not the impact of any particular tax. But the impact of the tax structure as a whole depends upon how revenues are redistributed. When GST is combined with progressive taxes, and the revenues distributed to the poor, the total fiscal structure can be progressive.

Section XIV - Conclusion

The GST will be game changing reform for Indian economy by developing 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 incident, tax computation, tax payment, compliance, credit utilization and reporting leading complete overhaul of the current indirect tax system. The GST will have a far reaching impact all the aspect of the business operation in the country, for instance, pricing of products and services, supply chain optimisation, IT, accounting and tax compliance system. However, GST is a long term strategy and the positive impact shall be seen in the long run only. This can happen if GST is introduced at a nominal rate to reduce the overall tax burden of the final consumers. The rate of GST also plays a crucial role in deciding the actual impact of GST on the common man.

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