

GST Is It Constructive A Swot Analysis

Ms.V. Swetha

Assistant Professor MBA, Department of Management Studies

Bharath Institute of law,

Bharath Institute of Higher Education and Research

Selayiur, Chennai, Tamil Nadu 600 073

ABSTRACT

Goods and Services Tax is a broad based and a single inclusive tax charged on goods and services consumed in an economy. GST is levied at every stage of the production-distribution chain with applicable set offs in respect of the tax remitted at previous stages. It is basically a tax on final consumption. In simple terms, GST may be defined as a tax on goods and services, which is livable at each point of sale or provision of service, in which at the time of sale of goods or providing the services the seller or service provider may claim the input credit of tax which he has paid while purchasing the goods or procuring the service. India, being one of the largest democracies in the world, has to follow the convention of welfare state. The federal structure of the country provides a relatively powerful government at the centre accompanied by 28 state governments. All of them require finance to govern the country and the states. After introduction of Value Added Tax (VAT) from 2005, the country is going to experiment with Goods and Services Tax (GST) from April 1, 2013. This paper puts an attempt to explore the impacts, implications and policies of introduction of GST in India.

1. INTRODUCTION

The proposed Goods and Services Tax (GST) is said to replace all indirect taxes levied on goods and services by the Government, both Central and States, once it is implemented. The GST will consolidate all State economies. It will be one of the biggest taxation reforms to take place in India once the Bill gets the official green signal. The basic idea is to create a single, cooperative and undivided Indian market to make the economy stronger and powerful. The GST will make a significant breakthrough paving way for an all-inclusive indirect tax reform in the country.

The GST is basically an indirect tax that brings most of the taxes imposed on most goods and services, on manufacture, sale and consumption of goods and services, under a single domain at the national level. In the present system, taxes are levied separately on goods and services. The GST is a consolidated tax based on a uniform rate of tax fixed for both goods and services and it is payable at the final point of consumption. At each stage of sale or purchase in the supply chain, this tax is collected on value-added goods and services, through a tax credit mechanism. A dual GST system is planned to be implemented in India as proposed by the Empowered Committee under which the

GST will be divided into two parts:

- State Goods and Services Tax (SGST)
- Central Goods and Services Tax (CGST)

•
Both SGST and CGST will be levied on the taxable value of a transaction. All goods and services, leaving aside a few, will be brought into the GST and there will be no difference between goods and services. The GST system will combine Central excise duty, additional excise duty, services tax, State VAT entertainment tax etc. under one banner. The GST rate is expected to be around 14-16 per cent. After the combined GST rate is fixed, the States and the Centre will decide on the SGST and CGST rates. At present, 10 per cent is levied on services and the indirect taxes on most goods are around 20 per cent.

EXCLUSIONS IN GST

Following products are excluded from GST –

- Petroleum Products
- Alcoholic Beverages
- Diesel
- Tobacco

STATEMENT OF THE PROBLEM

The Constitution Amendment Bill for Goods and Services Tax (GST) has been approved by the President of India; post its passage in the Parliament (Rajya Sabha on 3 August 2016 and Lok Sabha on 8 August 2016) and ratification by more than 50% of State Legislatures. The Government of India is committed to replace all the indirect taxes levied on goods and services by Centre and State and implement GST by April 2017. On this occasion it is important to consider the strength, weakness, opportunities and threats of GST on India. By considering these aspects this study assume significant and entitled as, GST: Is it Beneficial? A swot analysis.

2. OBJECTIVES OF THE STUDY

1. To make analysis on the impact of the GST on both State Government and Central Government.
2. To analyse the strength, weakness, opportunities and threats of GST in India.
3. To derive a conclusion after analyzing the various aspects related to GST

3. METHODOLOGY

The investigator had been adopted by analytical method for the present study. For this purpose of researcher were taken by secondary data like business journals, newspaper reviews, channel discussions, focus group discussion with experts were take Analysis and interpretation

Section A: An analysis on the impact of the GST on both State Government and Central Government.

Positive impact on State Government: FEWER burdens on state government, easy taxation process. Have right to fluctuate the rates by make appeal to the appropriate department for GST.

Positive impact on Central Government: Same taxation rate, smoothworking. Easy tax collection, Removal of tax evasion, All states are in same level, Increase in revenue generation.

Negative impact on State: Central government will take the constitutional rights of state government to imposed tax on public by their own suitable rates. Earlier, state govt. could generate taxation revenue from most manufactured and consumed products in their state.

NEGATIVE IMPACT ON CENTRAL GOVERNMENT

There are two negative impacts of disputes with state governments and increase in burden on central government.

SECTION B: GST: IS IT BENEFICIAL? A SWOT ANALYSIS

As the GST bill has been passed now, everyone is interested to know about it. There are questions like what is GST Bill, how will it benefit us etc in our mind. GST will be a game changing reform for the Indian economy by creating a common Indian market and reducing the cascading effect of tax on the cost of goods and services. It will impact the tax structure, tax incidence, tax computation, tax payment, compliance, credit utilization and reporting, leading to a complete overhaul of the current indirect tax system. GST will have a far-reaching impact on almost all the aspects of the business operations in the country, for instance, pricing of products and services, supply chain optimization, IT, accounting, and tax compliance systems.

STRENGTH

GST is a transparent Tax and also reduces numbers of indirect taxes. With GST implemented a business premises can show the tax applied in the sales invoice. Customer will know exactly how much tax they are paying on the product they bought or services they consumed. When GST is introduced the price of a product will become reduced. A fall in price generally increases the product demand. Not only has the price reduced but also the working capital too. GST makes the price of a product unique throughout the country. There won't be any GST charged on the Goods with the exempt category, 1% on bullion and a reduced rate for the essential item. The GST is a welcomed tax pattern as it can reduce the price of the Goods increasing the consumption and finally increases the production.

Multiple taxes that currently exist will no longer remain in the picture. This means that taxes like octroi, CENVAT, central sales tax, state sales tax, entry tax, license fees, turnover tax etc will no longer be present and all that will be brought under the GST. GST will not be a cost to registered retailers therefore there will be no hidden taxes and the cost of doing business will be lower. This in turn will help Export being more competitive. GST can also help to diversification of income sources for Government other than income tax and petroleum tax. Under Goods and Services Tax, the tax burden will be divided equally between Manufacturing and services. This can be done through lower tax rate by increase Tax base and reducing exemptions. In GST System both Central GST and State GST will be charged on manufacturing cost and will be collected on point of sale. This will benefit people as prices will come down which in turn will help companies as consumption will increase.

Biggest benefit will be that multiple taxes like octroi, central sales tax, state sales tax, entry tax, license fees, turnover tax etc will no longer be present and all that will be brought under the

GST. Doing Business now will be easier and more comfortable as various hidden taxation will not be present. It will also help to build a transparent and corruption-free tax administration. Presently, a tax is levied on when a finished product moves out from a factory, which is paid by the manufacturer, and it is again levied at the retail outlet when sold.

WEAKNESS

Critics say that GST would impact negatively on the real estate market. It would add up to 8 percent to the cost of new homes and reduce demand by about 12 percent. Some Economist says that CGST, SGST and IGST are nothing but new names for Central Excise/Service Tax, VAT and CST and hence GST brings nothing new for which we should cheer. Certainly, the big industrial houses are going to get benefited in massive way another disadvantage is that overall economy would grow. The real wealth of our country also would grow. But this growth would be without development. The majority of the people would be at the mercy of big business houses. The rich would become richer & the poor would be poorer. Huge inequalities in income & wealth would be visible

Majority of dealers are not covered with the central excise but are only paying VAT in the state. Now all the Vat dealers will be required to pay "Central Goods and service tax". At present the main Indirect tax system of central Government is central excise. All the goods and commodities are not covered by the central excise and further there is an exemption limit of Rs. 1.50 Cores in the central excise and further traders are not liable to pay central excise. The central excise is payable up to the stage of Manufacturing but now GST is payable up to the stage of sale. GST is being referred as a single taxation system but in reality it is a dual tax in which state and centres both collect separate tax on a single transaction of sale and service

The calculation of RNR (Revenue Neutral Rate) is very difficult and further Govt. wants to enhance its revenue hence rate of Tax will be a problem. As per the News reports the proposed rate for State GST is 12% and Central GST is 14% Plus Govt. wants to impose 1% CST at the initial stage of GST on the interstate sale of Goods and services. So the normal rate of overall tax will be 26%. This rate is very high comparing to the fact that small and medium Industries are at present not covered by the central excise and most of the Goods such as agricultural products are out of the preview of the Central Excise. A few sectors becomes cheap like entertainment, textile, metal, automobile, construction material etc. but sectors other than above will take hike in prices.

OPPORTUNITIES

According to experts, by implementing the GST, India will gain \$15 billion a year. This is because; it will promote more exports, create more employment opportunities and boost growth. It will divide the burden of tax between manufacturing and services. In the GST system, taxes for both Centre and State will be collected at the point of sale. Both will be charged on the manufacturing cost. Individuals will be benefited by this as prices are likely to come down and lower prices mean more consumption, and more consumption means more production, thereby helping in the growth of the companies. A robust and comprehensive IT system is to be the foundation of the GST regime in India. Therefore, all services such as registrations, returns, and payments would-be available to the taxpayer's online, making compliance easy and transparent.

GST will ensure that indirect tax rates and structures are common across the country, thereby increasing certainty and ease of doing business. In other words, GST would make doing business in the country tax-neutral, irrespective of the choice of place of doing business. Reduction in transaction costs of doing business would eventually lead to improved competitiveness for the trade and industry. Simple and easy to administer: Multiple indirect taxes at the Central and State levels are being replaced by GST. Backed with a robust end-to-end IT system, GST would be simpler and easier to administer than all other indirect taxes of the Centre and State levied so far. Better controls on leakage: GST will result in better tax compliance due to a robust IT infrastructure. Due to the seamless transfer of input tax credit from one stage to another in the chain of value addition, there is an in-built mechanism in the design of GST that would incentivize tax compliance by traders. Higher revenue efficiency: GST is expected to decrease the cost of collection of tax revenues of the Government, and will therefore, lead to higher revenue efficiency.

THREATS

GST is being referred as a single taxation system but in reality it is a dual tax in which state and centres both collect separate tax on a single transaction of sale and service. At present the main Indirect tax system of central Government is central excise. All the goods and commodities are not covered by the central excise and further there is an exemption limit of Rs. 1.50 Cores in the central excise and further traders are not liable to pay central excise. The central excise is payable up to the stage of Manufacturing but now GST is payable up to the stage of sale. Majority of dealers are not covered with the central excise but are only paying VAT in the state. Now all the Vat dealers will be required to pay “Central Goods and service tax”.

The calculation of RNR (Revenue Neutral Rate) is very difficult and further Govt. wants to enhance its revenue hence rate of Tax will be a problem. As per the News reports the proposed rate for State GST is 12% and Central GST is 14% Plus Govt. wants to impose 1% CST at the initial stage of GST on the interstate sale of Goods and services. So the normal rate of overall tax will be 26%. This rate is very high comparing to the fact that small and medium Industries are at present not covered by the central excise and most of the Goods such as agricultural products are out of the preview of the Central Excise.

Improvement in the Manufacturing and distribution of Goods and service, increase in exports, various reforms, check on corruption, less Government control are some of the factors which are responsible for the economic growth of the country. A tax system can make a revolution in the economy of the country is “rarest of the rare” thing. Though the Government wants the GST Bill to be implemented, there are certain bottlenecks which need to be taken care of before that: What preparations are needed at the level of Central and State Governments for implementing the GST? Whether the Government machinery is efficient enough for such an enormous change? Whether the tax-payers are ready for such a change? What will be the impact on the Government’s revenue? How will the manufacturers, traders and ultimate consumers be affected? Will GST help the small entrepreneurs and small traders?

4. CONCLUSION

“The time is always right to do the right thing” said Martin Luther King Jr in one of his speeches. While waiting for GST to be introduced, there is perhaps no alternative but to follow this quote. In general, GST is expected to have a positive impact on corporate bottom lines considering that it is likely to usher in a seamless credit of taxes paid on most goods or services resulting in a reduction of costs. Moreover, multiple non-creditable taxes such as octroi, entry tax, CST, luxury taxes which are costs today will also be subsumed under GST. This can provide flexibility in product pricing, headroom for margin expansion and impetus to the company’s bottom line. Further, the distinction between manufacturers, service providers and traders is likely to disappear under GST and so could the current restrictions on credit. Today, VAT credit is not available to most service providers and Service tax credit is not available to traders which are expected to be corrected under GST. Also, some of the current exemptions especially under Central Excise law are likely to face the axe under GST, which may have a favorable or a negative impact on operations sometimes, we are insufficiently appreciative of how much the country has achieved in coming to this point with the GST. As the Prime Minister suggested, credit should go to all stakeholders at the Centre and the States for having worked towards the GST. The time is ripe to collectively seize this historic opportunity; not just because the GST will decisively alter the Indian economy for the better but also because the GST symbolizes Indian politics and democracy at its cooperative, consensual best. GST encapsulates the dictum “One nation, one indirect tax”. It will make India one unified common market.

5. REFERENCES

- [1] CA Pritam Maure ‘Goods and Services Tax(GST) In India’
- [2] Anand Laddha Sahil Kapoor ‘GST will change the way India does business: who will win, who will lose-the economic times
- [3] GST Articles
- [4] An insight of GST in India- Vol 1 Accessed on 15 Oct.2015
- [5] Goods and Services Tax (GST) Bill, explained-indianexpress.com Accessed on 5 Aug 2016
- [6] Insights into issues: Goods and Services Tax-insightonindia.com
- [7] Accessed on 15 Aug.2016
- [8] Milind Sathye ‘ India’s GST promises growth, reform and opportunities
- [9] Brief insight on Goods and Service Tax(GST)-gstindia.com
- [10] Accessed on 13 Aug 2016
- [11] A Hand book for GST in India 3rd Edition Version JUNE 2016
- [12] Has Mukh Adhia Aravind Subramanian ‘One India, One Market’ -thehindu.com
- [13] "President gives assent to GST Bill". *The Hindu*. 8 September 2016. Retrieved 10 September 2016.