

Advantages and Disadvantages of GST

Prof. Sapana Jugalkishor Jaiswal
Asst. Professor

Matoshri Ashatai Kunawar, Arts,
Com. & Sci. Women's College, Hinganhat.

Dr. V. N. Jayale
Principal

S.N. Sinaha Arts &commerce College Patur.

Abstract : GST is one of the biggest tax reforms of the country, the Goods and Service Tax (GST) subsumes many indirect taxes which were imposed by central and state such as excise VAT and service tax, It is levied on both good and services sold in the country. There are endless taxes in present system few levied by central and rest levied by state, the remove this multiplicity of taxes and reducing the burden of the tax payer a simple tax is required and that is Good and service tax (GST).This paper focuses on good & service taxes advantages and disadvantages.

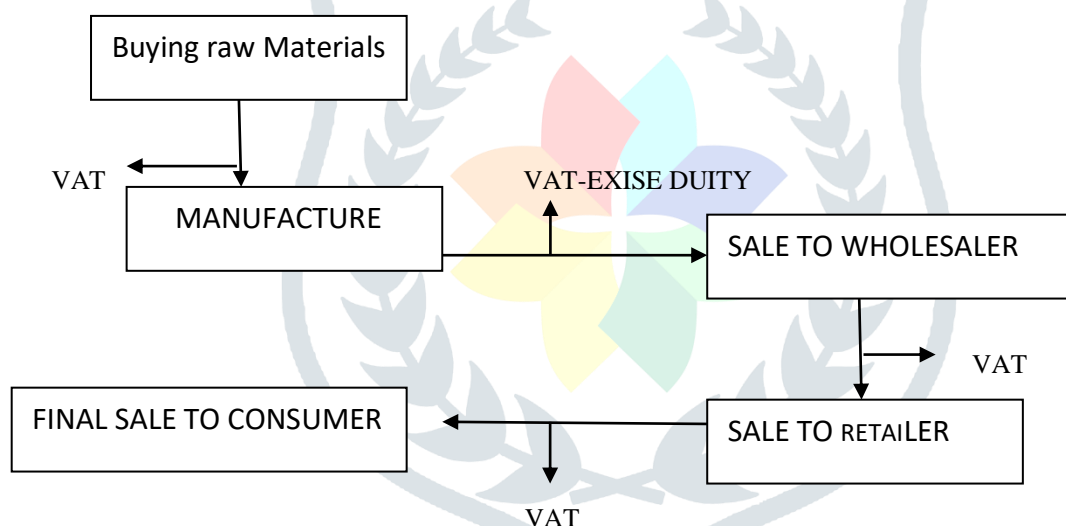
Introduction : -

Goods and Services Tax (GST) is the newest indirect tax regime in India. It is a value – added tax levied on the supply of goods and services across the country. As GST has already affected the Indian economy since 1st July 2017, It has changed the working style of every business. GST advantages and disadvantages are imperative to understand. Benefits will enlighten you as to why GST is necessary. It has almost been a year since GST rolled out in India hence it is imperative to understand the advantages and disadvantages of GST.

GST :-

GST (Good and Services Tax) is the biggest Indirect tax reform of India. GST is a single tax on the supply of good and services. It is a destination based tax. GST has subsumed taxes like central Excise low, Service Tax low, VAT, Entry Tax, Octroi etc. GST is one of the biggest indirect tax reforms in the country. GST is expected to bring together state economies and improve overall economic growth of the nation.

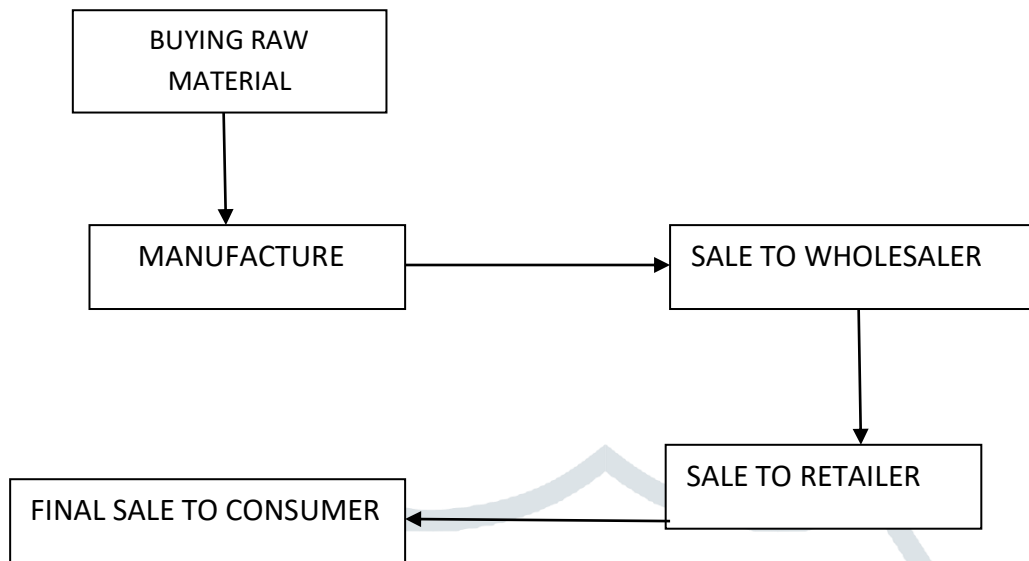
Before Good and service Tax the pattern of tax levy was as follow.



Under the GST regime, the tax is Levied at every point of save. In short we try to understand the definition of Good and Service Tax.

GST is a comprehensive, multi-stage, destination- based tax that is levied on every value addition”

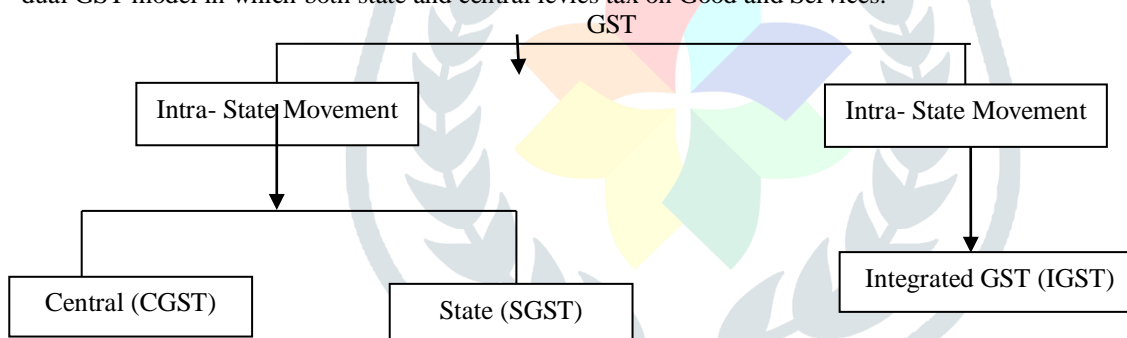
There are multiple change of hands in item goes through along its supply chain ; from manufacture to final sale to the consumer



Goods and services Tax is levied on each of these stages which makes it a multi-stage tax.

GST is a comprehensive indirect tax levy on manufacture, sale and consumption of good as well as services at the national level. It will replace all indirect taxes levied on good and services by states and central. Business are required to obtain a GST Identification Number in every state they are registered.

There are around 160 countries in the world that have GST in place. GST is a destination based taxed where the tax is collected by the state where goods are consumed. GST has been implemented in India from July 2017 and it has adopted the dual GST model in which both state and central levies tax on Good and Services.



SGST - State GST, collected by State Govt.

CGST - Central GST, collected by Central Govt.

IGST – Integrated GST, collected by Central Govt.

Advantages and Disadvantages of Good and Service Tax (GST) –

Good and services Tax (GST) is the newest indirect tax regime in India. It is a value – added tax levied on supply of Good and Services across the country .It has changed the working style of every business.GST advantages and disadvantages are imperative to understand. GST benefits will enlighten you as to why GST is necessary. It has almost been a year since GST rolled out in India. Hence it is imperative to understand the advantages and disadvantages of GST law. Let’s look at some advantages of GST.

1. GST eliminate the cascading effect of Tax. –

GST is a comprehensive indirect tax that was designed to bring the indirect taxation under one umbrella. More importantly it is going to eliminate the cascading effect of tax that was evident earlier. Cascading tax effect can be best described as ‘Tax on Tax’ Let us take this example to understand what is tax on tax.

Before GST regime : -

A consultant offering services for say, Rs 50000 and charged a service tax of 15% (50000 Rs X 15% = 7500)

Then say he would buy office supplies for RS 20000 paying 5% as VAT (20000 Rs X 5% = 1000) He had to pay Rs 7500 output service tax without getting any deduction of Rs1000 VAT already paid on stationary

His total outflow is RS 8500

Under GST: -

| | |
|--|------|
| GST on service of RS 50000@ 18 % | 9000 |
| Less: GST on office supplies (20000 Rs X 5%) | 1000 |
| Net GST to pay | 8000 |

2. Higher threshold for registration : -

Earlier in the VAT structure, any business with a turnover of more than Rs 5 Lakh (in most states) was liable to pay VAT. Please note that this limit differed state wise. Also, service tax was exempted for service providers with a turnover of less than RS 10 Lakh

Under GST regime, however, this threshold has been increased to Rs 20 Lakh, which exempts many small traders and services providers.

Let us look at this table below

| Tax | Threshold limits |
|-------------|------------------------------------|
| Excise | 1.5 Crores |
| VAT | 5 Lakhs in most states |
| Service Tax | 10 Lakhs |
| GST | 20 Lakhs (10 Lakhs For any states) |

3. Obliteration of multiple taxes and avoidance of double taxation-

All central government indirect taxes such as central excise duty and additional excise duties, service tax, central sale tax etc. and all state government indirect taxes such as state surcharges and cess, entertainment tax, VAT, entry tax, etc. are subsumed by a single tax GST this eliminating the issue of multiple taxation for which you have to apply for GST registration.

Also in the previous regime, there were some specific industry transactions which were taxed as goods as well as services, For example, a taxpayer providing restaurant service tax on such transaction considering it as service and was also required to pay VAT on the same transaction considering it as the sale of Good, which lead to double taxation of the single transaction, since GST is levied uniformly on good and services , issues relating to double taxation would not be arise.

4. Seamless flow of Goods across Nation : -

In the previous tax regime, while transporting goods from one state to another, CST (Central state tax) and entry tax were levied for entering into another state, the trucks transporting these goods had to pay entry tax while entering to every state border which was collected by individual state border which was collected by individual state. Due to this, same manufacturers would avoid supplying their goods outside their own state. However, after GST rolled out, interstate transportation of goods become much easier a CST and entry tax was replaces by a single tax. i.e., GST It also resulted in the reduction in transportation cost.

5. The number of compliances is leaser –

Earlier, there was VAT and service tax each of which had their own return and Compliances. Below table shows the same

| Tax | Return Filling |
|-------------|--|
| Excise | Monthly |
| Service Tax | Proprietorship / Partnership- Quarterly |
| VAT tax | Different for Different state Some state require monthly return over a threshold limit. Some state like Karnataka require |

Under GST however, there is just one, unified return to filed. Therefore, the number of return to be filled has come down, there are about 11 returns under GST. Out of which 4 are basic returns which apply to all taxable persons under GST. The main GSTR 1 is manually populated and GSTR 2 and GSTR 3 auto populated.

6. Improved efficiency of logistics –

Earlier, the logistics industry in India held to maintain multiple warehouses across states to avoid the current CST and state entry taxes on inter-state movement. These warehouses were forced to operate below their capacity giving room to increased operating cost.

Under GST, however, these restrictions on inter-state movement of goods have been lessened as on outcome of GST, warehouse operators and e-commerce aggregator's players have shown interest in setting up their warehouses at strategic locations such as Nagpur (Which is the zero mile city of India) instead of every other city on their delivery route

Reduction in unnecessary logistics costs is already increasing profits for businesses invoiced in the supply of goods through transportation.

7. Ease of Doing Business : -

Before July 2017, a business person had to register with different tax authorities and File different tax returns. After GST came into existence, one was required to comply with only one single tax. Due to this, a business person can now focus on his business without worrying about different indirect taxes and laws.

8. Composition schemes for small business : -

The tax and compliance burden on many small businesses have been reduced. Further, Small businesses i.e. those businesses with a turnover of 20 to 75 lakh rupees can benefit from the option of utilizing composition schemes.

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10. Simple and easy online procedure:-

The entire process of GST (from registration to filling return) is made online and it is super simple. This has been beneficial for start-ups especially, as they do not have to run from pillar to post to get different registration such as VAT excise and service tax. Our ClearTax GST software is already on a roll filling GST return.

Let us now look at disadvantages of GST: -

Disadvantages of GST :-**1. Increased costs due to software purchase :-**

Business have to either update their existing accounting or ERP software to GST compliant one or buy a GST software so that they can keep their business going. But both the options lead to increased cost of software purchase and training of employees for an efficient utilization of the new billing software.

ClearTax is the first company in India to have launched a ready to use GST software called clearTax GST software. The software is currently available for free for SMES, helping them transition to GST smoothly. It has truly eased the pain of the people in so many way.

2. Being GST – Compliant

Small and medium sized enterprises (SME) who have not yet signed for GST have to quickly grasp the nuances of the GST tax regime. They will have to issue GST compliant invoices be compliant to digital record keeping and of course, file timely returns. This means that the GST compliant invoice issued must have mandatory details such as GSTIN, place of supply, HSN codes, and others.

Clear tax has made it easier for SME, with the clear Bill book web application. This application is available for FREE until the end of September and is an easy solution to this problem. This will help every business to issue GST compliant invoices to their customers. These same invoices can then be used for return filing through the ClearTax GST platform.

3. GST will mean an increase in operational cost-

We have already established that GST is changing the way how tax is paid businesses will now have to employ tax professionals to be GST complaints. This will gradually increase costs for small businesses as they will have to bear the additional cost of hiring experts.

Also businesses will need to train their employees in GST compliance. Further increasing their overhead expenses.

4. GST come into effect in the middle of the financial year:-

As GST was implemented on the 1st of July 2017, businesses followed the old tax Structure for the first 3 months (April, May & June), and GST for the rest of the financial year.

Businesses may find it hard to get adjusted to the new tax regime, and some of them are running these tax systems parallelly resulting in confusion and compliances issues.

5. SME will have a higher tax burden :-

Smaller businesses, especially in the manufacturing sector will face difficulties under GST. Earlier, only businesses whose turnover exceeded RS 1.5 crore had to pay excise duty. But now any business whose turnover exceeds RS 20 lakh will have to pay GST.

However, SMEs with a turnover upto RS 75 lakh can opt for the composition scheme and pay only 1 % tax on turnover in lieu of GST and enjoy lesser compliances. The catch though is these businesses will then not be able to claim any input tax credit. The decision to choose between higher taxes or the composition scheme will be a tough one for many SMEs.

6. Online taxation system :-

Unlike earlier tax regime, most invoicing was done through pen and paper. It might be difficult for smaller businesses to adopt this technologically ridden change. Businesses need to upload their invoices and returns forms.

7. Website Issues:-

Every normal registered person is required to file a minimum of 3 returns every month or before the relevant due date. At times, the GST portal is unable to handle the load on these due dates, resulting in site blocking or denial of access error, However the Government is working to overcome such problem.

8. Lack of computer Literacy:-

As the whole GST system is technology driven. It is very important for a taxpayer to be a computer literate in order to comply with GST law. The current GST system is a paperless system where compliance is done via GST online portal. The computer literacy rate among small. Smallbusiness and traders is very low, which would result in hindrance to the GST compliance process.

Conclusion :-

These are the pros and cons of GST. GST law is still in its primary stage and will tend to have problem and issues. However, the Government is trying its best to simplify the GST compliance procedures and promptly addressing the issues.

Currently there may be many obstacles in GST path, whether it is an implementation of law or adaptation by people, but in the long run, GST would surely prove beneficial for each and every segment of the Indian economy.

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BOOK

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