

A Detailed Analysis of GST (Goods and Services Tax)

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ABSTRACT:

GST(Goods and Service Tax) is all set to be a game changer for the Indian economy. The Goods and Services Tax (GST), implemented on July 1, 2017, is regarded as a major taxation reform till date implemented in India since independence in 1947. GST is intended to include all these taxes into one tax with seamless ITC and charged on both goods and services. Thus excise duty, special additional duty, service tax, VAT to name a few will get repealed and will be added into GST. Consumption and productions of goods and services is undoubtedly increasing and because of multiplicity of taxes in current tax regime administration complexities and compliance cost is also accelerating. The GST based taxation system brings more transparency in taxation system and increases GDP rate from 1% to 2% and reduces tax theft and corruption in country. This paper highlighted the GST concept along with significant working and also presented in-depth coverage regarding advantages to various sectors of the Indian economy after levying GST and outlined some challenges of GST.

KEY WORDS:

Budget, tax, indirect tax, goods and services tax (GST), taxation reforms and Indian economy.

INTRODUCTION:

The historic GST or goods and services tax has become a reality. The new tax system was launched at a function in Central Hall of Parliament on 1st July ,2017. GST, which embodies the principle of "one nation, one tax, one market" is aimed at unifying the country's \$2 trillion economy and 1.3 billion people into a common market. Under GST, goods and services fall under five tax categories: 0 per cent, 5 per cent, 12 per cent, 18 per cent and 28 per cent. For corporates, the elimination of multiple taxes will improve the ease of doing business. And for consumers, the biggest advantage would be in terms of a reduction in the overall tax burden on goods. The Lok Sabha has finally Passed the Goods and Services Tax Bill and it is expected to have a significant impact on every industry and every consumer. Apart from filling the loopholes of the current system, it is also aimed at boosting the Indian economy. This will be done by simplifying and unifying the indirect taxes for all states throughout India.

GST will have 3 parts:

- 1)CGST
- 2)SGST
- 3) IGST.

The central taxes like excise duty will be subsumed into CGST and state taxes like VAT into SGST. IGST would be applied instead of SGST for interstate transactions. Input credit of all these taxes will be available against all the respective outputs. For successful implementation of GST, it is necessary that the Government at both centre and state levels, agree to merge all their taxes into CGST/SGST. Further, the base for taxation for both has to be the same. The exemptions, abatements etc. under GST need to be common for both centre and all states to avoid litigation. Further exemptions/exclusions should be minimum to avoid break of credit chain. The law needs to provide for single point compliances, absence of multi state audits.

OBJECTIVE OF STUDY:

The study has following objectives:

- 1)To cognise the concept and features of GST.
- 2)To study impact of GST on Indian Economy.
- 3) To study the working of GST for different sectors.

LITERATURE REVIEW:

Dr. R. VasanthaGopal studied, "GST in India: A Big Leap in the Indirect Taxation System" and concluded that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy. Success of GST will lead to its acceptance by more than 130 countries in world and a new preferred form of indirect tax system in Asia also.

Nitin Kumar studied, "Goods and Service Tax- A Way forward" and concluded that implementation of GST in India help in removing economic distortion by current indirect tax.

FEATURES OF PROPOSED GST RANGE OF GST:

- 1) It is applied to all taxable goods and services except the exempted goods and services and on transactions below the threshold limit.
- 2) Exempted goods and services include alcohol for human consumption, electricity, custom duty, real estate. [Proposed article 366(12A)]
- 3) Petroleum products [crude oil, HSD (high speed diesel), motor spirit (petrol), natural gas, ATF (aviation turbine fuel)] are initially exempted from GST till the GST Council announces date of their inclusion.
- 4) Tobacco products are included in GST along with central excise tax.

IMPOSITION AND COLLECTION OF GST:

- 1) The power of making law on taxation of goods and services lies with both union and state legislative assemblies. A law made by union on GST will not overrule a state GST law (proposed article 246A)
- 2) GST has two components CGST and SGST as discussed above. CGST will be collected by central government whereas states governments will collect SGST.
- 3) IGST is levied on supplies in the course of interstate trade including imports which is collected by central government exclusively and distributed to imported states as GST is destination based.

Impact of GST on the Indian Economy : Advantages and Challenges of GST Implementation

- (1) **Impact of GST on the Indian Economy** : GST will impact the overall taxation system of the Indian economy. It will improve the country's GDP ratio and also control inflation to a certain extent. However, the reform will mainly be advantageous to the manufacturing industry, but will make some things challenging for the service sector industry.

GST is expected to raise the GDP growth from 1% to 2%, but these figures can only be analysed after successful implementation. The GST rate is implemented in various slabs like 5%, 12%, 18%, and 28%, which will automatically provide great tax increments to the government and the manufacturing sector will face immense growth with reduction in tax rate. Various unorganised sectors which enjoy the cost advantage equal to tax rate which will be brought under GST. This will make various sectors like Hardware, Paint, Electronics etc. under the tax slab. GST requires everything to be planned meticulously for organised rate of taxation. There are still lots of sectors which are to be discussed under GST and this requires proper planning. For the common man and different companies, the collection of Central and State taxes will be done at point of time when sales originate, both components will be charged on manufacturing costs and price of the product will downgrade and consumption will thereby increase.

- 2) **Impact of GST on Various Sectors** : Goods and Services Tax will unite the Indian economy into one common market under a single umbrella of taxation rates, leading to easiness of starting and doing businesses, leading to increase in savings and cost reduction among various sectors. Some industries will be empowered by GST because of reduction in tax rates, while some will lose because of higher rate of GST interests. In this section, we discuss various sectors and elaborate the impact of GST on them :

i) **IT Companies**: GST will allow more implementation of digital systems and services. GST will increase the rate of tax from 14 -15% to 18%, which will increase the cost of electronic products like mobile phones, laptops, etc.

ii) **FMCG Industry** : GST will have a significant impact on the FMCG sector. Some food items are exempted under GST like grains and cereals, milk, meat, fish, fruits and vegetables, candy etc. Before GST, FMCG companies paid 24-25% tax including Excise Duty etc. With GST, the rate of return would be 17-19% leading to strong impact in production and consumption.

iii) **Online Shopping** : With the introduction of GST, various e-commerce companies will face much burden of work in rate of filling taxes and cost will be increased.

iv) **Telecom Sector** : With the current VAT charges of 15% being replaced by 18% GST rate, the price of mobile calling, SMS, and broadband services would be impacted. This will have a negative impact for big telecom giants like VI, Airtel.

v) **Automobiles** : GST will provide reduction on on-road price of vehicles to max by 8% as per the latest report. Lower prices mean various automobile companies can boost up volumes and sales and have tremendous opportunities for expansion in India.

vi) **Small Scale Enterprises** : There are three categories:

(a) below threshold, need not register for GST

(b) between threshold and composition turnovers will have the option to pay a turnover based tax or opt to join the GST regime

(c) above threshold level, will be within the GST framework. Manufacturers and traders will pay less tax after GST Implementation.

vii) **Entertainment** : With GST, taxes can do down by 2 - 4%, but the rate of tax for cinema lovers will be increased. GST will soon comprehend with demands and bring best for boosting up the film industry's business.

3) Challenges of GST Implementation :

The following are some of the major challenges for GST implementation in India

- (i) **Nature of Taxes** : In India, there are various taxes like Central Excise, VAT, CESS, and other state level taxes which will all be removed and come under one tax, that is, GST, but still lots of states and union territories have other taxes out from GST which has to be worked upon.
- (ii) **Types of GST** : As GST would be of two types : Central GST and State GST and further division is required on the basis of utmost necessity and property based like need, location, geography, and resources which has to be worked upon.
- (iii) **Rates of Tax** : Still the tax rate is not fully finalised and lots more has to be worked upon considering the standard of living of people, etc.
- (iv) **Tax Management and Technology: Infrastructure** : It is utmost necessary that proper management of tax and infrastructure is required to implement proper policies and plans.

Working of Goods and Services Tax (GST) :

In order to understand how GST works, the detailed description is given below in lieu of manufacturer, distributor, and retailer along with the impact of cost of goods on final consumer.

- i) **Manufacturer** : In the previous taxation system, the manufacturer had to pass through two stages of taxation before transferring the benefit of products to the distributor. At the first instance, he had to charge excise duty @ 10% and then VAT @ 5% , which means a total of 15% of indirect tax.

If cost of product was ₹100, then Excise duty was charged @ 10% on cost & VAT @ 5% on cost. The total cost of production became ₹ 115.

Cost of Production = ₹ 100

+ Excise Duty@ 10% = ₹ 10

+ VAT @ 5%. = ₹ 5

Total Cost = ₹ 115

However, in GST, he has to deal with only one department and also, tax has been reduced by 5%, that is, he has to pay tax @ 10%. If cost of production is ₹ 100, GST @ 10% will be charged and the total cost of production will be ₹110.

Cost of Production = ₹ 100

GST@ 10 % = ₹ 10

Total Cost = ₹ 110

It will give a benefit of ₹5 to the producer and this benefit will be passed to the distributor and ultimately to the consumer.

- ii) **Distributor** : In the previous tax system, a distributor received goods at a cost of ₹ 115 from the manufacturer, he added 20% for his profit, VAT @ 5 %, and Service Tax @15% .The total cost that came out was ₹ 167 as illustrated below :

Cost of Good Received= ₹115

+ Profit = ₹ 23

+ VAT @ 5% = ₹ 7

+service Tax@ 15% = ₹ 22

Total Price = ₹ 167

In GST, a distributor will add only 20% profit margin & GST will be charged at 10% and the total price will come out to about ₹ 145 as illustrated below :

Cost of Goods Received = ₹110

Profit Margin @ 20% = ₹ 22

GST @ 10% = ₹ 13

Total Price = ₹ 145

Thus, benefit of ₹ 22 (₹ 167 - ₹ 145) to the retailer in the new system. This benefit will be ultimately passed to the consumer.

- (iii) **Retailer** : From the above explanation, it is clear that benefit of ₹ 22 is already received under the GST system. Now, if we study the retailer under the previous taxation system & GST, it will be clear about the total benefit received under the new tax regime. In the previous taxation system, the retailer received goods at a price of ₹ 167. Say, he will add 20% profit margin. VAT will be charged @ 10% and Service Tax @ 15%, then the total price to be charged from the consumer will come about ₹ 242.

Cost of Goods Received = ₹167

Profit Margin @ 20% = ₹ 33

VAT @ 5% = ₹ 10

Service Tax@ 15% = ₹ 32

Total Price = ₹ 242

Under GST, the retailer is receiving goods at ₹ 145, after adding profit margin of 20% and GST @ 10%, the price charged will be only ₹ 191 as compared to ₹242 being charged under the previous taxation system.

Cost of Goods Received= ₹ 145

Profit Margin @ 20% = ₹ 29

GST @ 10% = ₹ 32

Total Price = ₹ 191

It will give a benefit of ₹ 51 (₹ 242 - ₹ 191) to the consumer. Hence from the above examples, it is clear that not only the manufacturers, distributors, and retailers, but also the consumers will be benefitted under the GST Regime.

Conclusion:

Primarily, the concept of GST was introduced and proposed in India a few years back, but implementation has been done by the current BJP government under the able leadership of Prime Minister Shri Narendra Modi on July 1, 2017. All sectors in India - manufacturing, service, telecom, automobile and small SMEs will bear the impact of GST. One of the biggest taxation reform- GST will bind the entire nation under a single taxation system rate. As forecasted by experts, GST will improvise tax collections and boost up India's economic development and break all tax barriers between Central and State Governments. No doubt, GST will give India a clear and transparent taxation system, but it is also surrounded by various challenges as discussed in this paper. There is need for more analytical based research for successful implementation. Thus, a simplify, user -friendly and transparent tax system is required which can be fulfilled by implementation of GST. It can also be used as an effective tool for fiscal policy management if implemented successfully due to nation-wide same tax rate. Its execution will also result in lower cost of doing business that will make the domestic products more competitive in local and international market. No doubt that GST will give India a world class tax system by grabbing different treatment to manufacturing and service sector. But all this will be subject to its rational design and timely implementation.

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