

Goods and Services Tax and Its Impact on Indian Business

Sana Fathima and Pavithra M

Students, Mount Carmel College (Autonomous), Bangalore

ABSTRACT

The research paper is regarding impact of GST on Indian Businesses. The introduction of GST is a situation of misperception and confusion among common citizens. The aim of this research paper is to describe the mechanism of GST and its special effects on Indian Businesses. In India, the knowledge of GST was intended in 2004 by the Task Force on operation of the Fiscal Responsibility and Budget Management Act (2003), named Kelkar Committee. The Kelkar Committee was influenced that a dual GST system shall be able to tax practically all the goods and services and the Indian economy shall be able to have varied market of tax base, increase revenue collection through imposing and collection of indirect tax and more realistic approach of well-organized resource allocation. The notable GST or goods and services tax has turned into a reality. The innovative tax system was launched at a function in Central Hall of Parliament on 1st July, 2017 (Friday midnight). GST, which expresses the principle of "one nation, one tax, and one market" is aimed at uniting the country's \$2 trillion economy and 1.3 billion people into a public market. For corporates, the eradication of multiple taxes will expand the ease of doing business. And for consumers, the major advantage would be in terms of a decline in the overall tax burden on goods. Finance Minister Arun Jaitley held at GST launch event in Parliament. Apart from filling the breaks of the current system, it is also aimed at improving the Indian Businesses. This will be done by simplifying and uniting the indirect taxes for all states throughout India.

Keywords: GST, Indian Businesses, Positive & Negative Impact, Features, Sector wise Impacts, Central Government, State Government

INTRODUCTION

GST stands for Goods and Services Tax imposed by the Government in a move to interchange all of the indirect taxes. In India, the idea of GST was intended in 2004 by the Commission Force on implementation of the Fiscal Responsibility and Budget Management Act, 2003, named Kelkar Committee. The Kelkar Committee was converted into a dual GST system shall be able to tax almost all the goods and services and the Indian economy will be able to have broader market of tax base, improve revenue collection through imposing and collection of indirect tax and more practical approach of efficient resource distribution. In the Goods and Service Tax mechanism, every individual will be liable to pay tax on production and shall be permitted to enjoy credit on input tax and this tax will be only on the final amount. The primary aim of GST is to eliminate cascading effect i.e. tax on tax and it will prime to bring cost effectiveness of the products and services both at the national and global market. GST System is constructed on integration of diverse taxes and is likely to provide full credit for input taxes. GST is a complete model of levying and collection of indirect tax in India and it has interchange taxes levied both by the Central and State Governments. GST is imposed and collected at each phase of sale or purchase of goods or services based on input tax credit method. Under this structure, GST-registered commercial houses shall be allowed to claim credit on the tax they paid on consumption of goods and services as a part of their day to day businesses.

The remarkable GST or goods and services tax has turned into a reality. The new tax system was launched at a function in Central Hall of Parliament on 1st July, 2017 (Friday midnight). GST, which represents the principle of "one nation, one tax, and one market" is aimed at merging the country's \$2 trillion economy and 1.3 billion general public into a common market. Under GST, goods and services drop under five tax categories: 0 per cent, 5 per cent, 12 per cent, 18 per cent and 28 per cent. For corporates, the removal of multiple taxes will improve the comfort of doing business. And for consumers, the main advantage would be in terms of a decrease in the overall tax liability on goods. "Inflation will come down, tax prevention will be difficult, India's GDP will be profited and additional resources will be used for wellbeing of poor and weaker section," Finance Minister Arun Jaitley said at GST launch event in Parliament. The Lok Sabha has finally approved the Goods and Services Tax Bill and it is expected to have a major impact in each industry and all

consumers. Apart from filling the gaps of the current system, it is also aimed at improving the Indian economy. This will be prepared by simplifying and unifying the indirect taxes for all states throughout India.

RESEARCH METHODOLOGY

The research paper is created on empirical study. It is a type of Conceptual research paper.

OBJECTIVES OF STUDY

- The main objective of the paper is to highlight the effect of GST on Indian Businesses.
- The secondary objective is to describe the working structure of GST in India.

IMPORTANCE OF THE STUDY

- The study will highlight the outcome of GST on Indian Businesses.
- It will substantiate great help to a common man to realize the concept the GST.
- It will eliminate the dark fear of GST among the corporate community members.

DATA COLLECTION

This paper is a Conceptual paper based on secondary data collected from different books, news-paper, websites, articles and research journals.

NEED FOR STUDY

1. The main aim behind presenting GST is to increase the economy of the country.
2. VAT rates and regulations vary from state to state. And it has been perceived that states frequently option to decreasing these rates for attracting stakeholders. This effects in loss of revenue for both the Central as well as State government.
3. Further, GST passes a uniform tax laws through all the states bridging across varied industries. Here, the taxes would be distributed among the Central and State government built on a predefined and pre-approved formula. In addition, it would turn out to be much easier to offer services and goods equally across the nation, since there won't be several additional state-levied tax.
4. GST neglected several extensions due to discrepancy among several states over certain essential issues on the new tax reform. However GST is planned for a national rise on July 1st, 2017.
5. GST is not only helpful for the Indian economy, but it also facilitates various businesses in India, and this defined system majorly attracts investors from global market to invest in Indian businesses, which helps in the growth of GDP of this nation.

FEATURES OF GST

- GST is unique indirect tax for the whole nation, which will create India "one unified common market".
- It will swap several taxes like VAT, CST, Excise Duty, Entry Tax, LBT, Luxury Tax etc.
- There are four types of GST specifically:
 - CGST – Central GST, collected by the Central Govt.
 - SGST – State GST, collected by the State Govt.
 - UTGST – Union Territory GST, collected by the Union Territory
 - IGST – Integrated GST, collected by the Central Govt.
- Individuals paying tax with a summative turnover in a financial year up [Rs.20 Lakhs & Rs.10 Lakhs for North Eastern States and Special Form States] would be excused from tax.
- GST slabs are fixed at 5%, 12%, 18% & 28%.

POSITIVE IMPACT OF GST IN INDIA

- There is an increase in the foreign Investments. GST in India is now a uniform market and the foreign investment has been increasingly rising in India. The goods that manufacture within India, due to there

reduce costs have become more competitive in the international market, which is leading to growth in the exports. The implementation of GST has put India in the line of international tax standards, which makes it easier for Indian businesses to succeed in the Global market.

- Less number of taxes in India. GST has two constituents; one is the central goods and service tax and the state goods and service tax. Central GST has replaced various taxes such as custom duty, service taxes, excise duty etc. Before GST was introduced there were many taxes, and now it has been replaced with only Central GST and State GST.
- There's a reduced cost of doing business. Since GST has changed VAT all over India, one will not have to pay different kinds of taxes in different states and parts of the country. It is one tax system for all, in all parts of India, which will make it easier for all the businesses.
- There is now legal transparency, as the tax administration have started to work in a corruption free manner, this also enables sales invoices to show the tax that has been applied, and this has resulted in transparency.
- The prices of products and services across the country are now reduced. Thus this system is proving to be beneficial for the people who are fed up of paying high amount of taxes on a product or service.
- This has reduced the burden from Central and state government with the introduction of GST as all indirect taxes would be summed up under a single tax.
- GST will not be charged at every point of sale, like the other indirect taxes. This will lead to development of the market.
- There will be much lesser complications regarding taxation in India.
- This will lead to reduction in the manufacturing costs since the prices of consumer goods will be likely to come down.
- Due to the reduced costs, some products like FMCG, cars, etc. will be much more affordable.
- A uniform tax regime will lead to reduction in corruption, which is beneficial for the common individuals of the country.

NEGATIVE IMPACTS OF GST IN INDIA

- The term GST is used in a wrong way. There are double taxes that are being charged in the name of a single tax.
- Introduction of GST in the country will impact real estate market, as this would increase home buying prices by 8% and will reduce the buyers in the market by 12%.
- There are many dealers who do not pay central excise tax and try to cheat the government by just giving the VAT, but all of these dealers will now be forced to pay GST.
- Production process of many forms are more likely to take some more time to align their businesses with the new framework, as firms are adjusted to the tax credit system and are better managing working capital requirements.
- For customers it is going to be complicated, as some goods will have cheaper prices while the others will be expensive.
- Since it's a new tax in the country, people will require time to understand its implications and benefits.
- If the actual information is not passed to the consumers, the sellers will increase the profit margins and the prices of goods will have a rising trend.
- There is a dual control since GST is being referred to a single taxation system but in reality it is a dual tax because both the state and the central government will collect separate taxes on a single transaction of sale of goods and services.

- Some sectors are facing a huge loss such as textile companies, media companies, Pharmaceutical companies, dairy products, IT and telecom sector are bearing huge taxes. Also the price of commodities has increased such as jewelry, credit cards, mobile phones and banking.

GST: ANALYSIS AND ATTITUDES

GST is supposed to create the 'one nation one tax' system, but its effect on various industries will be somewhat different. The first level of differentiation will be conditional on whether the industry deals with manufacturing, distributing, retailing or is providing a service.

EFFECT OF GST ON SERVICE PROVIDERS

In 2014, there were 12,78,865 service tax analyses in the country out of which only the top 50 paid more than 50% of the tax collected nationally. Domains such as IT services, telecommunication services, Insurance industry, business support services, Banking and Monetary services etc. bear most of the tax load. These pan-India corporations already work in a united market, and while they see compliance liability reduction, there will not be much modification in the way they function even after GST accomplishment.

EFFECT OF GST ON THE CHANNEL DISTRIBUTERS

GST is likely to enhance competitiveness and functioning in India's manufacturing sector. Diminishing exports and high infrastructure expenditure are just some of the distresses of this segment. Numerous indirect taxes have also enlarged the administrative costs for manufacturers and distributors. It is being expected that with GST's stability, the compliance burden will relieve and this segment and it is likely to grow more strongly.

SEGMENT WISE IMPACT ANALYSIS

• E-commerce

The e-commerce industry in India has been developing by hikes and restraints. In many ways, GST will help the e-commerce industry's persistent progression, but the long-term outcomes will be mostly remarkable because the ideal GST law precisely recommends a tax compilation at source (TCS) mechanism, which e-commerce companies are also not happy with. The present rate of TCS is at 1% and it'll continue to be seen if it diminishes the rapid roar in this segment.

• Pharmaceuticals Industry

In general, GST is expected to benefit the pharmaceuticals and healthcare industries. It will create an equal competing field for common medicine manufacturers, increase medical tourism and simplify the tax structure. If there is any distress whatsoever, then it relates to the pricing structure. The healthcare segment is expecting for a tax relief, as it will make reasonable healthcare easier to access by all.

• Logistics

In an enormous country like India, the logistics division forms the backbone of the economy. It can be moderately assumed that a well systematized and advanced logistics industry has the potential to overtake the "Make In India" initiative of the Government of India, to its well-desired position.

• Textile

The Indian textile manufacturing industries offers occupation to a huge figure of experienced and inexperienced labors in the nation. It contributes to about 10% of the total yearly export, and this rate is expected to rise under GST. GST would disturb the cotton value chain of the textile businesses, which is picked by most small-medium companies, as it presently attracts zero central excise duty.

• Automobiles

The industry of automobiles in India is a huge business producing a large number of cars annually. Under the current tax system, there are a several hefty taxes available in this sector such as VAT, sales tax, excise duty, road tax, registration tax etc. that will be summed up by GST. Though there is still some doubt about it due to the tax rates or exemptions provided by different states to manufactures and dealers for manufacturing cars, busses, or bikes.

• Telecommunication Industry

In the telecommunication segment, the prices are expected to come down after GST. Industrialists will

prevent costs through effective management of records and by merging their warehouses. Telephone manufacturers will find it simpler to sell their equipment's, as GST will remove the need to set up state units, and transfer supplies. They will also save up on heavy logistics expenditures.

- **Real Estate**

The real estate segment is one of the most crucial sectors of the Indian economy. It plays a significant role in occupation generation in India. The possible consequence of GST on the real estate segment can't be entirely evaluated as it mainly relies on the tax rates. However, it is said that this segment will see large benefits from GST implementation, as it will fetch to the industry much needed transparency and accountability.

- **FMCG**

The FMCG segment can see essential savings in logistics and supply costs, as the GST will eradicate the requirement for numerous sales depots. The rate of GST for this segment is expected to be around 18-20 %, which is much lesser than the 24-25% tax rate paid presently by FMCG firms. This includes excise duty, VAT and entry tax. All of this will be subsumed up by GST.

- **Agriculture**

Agricultural segment is the biggest contributing segment in the overall Indian GDP. It covers around 18% of Indian GDP. One of the foremost problems faced by the agricultural segment is the transportation of agricultural products through state lines, all over India. It is extremely possible that GST will resolve the problem of carriage. GST may provide India with its first Domestic market for the agricultural goods.

- **Startups**

With ascending restrictions for registration, and an easy flow of goods and services, the GST system accurately predicts well for the Indian startup section. Currently, many states of India have very distinctive VAT laws, which can be complicating for businesses that have a pan-India existence, especially the e-commerce division. All these are expected to modify under GST with the only painful point being the decline in the excise rate.

- **Banking, Financial Services And Insurance (BFSI)**

Among the services provided by Banks and financial institutions, financial services such as fund and fee based, and insurance services, will see a major swing from the present situation. Due to the nature and quantity of operations delivered by the banks and financial institutions such as lease transactions, rental purchases, anything regarding actionable claims, fund and non-fund based services etc., GST will be quite difficult to apply in this segment.

- **Freelancers**

Freelancing in India is still an emerging industry, where the rules and regulations for this disorganized industry are still incomplete. But with GST, it'll be much simpler for freelancers to file their taxes as they can effortlessly do it digitally. They will be taxed as service providers, and the new tax structure will bring absolute consistency and accountability in this segment.

CONCLUSION

GST is still at the initial stage in Indian. It'll take certain period to experience its outcomes on the Indian economy. GST mechanism is intended in a way that it is predicted to produce a decent amount of revenue for both central and state governments. Regarding corporate, businessmen and service providers will be benefiting in the long run. It will carry cleanness in compilation of all those taxes that's benefiting both the Government and the people of India.

REFERENCE

- Indian Economy(2017) Features of the new Goods and Service Tax (GST) System- <https://www.indianeconomy.net/splclassroom/features-of-the-new-goods-and-service-tax-gst-system/>
- Why We Need GST? Srei (2016)- <https://sreibonds.com/blogs/why-we-need-gst>
- Compare & Apply Loans & Credit Cards in India- Paisabazaar.com (2019) GST Rates 2019- Complete List of Goods and Services Tax -<https://www.paisabazaar.com/tax/gst-rates/>

- IN (2016) GST Impact On Business <https://www.avalara.com/in/en/blog/2016/10/gst-impact-on-businesses-in-india.html>.
- What are the positive and negative impacts of GST? (2019)-
<https://www.civilserviceindia.com/subject/Essaywhat-are-the-positive-and-negative-impacts-of-GST.html>