Analysis of impact of Goods & Service Tax on Various Sectors in India

Anchal Jamdagni
Lecturer, Department of Social Studies Club, Hindu Vidya Peeth School, Sonipat.

Abstract

A long awaited reform has become a reality in India on 1st July, 2017. Companies and business organizations used to pay number of indirect taxes like excise duty, customs duty, central sales tax, service tax levied by central government and VAT, entry tax and octroi etc levied by state government. GST is going to consolidate these multiple taxes into one as 'One Nation, One Market, and One Tax'. Integration of goods and services tax would definitely lead to ease of doing business and simplifies tax compliance. As it is going to reduce layers to taxes definitely leads to boosting tax collection. GST aimed at creating unified market benefiting both corporate and economy. Several countries have implemented this tax system; France is the first country to introduce GST.

This paper concentrates on benefits of GST and its effects on different sectors like automobile, FMCG, banking, insurance, financial services, Pharmaceutical sector, agriculture, real estate, Consumer durables, oil and gas, cement, telecom, real estate, airlines and gold. The findings of the paper revealed mixed effect on different sectors of the Indian economy.

Key words: -Goods and Service Tax, Indirect taxes, Sectors, Effects, Benefits.

I. INTRODUCTION

Value Added Tax (VAT) at the Central and the State level has been considered to be a major step – an important step forward –in the globe of indirect tax reforms in India. If the VAT is a major improvement over the pre-existing Central excise duty at the national level and the sales tax system at the State level, then the Goods and Services Tax (GST) will indeed be an additional important perfection – the next logical step – towards a widespread indirect tax reforms in the country. Initially, it was conceptualized that there would be a national level goods and services tax, however, with the release of First Discussion Paper by the Empowered Committee of the State Finance Ministers on 10.11.2009, it has been made clear that there would be a "Dual GST" in India, taxation power – both by the Centre and the State to levy the taxes on the Goods and Services. Almost 150 countries have introduced GST in some form. While countries such as Singapore and New Zealand tax virtually everything at a single rate, Indonesia has five positive rates, a zero rate and over 30 categories of exemptions. In China, GST applies only to goods and the provision

A. GST Model

The GST model consists of three components or three different varieties of GST. They are as follows.

• Central GST

• State GST

• Dual GST

1. Central GST: Goods and Service Tax to be levied at the centre.
2. State GST: GST levied at the state.
3. Dual GST: GST to be levied at the State and Centre concurrently.

B. Proposed GST Rate

The rate of the proposed Goods and Services Tax for the certain goods and services are laid down by the government which is as follows.

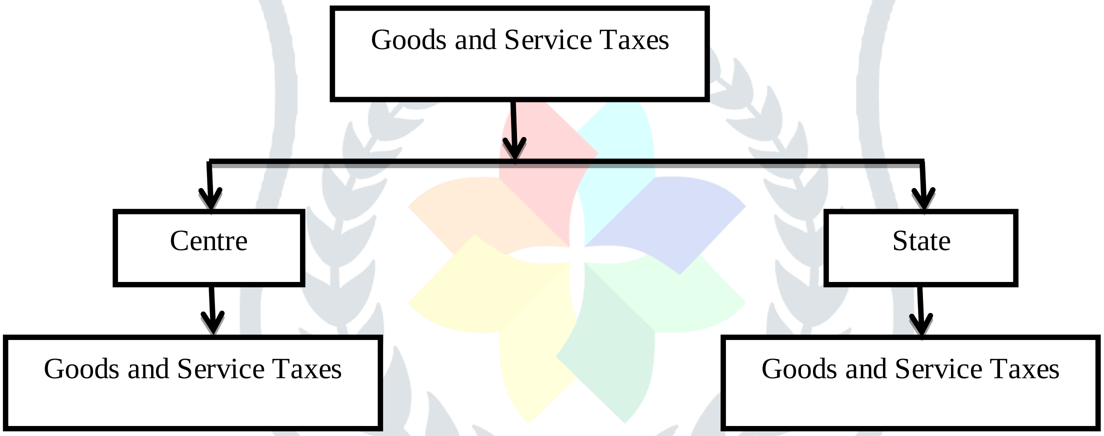
1. For Goods the Total GST rate is 20 % in which 12% of the tax is levied by Central while remaining 8% will be levied by the state.
2. For Services the Total GST is 16% out of which 8% is for the Central and 8% is for the state.
3. For the essential Goods the GST is levied at 12% in which is divided equally that is 6% for Centre and 6% for state.

Currently, it is collected in the form of VAT which is 26.5% that is Central Value Added Tax is 14% and State VAT is 12.5%.

The above mentioned percentage of Goods and Service Tax is just a proposed value it may subject to change as per the revisions make up by the Executive Committee and the government.

C. Taxes those absorbed by GST

The Proposed Indirect Taxation System of GST is likely to include the following taxes in Centre and at state level, they are as follows (Figure 1).



D. Features of GST

- GST will subsume central indirect taxes like excise duty, services tax etc and also state levies like VAT, Octroi, entry tax, luxury tax etc.
- It will have two components, central GST levied by Centre and State GST levied by the States.
- Only Centre may levy and collect GST on supplies in case of inter-state trade and collection of tax will be divided between center and state.
- A two-rate structure will be adopted. It means lower rate for necessary items and goods of basic importance and a standard rate for goods in general. There will also be a special rate for precious metals and a list of exempted items.
- Over-lapping of tax, tax on tax will be eliminated with GST.
- Both Goods and Services are taxed in same manner in chain of supply till they are reached to consumer. They are not distinguished under GST.

Benefits of GST

- GST provide comprehensive and wider coverage of input credit setoff, you can use service tax credit for the payment of tax on sale of goods etc.
- CST will be removed and need not pay. At present there is no input tax credit available for CST.
- Many indirect taxes in state and central level included by GST, You need to pay a single GST instead of all.
- Uniformity of tax rates across the states
- Ensure better compliance due to aggregate tax rate reduces.
- By reducing the tax burden the competitiveness of Indian products in international market is expected to increase and there by development of the nation.
- Prices of goods are expected to reduce in the long run as the benefits of less tax burden would be passed on to the consumer.

II. IMPACT OF GOODS AND SERVICE TAX

I. Food Industry

The application of GST to food items will have a significant impact on those who are living under subsistence level. But at the same time, a complete exemption for food items would drastically shrink the tax base. Food includes grains and cereals, meat, fish and poultry, milk and dairy products, fruits and vegetables, candy and confectionary, snacks, prepared meals for home consumption, restaurant meals and beverages. Even if the food is within the scope of GST, such sales would largely remain exempt due to small business registration threshold. Given the exemption of food from CENVAT and 4% VAT on food item, the GST under a single rate would lead to a doubling of tax burden on food.

II. Housing and Construction Industry

In India, construction and Housing sector need to be included in the GST tax base because construction sector is a significant contributor to the national economy.

III. FMCG Sector

Despite of the economic slowdown, India's Fast Moving Consumer Goods (FMCG) has grown consistently during the past three – four years reaching to $25 billion at retail sales in 2008.Implementation of proposed GST and opening of Foreign Direct Investment (F.D.I.) are expected to fuel the growth and raise industry's size to $95Billion by 201835.

IV. Rail Sector

There have been suggestions for including the rail sector under the GST umbrella to bring about significant tax gains and widen the tax net so as to keep overall GST rate low. This will have the added benefit of ensuring that all inter – state transportation of goods can be tracked through the proposed Information technology (IT) network.

V. Financial Services

In most of the countries GST is not charged on the financial services. Example, most of the services covered except financial services as GST. Under the service tax, India has followed the approach of bringing virtually all financial services within the ambit of tax where consideration for them is in the form of an explicit fee. GST also include financial services on the above grounds only.

VI. Information Technology enabled services

To be in sync with the best International practices, domestic supply of software should also attract G.S.T. on the basis of mode of transaction. Hence if the software is transferred through electronic form, it should be considered as Intellectual Property and regarded as a service. And if the software is transmitted on media or any other tangible property, then it should be treated as goods and subject to G.S.T. 35According to a FICCI – Techno pak Report. Implementation of GST will also help in uniform, simplified and single point Taxation and thereby reduced prices.

VII. Impact on Small Enterprises

There will be three categories of Small Enterprises in the GST regime. Those below threshold need not register for the GST. Those between the threshold and composition turnovers will have the option to pay a turnover based tax or opt to join the GST regime. Those above threshold limit will need to be within framework of GST Possible downward changes in the threshold in some States consequent to the introduction of GST may result in obligation being created for some dealers. In this case considerable assistance is desired. In respect of Central GST, the position is slightly more complex. Small scale units manufacturing specified goods are allowed exemptions of excise up to Rs.1.5 Crores. These units may be required to register for payment of GST, may see this as an additional cost.

VIII. Telecommunications

The telecommunications sector is presently paying the tax at the rate of 14% which is expected to be increased during the GST regime. And, it is assumed to be around 18% which will be expected to be passed over to the customers and this gives a picture that GST will adversely affect this sector.

IX. Pharmaceuticals

Presently, the Pharma companies are paying taxes around 15-20%. Since, there is no clear picture of tax treatment for Pharma if it is less than 15% it would be a positive impact on the Sector but if it is above 15% then it will cause some slight negative impact.

X. Automobiles

The Automobile industry is currently paying a tax rate of a range between 30-45%. And it is expected that after GST the rate will be around 18% which will be a huge positive for the automobile industry and which will be profitable to both the Manufacturers/ dealers and the ultimate consumers. The standard and the social status of the consumers get uplifted. There will be a huge boom in the Automobile Industry as a result of implementation of Goods and Services Tax.

XI. Financial Services

The Financial services such as banking, Stock Trading firms are currently paying 14.5% as VAT which is likely to be increased to 18 to 22% in the near future under the GST regime. And the services are likely to be costlier.

XII. Textiles

Currently, the Textile industry is paying the tax at the rate of nearly 12.5% plus surcharges and which varies upon the MRP of the products. Since there is no clear idea about the tax rate of this industry under the regime of GST it is expected at the rates of 15% which will be having a moderate impact on the industry.

This moderate impact may either be neutral or slightly negative when compared to the other present system of taxation. But they will be benefited through the reduction of cost in transportation, savings etc.

XIII. Media and Entertainment

The tax rate for the Media is around 22% as of now and since the authority for the levy of taxes remains to be the right of the local bodies, it is expected that the cinema fares are expected to come down after the GST regime and the cost of DTH and cable television services are likely to become costlier. There is somewhat either neutral or slightly negative impact of GST on the Media and Entertainment Industry.

XIV. Consumer durables

The current of tax rate of this industry is around the range between 23-25%. And under the GST regime it is considered to be lower around 15-18% which will be positive impact to this industry.

Cement: The cement industry currently pays the tax at the rate of 25% currently. And, after the GST regime, it is expected to be fixed at the rate of 18 to 20%. This will be a major relief for the companies of that industry. And the logistics tax also is to be reduced; it would be a double benefit for all the industries involved in manufacturing.

Real estate: Real estate contributes about nearly 7.3% of India's GDP and it is the largest generator of employment immediately after IT. Real estate is said to get a positive impact under the GST regime immediately after its implementation. It is expected that since there is a single system of Taxation under GST, all other forms of indirect taxation will be removed which results on reduction of property prices and the cost of construction. Thus, we can have a positive impact of GST on the Real estate sector.

Problems in Implementing GST

There are certain challenges and problems in implementing the GST in India. Some of them are as follows.

1. There is no such clear picture about the GST both to the government and to the general public.
2. There is no cooperation between the Central government and the state government in implementing the GST. Even though, if implemented the levy of Tax remains on the part of the state.
3. The State government generally refuses to accept it. As the states levy taxes on the Destination principle i.e. (the state in which the product or service is sold or rendered), so in order to lose the revenue they were avoiding it.
4. The Revenue Neutral Rate (RNR) is the key factor responsible for the effective implementation of GST. But under GST, we could not say that the revenue remains same as that of the current system of taxation.
5. Loss of revenue to the state. If we buy any product the VAT @ 14.5% is included towards it, after the GST regime, there will be no VAT then it results on the loss of revenue to the state.
6. Even though the government said that they will pay the loss of revenue to the state government, it will be again imposed on the general people in some other forms.
7. It involves massive cost on the training of the staff of the Taxation department.
8. Lack of political support. The Bill must be passed in the Rajya Sabha for its successful implementation.
9. IT is the backbone of GST which would connect the various stakeholders through the Virtual platform. So, government must show keen interest on the development of portal for GST and successfully achieves it.
10. There is a large debatable question in implementing the GST such as whether the small entrepreneurs and small firms will be helpful through the GST regime? , whether the government and the Public ready for such a change? Are some of the questions which are highly in confused dilemma?

III. SUGGESTIONS AND RECOMMENDATIONS

• To provide literacy and awareness about the GST

• Effective spending on efficient Tax administration staff

• Well maintenance and frequent follow ups of GSTN (Goods and Service Tax Network) portal for better relationship with various stakeholders.

• In order to avoid the unnecessary loss of revenue to the state government, the central government may think about the considerable percentage of GST which will be helpful for all stakeholders of GST.

• Consent from all states and suggestions from every state for betterment of GST and the source of Tax revenue.

• The government should take care about the RNR which should not affect the tax revenue to any government either central or state.

• The loss of Tax revenue should be managed and compensated properly through proper diversification of funds without burden to anyone.

• The Central and the State government should be in proper understanding and cooperative with each other for the successful implementation of GST.

IV. LIMITATIONS OF THE STUDY

1. The study is completely based on the secondary sources
2. No Quantitative data were collected
3. The Study is not based on the research

V. CONCLUSION

The GST is very crucial tax reform since independence of India, so it must be better handled with utmost care and analyzed well before implementing it. And, the government both central and state has to conduct awareness programs and various literacy programs about GST to its various stakeholders.

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