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GST and Indian Economy-A Study

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Abstract:

The Goods and Services Tax (GST) is a vast concept that simplifies the giant tax structure by supporting and enhancing the economic growth of a country. GST is a comprehensive tax levy on manufacturing, sale and consumption of goods and services at a national level. The Goods and Services Tax Bill or GST Bill, also referred to as The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014, initiates a Value added Tax to be implemented on a national level in India. GST will be an indirect tax at all the stages of production to bring about uniformity in the system. On bringing GST into practice, there would be amalgamation of Central and State taxes into a single tax payment. It would also enhance the position of India in both, domestic as well as international market. At the consumer level, GST would reduce the overall tax burden, which is currently estimated at 25-30%. Under this system, the consumer pays the final tax but an efficient input tax credit system ensures that there is no cascading of taxes- tax on tax paid on inputs that go into manufacture of goods. In order to avoid the payment of multiple taxes such as excise duty and service tax at Central level and VAT at the State level, GST would unify these taxes and create a uniform market throughout the country. Integration of various taxes into a GST system will bring about an effective cross utilization of credits. The current system taxes production, whereas the GST will aim to tax consumption To understand GST, it is important that we understand the current indirect taxation system. Direct taxes such as income tax are borne by the person liable to pay the tax; this means that the tax burden cannot be shifted to anyone else. The liability of an indirect taxes on the other hand, can be shifted to another person. So, the person liable to pay the tax can collect the tax from someone else and then pay it to the government; thus shifting the tax burden.

Keywords: Goods and Services, Central level, Integration, amalgamation, international market.

Introduction:

The word tax is derived from the Latin word “taxare” meaning “to estimate”. “A tax is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority" and is any contribution imposed by government whether under the name of toll, tribute, impost, duty, custom, excise, subsidy, aid, supply, or other name.” The first known system of taxation was in Ancient Egypt around 3000 BC - 2800 BC in the first dynasty of the Old Kingdom. Records from that time show that the pharaoh would conduct a biennial tour of the kingdom, collecting tax revenues from the people. Other records are granary receipts on limestone flakes and papyrus. Early taxation is also described in the Bible. In Genesis, it states "But when the crop comes in, gives a fifth of it to Pharaoh. The other four-fifths you may keep as seed for the fields and as food for yourselves and your households and your children." Joseph was telling the people of Egypt how to divide their crop, providing a portion to the Pharaoh. A share1 of the crop was the tax. In India, the tradition of taxation has been in force from ancient times. It finds its references in many ancient books like 'Manu Smriti' and 'Arthasastra'. The Islamic rulers imposed jizya. It was later on abolished by Akbar. Reasons for this are cited to be financial stringency and personal inclination on the part of the emperor, and a petition by the ulema.

The period of British rule in India witnessed some remarkable change in the whole taxation system of India. Although, it was highly in favor of the British government and its exchequer but it incorporated modern and scientific method of taxation tools and systems. In 1922, the country witnessed a paradigm shift in the overall Indian taxation system. Setting up of administrative system and taxation system was first done by the Britishers. Broadly, there are two types of Taxes viz. Direct and Indirect taxes.

Taxes in India are levied by the Central Government and the State Governments. Some minor taxes are also levied by the local authorities such as Municipality or Local Council. The authority to levy tax is derived from the Constitution of India which allocates the power to levy various taxes between Centre and State. Taxes in India are levied by the Central Government and the State Governments. Some minor taxes are also levied by the local authorities such as Municipality or Local Council. The authority to levy tax is derived from the Constitution of India which allocates the power to levy various taxes between Centre and State.

Some of the important Central taxes, e.g. CENVAT, Customs Duty, Service Tax etc. Some of the important State taxes are, e.g. State Sales Tax, CST, Works Contract Act, VAT, Entry tax, other local levies etc. Originally, the taxes on the sale of goods were levied in terms of the respective Sales Tax/Trade Tax enactments and the 'entry of goods' was subject to tax under the respective State Entry Tax enactments and this scenario prevailed till the reform process set in whereupon these levies were replaced by VAT. The levy of tax on provisioning of services was introduced for the first time in 1994 and has been subjected to persistent vigorous legal challenges. Thus it is evident that the transition to VAT did not remedy the issue of non-creditable duties and the consequent cascading effect requiring further reform in the area and consequently GST arose. Despite of existence of multiple taxes like Excise, Customs, Education Cess, Surcharge, VAT, Service Tax etc. GDP of India is much lower than GDP of countries like USA, China and Japan. India has miles to go to achieve this level.

Impact of GST on Indian Economy:

The Goods and Service Tax (GST) bill is expected to have wide ranging ramifications for the complicated taxation system in the country. It is likely to improve the country's tax to GDP ratio and also inhibit inflation. However, the reform is likely to benefit the manufacturing sector but may make things difficult for the services sector. Though there are expectations that the GDP growth is likely to go up by 1 to 2 %, the results can only be analysed after the GST implementation. The response is mixed from countries around the world. While the New Zealand economy had a higher GDP growth, it was lower in case of Canada, Australia and Thailand after the GST was implemented. The one per cent tax that has been proposed as a sop to appease the States for compensating their loss of revenue from the inter-state CST is likely to play a spoil sport. It is probable that it may affect the GDP adversely. The Congress is already opposing the 1 per cent tax. The GS Tax rate is expected to be around 17-18% and can be assumed as a tax neutral rate. This tax rate is not likely to give any incremental tax revenue to the government. The rate will prove beneficial for the manufacturing sector where the tax rate is around 24% at present. The major manufacturing sectors that will benefit the most are FMCG, Auto and Cement. This is because they are currently reeling under 24 to 38 per cent tax. The sector which is going to be adversely affected is the services sector. Already there has been a hike from 12 to 14% from the 1st of June this year. Another 4 per cent increase will break their backs. The uniformity in the taxation rate is fine but it should not result in disparity for the goods and services sectors. Nobody has thought of the implications it will have in the services sector if the government moots a higher GS Tax rate like 20% or 24%. The higher GST rate will definitely boost the tax to GDP ratio, while giving financial muscle to the government for increasing the capital expenditure. This is likely to spur growth in the economy. There is definitely a silver lining to the whole exercise. The unorganized sector which enjoys the cost advantage equal to the taxation rate can be brought under the GST bill. This will bring a lot of unorganized players in the fields like electrical, paints, hardware etc. under the tax net. It is easier said than done. It will take a lot of meticulous planning in the implementation of the GST reform for capturing the unorganized sector under its ambit. For one it will widen the tax reach and secondly it will benefit the organized players who lose out revenue to the unorganized sector at present. There are still a lot of unchartered territories which need to be looked into through parliamentary discussions in the sessions. This will bring sanctity to the taxation system without hurting any of the sectors adversely. To The Individuals and Companies - With the collection of both the central and state taxes proposed to be made at the point of sale , both components will be charged on the manufacturing costs and the individual will benefit from lowered prices in the process which will subsequently lead to increase in consumption thereby profiting companies

GST Overview;

The GST tax falls in this category. The current indirect tax structure, which comprises of so many different taxes, can be classified as: Central taxes: levied by the Central govt (includes Central Sales Tax, Excise Duty etc.) State taxes: levied by the various state govts (VAT, Service Tax, Octroi)

1.GST VS CURRENT INDIRECT TAX STRUCTURE The current indirect tax has one major problem - the cascading effect. When you buy something, you pay a tax on tax itself. Let's understand this with a hypothetical numerical.

GST is a comprehensive, multi-stage, destination-based consumption tax on levied at every stage of value addition in the lifecycle of a product. To understand this better, let us look at each of the terms in detail: Comprehensive: GST will subsume all of the current indirect taxes. Plus, by bringing in a unified taxation system, across the country, it will ensure that there is no more arbitrariness in tax rates. Multi-stage: GST is levied each stage in the supply chain, where a transaction takes place. Value-addition:

This is the process of addition to the value of a product/ service at each stage of its production, exclusive of initial costs. Under GST, the tax is levied only on the value added. This is done through Destination-based consumption: Unlike the current indirect taxes, GST will be collected at the point of consumption. The taxing authority with appropriate jurisdiction in the place where the goods/ services are finally consumed will collect the tax For example: Let's say that cotton garments are being shipped from Karnataka to Maharashtra. Karnataka is the producer state and Maharashtra is the consumer state.

Tax revenue under GST Let's understand how this will impact imports and exports. Exports are not taxable, because the place of consumption is outside India. Imports are taxable, because the place of consumption is in India. The tax on imported goods will therefore be just the same as domestically-produced goods. Imports would be costlier because of additional custom duties. Thus, the export industry will become more competitive. Also, domestic goods will be protected by making imports at par with domestic goods.

A taxable event such as manufacture, sale and provision of a good has to occur for tax to be collected. Under the current system, each taxable event is subject to multiple taxes such as excise, VAT/ CST and service tax. But under GST, products will no longer have multiple taxes, and will not incur excise duty as well as VAT at different points of time.

There will no longer be any difference between goods and services in terms of taxation. An example of this is when we go out to eat at a restaurant. Earlier, the customer paid both VAT and service tax on a single bill, but after GST is implemented there will be a single tax charge on the bill amount. This leads us to an important concept in GST - Time, Place, and Value of Supply of goods and services. Let us look at these provisions in detail in the next chapter.

Positive

In spite of composition levy, many small organizations are planning to voluntarily register themselves under GST. This is because composition levy has certain drawbacks. Voluntary registration will mitigate such drawbacks and give the following advantages: Provide input tax credit to customers: Since your business is legally recognized, you can issue taxable invoices. Buyers, in turn, can take input credit on their purchases.

This will help expand the customer base and make it more competitive. Take input credit: Voluntarily registered persons can take input credit on their own purchases and input services like legal fees, consultation fees etc. This will eventually increase their business margin and profitability.

Make inter-state sales without many restrictions: Businesses registered under GST can make inter-state sales without many restrictions. Thus, it widens the potential market for SMEs. These SMEs can also opt for selling their goods online through the e-commerce platform. Be compliant and have good rating: Registration for GST will ensure that the business is compliant and scalable without any barrier of future registration. Also under GST, compliance rating will be maintained and if this is done correctly, it can attract additional business.

Negative

We discussed the benefit of getting registered under the Goods and Services Tax, however, there is a flip-side to it. Businesses registering voluntarily under GST may have to face extra compliance and working capital liquidity. Some of these consequences are: Multiple return filing: Businesses registered under Goods and Services Taxes are required to file three returns every month.

These returns are GSTR-1, GSTR-2, and GSTR-3 and include the details of all purchases, sales, and final tax liability after setting off Input Tax Credit. Failure to file these returns will not only deny the input credit to our buyer but also attract penalty. Further Compliance rating will get affected negatively. Payment of tax liability: Once registered under GST, the supplier will have the additional responsibility of collecting and depositing taxes with the authorities. This will not only inflate the cost for the buyer but also leverage similar sellers who are not registered under GST.

Registration in every state of business activity: Further under the new law, obtain registration in each state of business activity. Return needs to be filed in the jurisdiction of the state where goods are supplied for consumption. In other words, if a small dealer is supplying in five states, he needs to register in all five states to fully take benefit of input tax credit. This can increase the cost of compliance to business.

'Place of Supply' under GST is an important factor as it defines whether the transaction will be counted as intra-state (i.e. within the same state) or inter-state (i.e. between two states) and accordingly the changeability of tax, i.e. levy of SGST, CGST & IGST will be determined. While determining the levy of taxes based on place of supply, two things are considered: Location of Supplier: It is the registered place of business of the supplier Place Of Supply: It is the registered place of business of the recipient.

Let us first understand why an accurate determination of place of supply is important for businesses. The reasons for this are listed below: Wrong classification of supply between interstate or intra-state and vice-versa may lead to hardship to the taxpayer as per section 19 of IGST Act and section 70 of CGST Act Where wrong taxes have been paid on the basis of the wrong classification.

Refund will have to be claimed by the taxpayer The taxpayer will have to pay the correct tax along with interest for delay on the basis of revised/correct classification Also, correct determination of place of supply will help us in knowing the incidence of tax. As if place of supply is determined as a place outside India, then tax will not have to be paid on that transaction.

Businesses operate in a dynamic model and we have witnessed innovative schemes wherein a buyer is required to pay the partial amount in cash and the rest in kind, such as when exchanging used goods for a new product. As a general principal, value of supply will be the amount of consideration received in money from the buyer. 22 www.cleartax.com/gst for Reckitt Benckinser GST Guidebook-Clear Tax.

Here's an example to help you understand this better: Where a new TV is supplied for INR 20,000 along with the exchange of an old TV and if the price of the new TV without exchange is INR 24,000 the open market value of the new TV is INR 24,000. Where a laptop is supplied for INR 40,000 along with a barter of printer that is manufactured by the recipient and the value of the printer known at the time of supply is INR 4,000 but the open market value of the laptop is not known, the value of the supply of laptop is INR 44,000. This discount was not known at the time of supply.

So it cannot be claimed as a deduction from the transaction value for GST calculation. So the invoice will be same as above. Value of Supply of Goods or Services Between Related Person Under GST Many businesses have multiple branches across states. Under the new GST law, they are required to register separately in each state they are operable in.

Also, there can be multiple entities within a conglomerate which would also require multiple registrations under GST. For instance, TATA Steel and TATA Motors are both considered separate legal entities under TATA Sons, even though the former supplies inputs to the latter. Such business entities which may have separate legal existence while sharing a common control, fall under the definition of 'related person' under GST law.

According to the valuation rule, the expenditure or costs incurred by the supplier as a pure agent (contracted to the recipient of the supply of services) shall be excluded from the value of supply, if all of the following conditions are satisfied: the pure agent makes a payment to a third party, on behalf of the recipient, for procuring a supply when the contract for the supply of services procured is between the third party and the recipient.

For example, legal charges paid to Registrar of Companies (RoC) in above case. the recipient of the supply is the only user of the services procured by the pure agent from the third party; the recipient of the supply is liable to make payment to the third party; the recipient of the supply authorizes the pure agent to make payment on his behalf; The recipient of the supply knows that the services (for which payment has been made by the pure agent) are provided by the third party; the payment made by the pure agent on behalf of the recipient of supply has been separately indicated in the invoice issued by the agent; the pure agent recovers from the recipient only such amount as has been paid by him to the third party; and the services procured by the pure agent from the third party are in addition to the supply/service he provides on his own.

Life insurance business The value of supply of services in relation to life insurance business shall be: (a) the gross premium charged from a policyholder reduced by the amount allocated for investment, or savings on behalf of the policyholder, if such amount is intimated to the policyholder at the time of supply of service; Example: If INR 50,000 is gross premium, of which INR 45,000 is invested in funds, then the value of supply shall be INR 5,000. (b) in the case of single premium annuity policies other than (a), ten percent of single premium charged from the policyholder; or (c) in all other cases, twenty-five percent of the premium charged from the policyholder in the first year and twelve and a half percent of the premium charged from policyholder in subsequent years This rule will not be applicable if the entire premium paid by the policyholder is only towards the risk cover in life insurance

Challenges for GST:

There are few aspects with disagree with the growth story and might be seen as hurdle. The aviation industry was witnessing the much awaited growth with increasing domestic traffic since from establishment; the GST implementation might slower the rate at which the industry is expecting growth as flying will become expensive. Service tax on various fares currently ranges between 6% - 9% (depending on traveling class). With GST, the rate will surpass 15%, if not 18%, effectively doubles of the tax rate. India, on one hand, has the lowest insurance percentage in the world and on the other GST will further make the insurance products popular. Life, health & motor insurances will begin to cost more from July 2017 as taxes will go up by up to 300-320 basis points. If the rate of GST will be over 15 % the all the services will be costlier. It is really required that all the states implement the GST together and that too at the same rates, It will help to stay service charge constant. Different tax analysts say that real estate market will be 12 % down by GST and may affect demanded of new houses because of increased cost up to approx. 10%. As per the Constitutional Amendment Bill placed in the Lok Sabha, it was proposed that all state government would be allowed to an additional 1% nonvatable tax on inter-state supply of goods for the initial two years, in order to compensate the states for loss of revenue while moving to GST. This was supported by a few states, while a few others criticized the same. The success of GST mainly depends upon major factor the Revenue Neutral Rate, is the rate at which there will be no revenue loss to the government after implementation of GST. These are some of the major challenges for the central and state government with the industry, ahead of the actual implementation of GST.

Conclusion;

Efficiency & equity in the economy can be brought by proper taxation system in the country. While comparing challenges with its positive and negative, it is clearly visible that its positive impact are more compared to challenges. A good tax system should focus on income distribution as well as generate revenues to government. To Implementing GST is to maintain simplicity and transparency in taxation system. GST will give Indian economy a strong and smart tax system for economic development. But for gaining those benefits country will need to build strong mechanism. The objective GST is to replace VAT; GST will be solving all the complexities present in the current indirect tax system. It will be giving relief to various parties like consumers, producers and Government. The GST System is basically structured to simplify current Indirect Tax system in India. A well designed GST is an attractive method to get rid of deformation of the existing process of multiple taxation also government has promised that GST will reduce the compliance burden at present there will be no distinction between imported and Indian goods & they would be taxed at the same rate. Many Indirect Taxes like Sales Tax, VAT etc., will be finished because there will be one tax system i.e. GST, that will reduce compliance present burden. GST will face many challenges after its implementation and will result to give many benefits. In overall through this study we conclude that GST plays a dynamic role in the growth and development of our country. All challenges in way of GST implementation as discussed above in paper.

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