Impact of GST growth & development of common economic market

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Abstract: Though, there has been lot of debates on Goods and service Tax(GST) in India in last more than than one decade pleading to introduce a simple, easy to operate taxation system which would end woes of a business man, bring relief from inflation to a common man, facilitate higher GCP to economy and simplify administration for administrator. The developments so far indicate that the new GST regime is going to be a mixed bag and should not be considered as a panacea for all ills; therefore, clinical analysis of probable impact will be useful at this point in time to enable the affected entities take necessary steps. An attempt has been made in this article to summaries probable impact of GST on areas.

Key Words:Common procedural changes, sector wise impact analysis, overall impact on Indian economy.

INTRODUCTION: (11BOLD)

INTRODUCTION

In the era of globalisation entire world has become one market place, leading to availability of huge varieties if products at every nook and corner at most economic cost. Obviously, the most competitive products and services will be preferred. Therefore, it is essential that taxation policies and systems of any country should steer the business through turbulent competitive environment and make their products or services most competitive globally. In this context, the GST is going to significantly impact the entire business environment of India.

KEY WORDS: common procedural changes, sector wise impact analysis, overall impact on Indian economy.

Common procedural changes for all business

Tax Rate: As generally perceived that GST will be a "one nation – one tax" regime, but it is in fact one-nation with two uniform taxes CGST& SGST (IGST being the sum total of two) across the nation under 4 or 5 product specific tax rate slab. The compliances and monitoring will be done under these two categories. Dual Control: State will be an administrator for turnover up to a certain threshold limit and after that the Centre. It needs clarity if threshold limit for State administration crossed in a financial year then whether it will shift to Centre and vice versa. Point of taxation:

Currently, point of taxation for excise duty is at the time of removal of goods and VAT at the time of sale, but under GST, Point of taxation will be the earliest of date of .

Removal, date on which goods made available to recipient, date of invoice, date of receipt of payment, date of receipt of goods shown in books of recipient. Thus, GST will be payable in case amount is received in advances. Stock branch transfer, however, GST incidence on stock transfer will increase requirement of working capital. Transportation: Lesser stoppage time of vehicles at border check posts and decrease in transit time will save transportation cost. Companies in various states to avoid CST on inter-state sale but in the GST regime, uniform rate structure and seamless flow if credit across the value chain will result in consolidation of warehouses. Optimisation of warehousing will be done by setting up distribution centres at strategic locations to make the supply chain, inventory management more effective and to speed up delivery time of products.

Thus, warehouse/ logistics cost may come down leading to improved bottom line. IT accounting and IT, Systems of a business needs to be customized with the changed flow of process prescribed in GST regime, at the same time, timely tracking of payment of taxes, filing of return, matching of details by all the parties will be necessary for full claim of ITC, therefore, compliances needs to be done properly. Above factors will affect the operations. Thus a businessman need to revisit its commercial areas viz. The pricing, overheads, costing, profitability, margins, working capital requirement, logistics, supply chain management; etc.

Sector – wise Impact analysis

Automobile

Car segment: current levies of Indirect taxes and cesses on cars varies from 30% to 45%.If standard rate of 18-20% is declared for small cars as well as 40% for luxury cars, both will be benefited. Moreover, elimination of cascading effect and offset of input tax credit (ITC) at every stage of value chain will reduce the cost. By and large, impact may be positive for car segment of automobile sector. Commercial segment: Reduction in transit time will increase the fleet productivity and speedy of goods, Better availability of vehicles for transport services may lead to increased competition, nevertheless, change in storage and warehousing patterns may also lead to higher interstate movements of goods, so it may be a mixed bag for truck operations.

Real Estate

Sales or transfer of immovable properly is outside the purview of GST, however, on procurement of procurement of materials for civil construction GST will be applicable and ITC of the same is not admissible, Inadmissibility of ITC may impact negatively. Hopefully, this issue will be addressed appropriately while declaring the final law, stamp duty will continue. Work contract for commissioning of movable or immovable properly shall be supply of service. Renting, leasing, licence to occupy land and building will also be supply of service. Where consideration has been received for construction of a complex or building or civil structure is without getting certificate from competent authority it shall be supply of service. The impact on service sector depends on the GST rate vis-à-vis current rate of service tax.

Transportation

Trucks in India drive just one third of the trucks in US (280 kms vs. 800 kms), on top of that, only about 40% of total travel time is spent on driving, major time is consumed at check points and other official stoppages. A recent news indicate that Road Transport and Highway ministry is considering overhaul of around 80 border check post across the country to ensure seamless flow of goods under GST regime. Thus, ensure eliminating check points delays, higher moving time of wheels and lower transit time which will certainly boost the business, reduce inventory holding requirements, transportations cost and better asset utilization. Distribution and warehousing patterns will improve. Impact is going to be positive on this count.

Pharms

Impact on pharma sector will largely depend on the rate of proposed GST vis-à-vis current rates of indirect taxes. Pharma sector generally have an inverted duty structure i.e. excise duty on raw material is around 12.5% whereas on finished goods it is around 6-7%, this results in accumulation of refund due from government. Sector is hopeful of making refund process fast and simple, this coupled with savings warehousing and logistics cost may anticipate a positive impact.

Textiles

Currently, the domestic cotton based industry is not subject to excise duty and on branded readymade garments with MRP> Rs. 1000 excise duty is 2% with abatement rate of 40% (without CENVAT). However, manmade fibre sector attracts a regular duty structure (with CENVAT). It is to be seen whether lower GST rates are declared for this sector, failing which this sector may have a negative impact.

FMCG

FMCG products have a general excise duty rate of 12.5 per cent and a VAT at around the same level. As standard GST rate is expected to be lower than this, which if passed on to the consumer will be have a positive impact on this sector. At the same time, FMCG Companies will save on logistics costs.

Services

Service sector in India is a rapidly growing sector and significantly contributing to fiscal revenues. As indicated so far, that the standard GST rate would be 18-20%, as compared to the current 15% service tax including cesses then the service viz. IT telecom, banking, insurance, etc may witness negative impact due to increased cost of services.

Overall Impact on Indian economy

One market

The trade of country will be converted into one market as compared to numerous markets due to different tax structures in several states as of now.

Inflation

There is a general perception that GST would drive Inflationary effect in the near term because producers will increase the rates if is higher, but refrain from passing on to customer if it is lower, consequently, inflationary effect may be there.

Exports

With lower logistics cost, full offset of ITC and seamless flow of goods cost, efficiencies will be achieved and Indian products would be more competitive.

States having consumption to benefit

The pattern of consumption will be the criteria for accrual of tax revenues to states. Accordingly, the tax collection will go the states having higher consumption as compared to the present system of collection by manufacturing.

Conclusion

To conclude, although initial teething troubles will be there in transition and few sectors may face the challenges, nevertheless, the degree of positive impact is much more than challenges. IT driven taxation regime, lesser manual intervention of tax authorities, positive effect on so many sector and uniform tax structure may witness increase in GDP for India economy's

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