

Impact of GST in Indian Business

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ABSTRACT

GST also known as the Goods and Services Tax is defined as the giant indirect tax structure designed to support and enhances the economic growth of a country. More than 150 countries have implemented GST so far. However, the idea of GST in India was mooted by Vajpayee government in 2000 and the constitutional amendment for the same was passed by the Loksabha on 6th May 2015 but is yet to be ratified by the Rajyasabha. However, there is a huge hue and cry against its implementation. It would be interesting to understand why this proposed GST regime may hamper the growth and development of the country. This paper is an analysis of what the impact of GST (Goods and Services Tax) will be on Indian Tax Scenario. Here stated with a brief description of the historical scenario of Indian taxation and its tax structure. Then the need arose for the change in tax structure from traditional to GST model. GST has be detailed discuss in this paper as the background, silent features and the impact of GST in the present tax scenario in India. The Goods and Services Tax (GST) is a value added tax to be implemented in India, the decision on which is pending. GST is the only indirect tax that directly affects all sectors and sections of our economy. GST will create a single, unified Indian market to make the economy stronger. Experts say that GST is likely to improve tax collections and Boost India's economic development by breaking tax barriers between States and integrating India through a uniform tax rate.

Keywords: Goods and service tax; Impact of GST in Indian Business

1. INTRODUCTION

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 going to be a destination based tax. It will be charged on the supply of Goods and Services. Since the word used is supply, hence the Branch t/f and Stock T/f will also be covered under the ambit of GST. Alcoholic liquor for human consumption is going to be kept outside the ambit of GST. 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. The changed indirect tax system GST-Goods and service tax is planned to execute in India. Several countries implemented this tax system followed by France, the first country introduced GST. Goods and service tax is a new story of VAT which gives a widespread setoff for input tax credit and subsuming many indirect taxes from state and national level. The GST Implementation is not yet declared by government and the drafting of GST law is still under process and a clear

picture will be available only after announcement of Implementation. India is a centralized democratic and therefore the GST will be implemented parallel by the central and state governments as CGST and SGST respectively. The objective will be to maintain a commonality between the basic structure and design of the CGST, SGST and SGST between states .

REFORM TAX

GST the biggest tax reform in India founded on the notion of “one nation, one market, one tax” is finally here. The moment that the Indian government was waiting for a decade has finally arrived. The single biggest indirect tax regime has kicked into force, dismantling all the inter-state barriers with respect to trade. The GST rollout, with a single stroke, has converted India into a unified market of 1.3 billion citizens. Fundamentally, the \$2.4-trillion economy is attempting to transform itself by doing away with the internal tariff barriers and subsuming central, state and local taxes into a unified GST. The rollout has renewed the hope of India’s fiscal reform program regaining momentum and widening the economy. Then again, there are fears of disruption, embedded in what’s perceived as a rushed transition which may not assist the interests of the country.

SALIENT FEATURES OF GST

- The dual GST model shall have two components i.e. Central GST and State GST. There will be two parallel Statutes –one at the Centre and other under the respective State GST Act –governing the tax liability of the same transaction.
- The existing CST will be discontinued. Instead, a new statute known as IGST will come into place. It will empower the CG to levy and collect the tax on the inter-state transfer of the Goods and Services. Rate of IGST will roughly be equal to the sum of CGST and SGST.
- Taxable event will shift from Manufacturing or Sale of Goods or Provision of services to “Supply of Goods and Services”.
- GST on export would be zero rated. Both CGST and SGST will be levied on import of goods and services into the country. The incidence of tax will follow the destination principle and the tax revenue in case of SGST will accrue to the State where the imported goods and services are consumed.
- Full and complete set-off will be available on the GST paid on import of goods and services. After introduction of GST, all the traders will be paying both the types of taxes i.e. CGST and SGST. The rules for taking and utilization of credit for the Central GST and the State GST would be aligned.

SINGLE TAX PAYMENT

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.

GLOBAL INDIRECT TAX REFORMS

Introduction of 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.’

INTEGRATION VARIOUS TAXES

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.

GST SHORT TERM IMPACT

The consumer they would now have pay more tax for most of the goods and services they consume. The majority of everyday consumables now draw the same or a slightly higher rate of tax. Furthermore, the GST implementation has a cost of compliance attached to it. It seems that this cost of compliance will be prohibitive and high for the small scale manufacturers and traders, who have also protested against the same. They may end up pricing their goods at higher.

2. BENEFITS OF GST

- It would introduce two-tiered One-Country-One-Tax regime.
- It would subsume all indirect taxes at the center and the state level.
- It would not only widen the tax regime by covering goods and services but also make it transparent.
- It would free the manufacturing sector from cascading effect of taxes, thus by improve the cost-competitiveness of goods and services.
- It would bring down the prices of goods and services and thus by, increase consumption.
- It would create business-friendly environment, thus by increase tax-GDP ratio.
- It would enhance the ease of doing business in India.

PRICE INFLATION

Growth Impact Could Be Muted', has put out estimates that show that the Modi Government's model for the Goods and Services Tax (GST) will not raise growth, will push up consumer prices inflation and may not result in increased tax revenue collections. It is understood that alcohol, tobacco and petroleum products will not be enclosed by GST as alcohol and tobacco are considered as Sin Goods, and governments do not like to allow free trade on these property.

GST TAX REGIME

India has adopted dual GST instead of national GST. It has made the entire structure of GST fairly complicated in India. The centre will have to coordinate with 29 states and 7 union **territories** to implement such tax regime. Such regime is likely to create economic as well as political issues. The states are likely to lose the say in determining rates once GST is implemented. The sharing of revenues between the states and the centre is still a matter of contention with no consensus arrived regarding revenue neutral rate. Chief Economic Advisor Arvind Subramanian on 4 December 2015 suggested GST rates of 12% for concessional goods, 17-18% for standard goods and 40% for luxury goods which is much higher than the present maximum service tax rate of 14%. Such initiative is likely to push inflation.

E-COMMERCE

The proposed GST structure is likely to succeed only if the country has a strong IT network. It is a well-known fact that India is still in the budding state as far as internet connectivity is concerned. Moreover, the proposed regime seems to ignore the emerging sector of e-commerce. E-commerce does not leave signs of the transaction outside the internet and has anonymity associated with it. As a result, it becomes almost impossible to track the business transaction taking place through internet which can be business to business, business to customer or customer to customer. Again, there appears to be no clarity as to whether a product should be considered a service or a product under the concept of E-commerce. New techniques can be developed to track such transactions but until such technologies become readily accessible, generation of tax revenue from this sector would continue to be uncertain and much below the expectation. Again E-commerce has been insulated against taxation under custom duty moratorium on electronic transmissions by the WTO Bali Ministerial Conference held in 2014 Communication is considered to be necessity and one cannot do without communication.

CHALLENGES IN GST

- With respect to Tax Threshold
- With respect to nature of taxes
- With respect to number of enactments of statutes
- With respect to Rates of taxation
- With respect to tax management and Infrastructure

GST IN TELECOMMUNICATION SECTOR

“One of the major drawbacks of the GST regime could be the direct spike in the service tax rate from 14% to 20-22%” (GST: Impact on the **Telecommunications** Sector in India). The proposed GST appears to be silent on whether telecommunication can be considered under the category of goods or services. The entire issue of telecommunication sector assumes a serious proportion when India’s rural teledensity is not even 50%.

GST IN PETROLEUM PRODUCTS

It is a well-known fact that petroleum products have been a major contributor to inflation in India. Inflation in India depends on how the government intends to include petroleum products under GST in future. Electricity is essential for the growth and development of India. If electricity is included under standard or luxury goods in future then it would badly affect the development of India. It is said that GST would impact negatively on the real estate market. It would add up to 8% to the cost of new homes and reduce demand by about 12%.

REMOVE HETEROGENEOUS TAXATION

GST will simplify existing indirect tax system and will help to remove inefficiencies created by the existing current heterogeneous taxation system only if there is a clear consensus over issues of threshold limit, revenue rate, and inclusion of petroleum products, electricity, liquor and real estate. Until the consensus is reached, the government should resist from implementing such regime.

INDIRECT TAXES INCLUDED UNDER GST

- VAT/Sales tax
- Entertainment Tax (unless it is levied by local bodies)
- Luxury tax
- . Taxes on lottery, betting and gambling.
- State cesses and surcharges in so far as they relate to supply of goods and services.
- Entry tax not on in lieu of octroi.

3. CONCLUSION

The government of India should study the GST regime set up by various countries and also their fallouts before implementing it. At the same time, the government should make an attempt to insulate the vast poor population of India against the likely inflation due to implementation of GST. The revenue from the taxes for the government is very likely to increase with an extended tax net, and the fiscal deficit is expected to remain under the checks. Moreover, exports would grow, while **FDI (Foreign Direct Investment) would also increase**. The industry leaders believe that the country would climb several ladders in the ease of doing business with the implementation of the

most important tax reform ever in the history of the country. Under GST, the taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions. GST provide more help to industry such as the **small-scale manufacturers and traders**. GST will become good and simple, only when the entire country works as a whole towards making it successful.

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