THINK INDIA (Quarterly Journal)

ISSN:0971-1260
Vol-22-Issue-3-July-September-2019

GST Rates And Its Implications

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Abstract

Goods and Services Tax is a unified taxation and the biggest ever tax reforms in India which has ended multiple taxation across the states throughout the country similar to developed nations. It is a multi-stage destination-based tax which is collected at every stage, starting from procuring the raw material to selling of final product. The credit of taxes paid at the previous stages is available for set-off at the next stage of supply. There are various doubts regarding goods and services tax (GST) in the Indian market. The government has categorized around 1211 items under various slabs based on their GST rates. The present research paper is an attempt to study GST rates and its implications in Indian economy.

Keywords: GST, CST, VAT

I. Introduction

Goods and Services Tax is a unified taxation and the biggest ever tax reforms in India which has ended multiple taxation across the states and has created a playing field for businesses throughout the country similar to developed nations.[1] It has radically changed the way manufacturer, service provider, trader and eventually the consumer pay taxes to exchequer both at the state and the central level through a single levy, subsuming a plethora of indirect taxes and making India unified market.

It is a multi-stage destination-based tax which is collected at every stage, starting from procuring the raw material to selling of final product. The credit of taxes paid at the previous stages is available for set-off at the next stage of supply. Being destination or consumption based, it has also ended multiple taxes levied by Centre and State Governments like Central Excise, Service Tax, VAT, Central Sales Tax, Octroi, Entry Tax, Luxury Tax and Entertainment Tax, etc. It will lower the overall tax burden on consumer and will benefit the industry through better cash flows and working capital management. Various State and Central levies are being applied on goods as they move from one state to another. The GST regime is also expected to result in better tax compliance, thereby increasing its revenue and narrowing the budget deficit.

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II. GST – Some Facts

The midnight of the June 30 – July 1 of 2017 again created a history in Indian economy after independence of India in 1947. It was the day when economic freedom was announced by the then prime Minister and President of India in the Central Hall of Parliament.With the help of GST, the government tried to make the movement of goods and services free in the whole of the country and also to provide life easier and comfortable for manufactures, producers and investors through 'One Nation, One Tax'. This step was taken to make the Indian tax system at par with taxation system of USA and Europe. The new tax system was introduced to make some products costlier and some products cheaper. Items of mass consumption have been made cheaper while luxurious have become costlier. This was done so to make a balance between lower taxes on daily use products and higher taxes on services not enjoyed daily by people. It was implemented when the Parliament cleared Central GST Bill, 2017; the Integrated GST Bill, 2017; the GST (Compensation to States) Bill, 2017 and the Union Territory GST Bill, 2017 through Constitution 122nd Amendment Bill.[2]

The intention of GST was to replace the various taxes levied by the Central and State governments and the taxes to be unified were Central Excise Duty, Commercial Tax, Value Added Tax (VAT), Food Tax, Central sales Tax (CST), Octroi, Entertainment Tax, Entry Tax, Purchase Tax, Luxury Tax and Advertisement Tax.[3]

Some of the important facts regarding GST may be summarized below:[4]

(i) The aim of GST is to subsume various taxes into one tax in the whole country, unifying the markets and making goods uniformly priced across the country. However, some goods become costlier and some become cheaper.

(ii) Though GST is a simple tax but its implementation is very difficult and complex because there are various layers of taxation slabs for various commodities. This makes luxury goods costlier and mass consumption goods cheaper.

(iii) The concept of GST is different from previous tax system. GST is not taxation at source but it is a destination tax or rather it is a consumption tax. A product is manufactured in one state and goes to some other state where buyer or consumer pays the tax for it. In this tax, the Central and State both have their share. If a tax is levied at the rate of 18%, then 9% goes to the Centre under CGST and rest 9% goes to the State under SGST and this is shown in the bills.

III. GST Rates for Various Goods and Services in India

There are various doubts regarding goods and services tax (GST) in the Indian market. One of the most awaited tax reforms in India; GST was introduced in July 2017 with an objective to make India 'one nation, one market, one tax'. The government has categorized around 1211 items under various slabs based on their GST rates which are mentioned below:[5]

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Tax Slab: No Tax (0%)

Under GST, various goods and services have not been levied tax. They come under zero percent tax slab. These goods and services are as follows:

Goods Included: The government has imposed zero tax on various items such as jute, fresh meat, chicken, fish eggs, milk, butter milk, curd, fresh fruits and vegetables, natural honey, bread, besan, salt, flour, sindoor, bindi, bangles, prasad, stamps, judicial papers, printed book, newspapers,handloom, bones and horn cores, bone grist, bone meal, etc.; hoof meal, horn meal, cereal grains hulled, palmyrajiggery, kajal, children's picture, drawing and colouring books, human hair, khadi purchased from khadi and village industries store, clay idols, brooms, cotton seed, oil cake, charkha.

Services Included: There is no provision of tax on hotels and lodges with tariff below Rs. 1,000. However, 0.25% tax has been charged on rough precious and semi-precious stones.

Tax Slab: 5%

There are various goods and services which have been categorized under 5% tax slab. These goods and services are mentioned below:

Goods Included: Under this group, 5% tax has been imposed on various items such as fish fillet, apparel below Rs. 1,000, packaged food items, footwear below Rs. 500, cream, skimmed milk powder, branded paneer, frozen vegetables, coffee, tea, spices, pizza bread, rusk, sabudana, kerosene, coal, medicines, stent, lifeboats, cashew nuts, cashew nut in shell, raisin, ice and snow, biogas, insulin, agarbatti, kites, postage or revenue stamp, stamp-post marks, first-day covers, branded food, walnuts, dried tamarind, roasted gram, dhoopbatti, corduroy fabric, saree fall, paper mache items, oil cakes, duty credit scrips, cotton quilts (quilt not exceeding Rs. 1000 per piece, corals, rosaries and prayer beads, hawansamagri, grass, leaf and reed and fibre products including mats, pouches, wallets.

Services Included: Under this tax slab, there are various services also such as railways, air transport and small restaurantsbecause their main input is petroleum which is outside the GST jurisdiction. Textile job work has also been levied at 5%.

Tax Slab: 12%

Under tax slab of 12%, following goods and services have been included:

Goods Included: 12% tax has been imposed on apparel above Rs. 1000, butter, cheese, ghee, dry fruits, frozen meat products, animal fat, sausage, fruit juices, bhutia, namkeen, ayurvedic medicines, tooth powder, agarbatti, colouring books, picture books, cellphones, sewing machines, ketchup, sauces, umbrella, all diagnostic kits and reagents, exercise books, notebooks, ladles, forks, spoons, skimmers, cake

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servers, fish knives, tongs, playing cards, chess boards, spectacles, carom boards and other games, ludo, rubber band, wood, stone, metal, marble idols, table kitchenware, batters including idli/ dosa batter, textile caps, sprinklers, cotton quilts (quilts exceeding Rs. 1000 per piece), statues, statuettes, pedestals, porcelain items, ceramic articles, ornamental articles, bells, gongs, non-electric of base metal, animal carving materials.

Services Included: Apart from above goods under this tax slab, there are some services also which have been imposed 12% tax. They are state-run lotteries, non-AC hotels, business class air tickets, fertilizers and work contracts.

Tax Slab: 18%

This is the third category of tax rate levied in which some goods and services have been levied tax at the rate of 18%.

Goods Included: 18% of tax has been imposed on goods such as trademarks, goodwill, software, footwear costing more than Rs. 5000, bidi patta, biscuits of all categories, pasta, cornflakes, pastries, cakes, preserved vegetables, flavored refined sugar, jams, sauces, soups, ice cream, instant food mixes, tissues, mineral water, envelopes, tampons, note books, printed circuits, steel products, camera, speakers, kajal pencil sticks, headgear and parts thereof, aluminium foils, weighing machinery (other than electric or electronic), printers (other than multi-function printers), electrical transformers, CCTV, optical fibre, bamboo furniture, swimming pools and padding pools, curry paste, mayonnaise and salad dressings, mixed condiments and mixed seasonings, tractor parts, raincoats, medical grade disposable gloves, computer monitors (upto 20 inch), custard powder, rice rubber rolls for paddy de-husking machine, kitchen gas lighters.

Services Included: Some services have also been charged at 18%. Hotel services such as AC hotels serving liquor, room tariffs between Rs. 2500 and Rs. 7500, restaurants inside five star hotels. Other services such as telecom services, IT services, branded garments and financial services have also included in this slab.

Tax Slab: 28%

This is the highest category of tax rate in which some goods and services have been levied tax at the rate of 28%.

Goods Included: The goods under 28% tax slab includes the items such as chocolate not containing cocoa, chewing gum, molasses, bidis, pan masala, waffles and wafers coated with chocolate, paint, shaving cream, hair shampoo, aerated water, after shave, wall paper, dye, sunscreen, water heater, washing machine, vacuum cleaner, ATM, dish washer, ceramic tiles, hair clippers, automobiles, personal aircraft, water cycle,
deodorant.

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Services Included: State authorized private run lotteries, hotels with room tariffs above Rs. 7500, five star hotels, race club betting, and cinema are all under the highest tax slab of 28%.

IV.Implications of GST Tax Rates in Indian Economy

The introduction of GST has several implications in context of various goods and services in India. There are various goods and services they have either become costlier or cheaper due to implementation of GST. These goods and services are mentioned below:[6]

Gold: The tax rate of the precious metal has been fixed at 3% by the GST Council. The previous excise duty on gold was 1% and 1% VAT in many states. Hence, with 3% GST, gold has become costlier with the implementation of GST.

Insurance: Insurance premium for car, health and other insurance with the government became costlier as the government has taxed upto 18% while the previous tax rate was 15%.So, insurance has also become costlier.

Banking Charges: Banking charges for various transactions and services have gone upto 18% under GST inplace of previous tax rate of 15%.

Hotel Bookings: GST rate on hotel services is variable according to room tariff in GST regime. If the room tariff is 1000, there is no tax. In case the room tariff is in between Rs.1000 to Rs.2500, the tax slab is 12%. If the room tariff is in between Rs.2500 and Rs.5000, the person will be taxed at 18% while in case of room tariff above Rs.5000, the GST rate applicable is 28%.

Eating Out: There are different tax slabs for restaurants depending on their turnover and the nature of the hotel whether they are air-conditioned or not. Restaurants having turnover of less than Rs 50 lakhs are levied at a tax rate of 5%. Non-AC restaurants charge 12% GST on food bill. AC restaurants with liquor license charge 18%while restaurants in 5-star hotels levy GST tax rate at 28%. Eating out in big cities like Mumbai is more costly than other cities.

Telecom Bills: Mobile and Internet bills will become costlier after implementation of GST. In present GST regime, the tax rate applicable on telecom bills is 18% while the previous tax rate was 15%. The telecom industry will pass these charges to customers.

Movie Tickets: In GST regime, the movie tickets have been taxed at 28% which was announced by then Finance Minister of India, Mr. Arun Jaitley during a GST Council Meet at Srinagar. The government also decided to increase tax on junk food and aerated drinks in cinema halls.

Medicines: Medicines are not going to be affected more because a tax rate of mere 5% has been changed on life saving drugs related with diseases like Malaria, HIV-AIDS and diabetes. There is a marginal increase in the prices of drugs. Before GST,

ISSN:0971-1260
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these drugs were exempted from excise and custom duties. However, the tax rate is higher on some formulations and active pharmaceutical ingredients.

Cab Rides: Cab fares are likely to come with the implementation of GST as the tax rate has been reduced from 6% to 5% on bookings made on cab aggregators like OLA and UBER.

Tobacco Products: Filter and non-filter cigarettes not exceeding 65mm size will attract cess of 5% plus Rs. 1591 per 1000 sticks. For cigars, a hefty levy of 21% or Rs 4170 per 1000 sticks, whichever is higher, would be charged. Branded Guthka is likely to be slapped with a cess of 72% while smoking mixtures for pipes and cigarettes will attract a levy 290 per cent.

Bikes: Under GST system, motorcycles of more than 350cc engine capacity are to be taxed at a total of 31%. Same situation prevails with private aircraft and luxury yachts.

Cars: All the cars under luxury head are to be taxed at 28%. However, extra cess is levied depending on their size. Small cars powered by a petro engine not greater than 1.2 litre or diesel engine not greater than 1.5 litre by displacement is to be taxed at 28%. For petrol cars, effective tax rate is 29% while the diesel cars to be taxed by 31%. However, mid- size luxury cars and SUVs, the tax rate is 43% which is significantly higher than previous tax rate of 29% on such cars.

Air Travel: Economy class of air travel has become cheaper with tax rate fixed at 5% under GST regime against the previous 6% tax rate. However, the business class of air travel has become costlier because the tax rate has increased from 9% to 12%.

No Tax Items: There are various items which have not been taxed under GST regime. Daily items like milk, paneer and curd have not been taxed under GST. The GST Council has decided not to tax metro travel, religious travel and Haj Yatra under the new tax structure. Apart from these items; basic food items like cereals, eggs, meat has also not been taxed under GST regime. Healthcare and education are also free from taxation. Prices of food grains are likely to come down as they are exempted from GST. However, packaged food items are to be taxed at 5%.

Coal: The GST Council has brought down the tax rate from 11.69% to 5% in new tax regime. Hence, the electricity generation will be cheaper. The same rate of tax is also applicable with sweets.

Daily Use Items: Daily use items are not going to be affected. Household items like sugar, tea, coffee and edible oil have been taxed at 5% similar to previous tax rate. However, common use products like hair oil, soaps and toothpastes, etc are being charged with a single national sales tax or GST at 18% instead of previous 22-24% tax rate. It is also important to note that chewing gums, white chocolates, chocolates containing cocoa, wafers coated with chocolates, instant coffee, custard powder, students' colours, paints, warnishes, perfumes, shampoos, sunscreen, hair dyes, after-

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shave lotion, deodorants, beauty products, etc come under the highest slab of 28% under GST.

Meat: Items like meat, animal slaughtering and services provided by veterinary clinics have been exempted under GST.

Entertainment: Entertainment like visits to theme parks and sporting events like IPL will have a levy of 28% under new indirect tax regime.

Railways: Non-AC train travels including local trains and Metro have been exempted from GST while AC train travel will attract 5% as service tax. Hence, ticket prices for AC train will increase marginally as the previous tax was 4.5%.

Maintenance Charges: Maintenance charges for flats will be costlier in GST regime in comparison to pre-GST period. Flat owners who are paying Rs 5000 or more as maintenance charges will have to pay tax @ 18% in place of 15.5%.

Smartphones: Under GST, smartphones are to be taxed at flat 12%. Earlier, there was 2% central excise duty besides the value added tax(VAT) which was variable from state to state in the range of 5% to 15%.

Cement: Due to GST, the price of cement is likely to come down because the tax rate is at 28% under GST against the previous rate of 31% due to different indirect taxes.

Ayurveda: Before GST, the tax rate applicable on ayurveda was 8-9% which has been increased and bracketed under 12% slab. Hence, ayurvedic will be costlier under GST regime.

Footwear and Apparels/Garments: Tax rate on footwear costing below Rs 500 has been reduced under GST regime but footwear costing more than RS 500 will have a GST rate of 18% from an earlier rate of 14.41%. In respect to readymade garments, the tax rates have been reduced to 12% from 18.16%. Hence, the readymade garments will become cheaper.

Life Insurance Premium: GST tax on Insurance Premium regarding life, health and general insurance has been increased. Hence, the premium amount on different policies will ultimately increase.

Mobile Bills: The consumer will have to pay more bills for their mobiles as the tax rate has been increased from 15% to 18% under GST regime.
Hence, bills of mobiles will be costlier.

DTH and Cable services: Before GST regime, the tax rate on Direct-To-Home (DTH) connections or cable services were comprising entertainment tax in the range of 10-30% besides service tax of 15%.Now, the tax rate has been fixed at 12% under GST. Hence, a consumer has to pay less for DTH and cableservices.

V.Conclusion

Thus, it may be concluded that GST is being considered as one of the biggest tax reforms after independence. The implementation of GST is a transformative reform

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and will change the way of doing business in the country. There are various viable reasons to believe that it will have greater consequences in the long run. As the GST has factors forcing both the sides to reduce the price or increase the price, it makes a question mark before consumers that how it will change the overall price level. There are such factors like lower effective tax rates for a large basket of goods, Input Tax Credit and improvements in supply-chain which may likely to reduce price level. On the other side; increase in effective tax rates for services and increased compliance cost especially for small and medium enterprises have the chance to increase the price level. The presence of both side factors make the situation very difficult whether the price level will up or down. In this context, the role of tax administrations, both at the Centre and State level is very important and commendable and are working very hard to ensure smooth transition. In such a situation, it is to be observed how the interaction of all these factors take place and also how does the GST finally affect the consumers.
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