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A Study on the Implication of Goods and Service Tax on Various Sectors of Indian Economy

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Abstract: Goods and service tax is one of the most crucial reforms in Indian Economy. It aims to make India a common market with common tax rates and procedures and remove the economic barriers, thus the paying the way for an integrated economy at the national level. The banking sector needs to ensure that they are ready for this new tax regime. This paper discusses the impact of the implication of goods and service tax on various sectors of the Indian Economy.

Keywords: Goods and Service Tax, Indian Economy, Tax.

INTRODUCTION

GST means Goods and Service tax. It impacts the tax structure, tax incidence, tax computation, tax payment, compliance. The idea of moving towards GST was first mooted by the then Union Finance Minister in his Budget speech for 2006-07. Initially, it was proposed that GST would be introduced from 1st April 2010.The Empowered Committee of State Finance Ministers (EC) which had formulated the design of State VAT was requested to come up with a roadmap and structure for GST. Joint Working Groups of officials having representatives of the States as well as the Centre were set up to examine various aspects of GST and draw up reports specifically on exemptions and thresholds, taxation of services and taxation of inter-State supplies. Based on discussions within and between it and the Central Government, the EC released its First Discussion Paper (FDP) on the GST in November 2009. This spelt out features of the proposed GST and has formed the basis for discussion between the Centre and the States so far. The introduction of the Goods and Services Tax (GST) is a very significant step in the field of indirect tax reforms in India. By amalgamating a large number of Central and State taxes into a single tax, GST will mitigate ill effects of cascading or double taxation in a major way and pave the way for a common national market. From the consumers' point of view, the biggest advantage would be in terms of reduction in the overall tax burden on goods, which is currently estimated to be around 25%-30%. It would also imply that the actual burden of indirect taxes on goods and services would be much more transparent to the consumer. Introduction of GST would also make Indian products competitive in the domestic and international markets owing to the full neutralization of input taxes across the value chain of production and distribution. Studies show that this would have a boosting impact on economic growth. Last but not the least, this tax, because of its transparent and self-policing character, would be easier to administer. It would also encourage a shift from the informal to formal economy.

OBJECTIVES OF THE STUDY

1. To analyze the Nature and complexity of Goods and service tax
2. To Identify the different rate of tax on different items
3. To Evaluate the Implication of Goods and service tax on various sectors of Indian Economy

THE 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 threshold limit should not be so low to bother small scale traders and service providers. It also increases the allocation of government resources for such a petty amount of revenue which may be much more costly than the amount of revenue collected. The first impact of setting higher tax threshold would naturally lead to less revenue to the government as the margin of tax base shrinks; second it may have on such small and not so developed states which have set low threshold limit under current VAT regime.

IMPORTANT FEATURES OF THE GST IN INDIA

Following are the Few Important features of the proposed GST model in India:

1) The GST shall have two components: one levied by the Centre (referred to as Central GST), and the other levied by the States (referred to as State GST). Rates for Central GST and State GST would be approved appropriately, reflecting revenue considerations and acceptability.
2) The Central GST and the State GST would be applicable to all transactions of goods and services made for a consideration except the exempted goods and services.
3) The Central GST and State GST are to be paid to the accounts of the Centre and the States individually.
4) Since the Central GST and State GST are to be treated individually, taxes paid against the Central GST shall be allowed to be taken as input tax credit (ITC) for the Central GST and could be utilized only against the payment of Central GST.
5) Cross utilization of ITC between the Central GST and the State GST would not be permitted except in the case of inter-State supply of goods and services.
6) Ideally, the problem related to credit accumulation on account of refund of GST should be avoided by both the Centre and the States except in the cases such as exports, purchase of capital goods, input tax at higher rate than output tax etc.
7) To the extent feasible, uniform procedure for collection of both Central GST and State GST would be prescribed\ in the respective legislation for Central GST and State GST.
8) The States are also of the view that Composition/Compounding Scheme for the purpose of GST should have an upper ceiling on gross annual turnover and a floor tax rate with respect to gross annual turnover.
9) The taxpayer would need to submit periodical returns, in common format as far as possible, to both the Central GST authority and to the concerned State GST authorities.
10) Each taxpayer would be allotted a PAN-linked taxpayer identification number with a total of 14/15 digits. This would bring the GST PAN-linked system in line with the prevailing PAN-based system for Income tax, facilitating data exchange and taxpayer compliance.

OPPORTUNITIES

1. It removes present multiple tax rates.
2. GST will lead to higher amount of revenue to both the states and the union.
3. Reduces transaction costs and unnecessary wastages
4. Eliminates the multiplicity of taxation
5. One Point Single Tax Another feature that GST must hold is it should be 'one point
6. single taxation'
7. It improves the competitiveness of original goods and services which leads to beneficial impact to the GDP growth.
8. Reduces average tax burdens Under GST mechanism,
9. It Reduces the corruption

Impact of Goods and Service Tax

The Impact of GST on various activities in Indian economy and how it make some confusions they are as follows,

1. Goods are supplied prior to GST but the invoice is not raised Services are provided / completed prior to GST but the invoice is not Raised
2. Services are provided partially and the invoice for the part of the services is not raised

Where advances has been received but goods are not dispatched from the factory till implementation of GST and Excise duty is yet to be discharged

3. Advances for services received and taxes thereon also has been paid prior to GST but the invoice and provision of services takes place under GST regime
4. Advance for service received and the corresponding invoices also raised prior to GST but services is yet to be provided
5. The invoices for goods/ services has been raised prior to GST but activities are yet to be completed
6. In case of imported goods, Bill of Entry not filed / assessed till the time of implementation of GST
7. Sales made prior to GST but sales return under GST regime Goods and services taxable at different rate(s) under pre and post GST regime
8. Pending refund claims, litigations, assessments prior to GST

The following are may be cheaper

1. Electronic Goods:

Electronic goods like AC, microwave ovens, refrigerators, washing machines etc will be cheaper because presently there is 12.5% excise and 14.5% VAT is levied on them but after GST only single tax will be levied which will bring the prices of these electronic goods.

2. Restaurant Bill:

Eating out will also be cheaper because presently both VAT and service tax are levied on it. But when GST will be levied, it will cut the bill. Multiplex and Media: Currently 22 to 24 percent taxes are charged on multiplex and media as service tax and entertainment tax both are levied. But after implementation of GST this tax amount will be reduced to 18 to 20 percent.

3. Medicines:

On medicines different taxes are levied. After GST the rate of tax may be reduced by 6 percent. Small SUV Cars: Small cars will also be cheaper. Cement: After implementation of GST 18 to 20 percent less tax will be charged on cement, this will reduce the prices of cement. Accepts these luxury cars, FMCG products, consumer durable, ready-made garments etc will be cheaper when GST will be implementation. On the other hand following are some items which will be costly after levy of GST.

The following are may become Costly

1. Packed Food: Packed food will be costly by 12 percent. It include tea, coffee etc. on which presently no duty is charged, but after levy of GST, if Govt charge at base rate, even then prices of packed food will increase.
2. Diamonds, Jewellery, Ready-made Garments: After GST implementation diamonds, jewellery and readymade garments will be costly because currently three percent tax is charged on them and after implementation GST the tax may be 12%
3. Services: There will be increase in prices of mobile bill, Credit Card bill etc. Presently 15% tax is charged on these services and with levy of GST it will be 18%, which will make these services costly.
4. Textile, edible oil, Low Value Footwear: Tax rate of excise duty is nil and VAT in most states is 5%. Thus the overall tax cost for these goods is about 8 to 9 percent. If these goods are kept at standard GST rate of 18% then there would be significant increase in cost of these items for the end customers. If these are kept at lower GST of 12% there would be an increase in cost for consumers. While the Govt. is sure of the benefits of GST will bring to common man, it is still early days to predict that which items will be cheaper are expensive. Experts say inflation can go up for a year after implementation of GST that's has been the international experience. We have on economy where services tend to dominate and GST will on services will be higher that current situation. On the other hand some articles are outside the taxation right now which will also get added. This is also the reason of higher prices.
5. Impact of GST on organized Sector: Another major regime is that it will shift trade from unorganized to organized sector and improve efficiency in the system. India has significant presence of unorganized sector. According to some estimates in 2005, out of 485 million persons employed in India, 86% to 395 million worked in unorganized sector, generating 50.6% of GDP. Implementation of GST is expected to narrow the large indirect tax difference between organized and unorganized segments. This would be achieved by ensuring better compliance and enforcement by reducing the thresh-hold limit for

exemption from indirect taxes, tracking the flow of GST in entire chain.

6. Impact on Employment: Analysis say that the fear of job losses in GST regime persist as it hits the unorganized players, who have to now come under tax compliance while benefitting the mid large sized companies which are already under the organized sector.

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