A Study On Impact Of Gst After Its Implementation In India

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Abstract- ***1st July, 2017 GST has launched in India, in 29th March 2017 All 4 GST bills passed in Loksabha by PM Modi. In today's scenario we pay various taxes i.e. Direct and Indirect taxes, which are felt as burden on us and due to these taxes the corruption is increasing. So, to overcome from all these taxation system the Central Government has decided to make one tax system i.e. Goods and Services Tax (GST). GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages. GST will also help to accelerate the overall Gross Domestic Product (GDP) of the country. GST is now accepted all over the world and countries are using it for sales tax system. This paper will help to show that, what will be the impact of GST after its implementation in India, difference between present Indirect Taxes and GST and what will be the benefits and challenges of GST after implementation. How it will impact on different Goods and Services. Whether it is beneficial for Indian economy or not?***

Keywords: Central, State, Dual, GST, Indirect Tax, Direct Tax, GDP, Implementation.

I. INTRODUCTION

The proposed GST is likely to change the whole scenario of current indirect tax system. Tax policies play an important role on the economy through their impact on both efficiency and equity. A good tax system should keep in view issues of income distribution and, at the same time, also endeavour to generate tax revenues to support government expenditure on public services and infrastructure development. GST is a blanket of Indirect Tax that will subsume several indirect state and federal taxes such as Value Added Tax (VAT) and Excise Duty and different State Taxes, Central Surcharges, Entertainment Tax, Luxury Tax and many more. 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%.

Experts have enlisted the benefits of GST as under:

- It would enhance the ease of doing business in India.
- It would introduce two-tiered One-Country-One-Tax regime.
- It would free the manufacturing sector from cascading effect of taxes, thus by improve the cost-competitiveness of goods and services.
- 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 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.

The GST is expected to change the whole scenario of current Indirect Tax. GST will merge all Indirect Taxes under an umbrella and will help in creation of smooth market. GST was first introduced by France in 1954 and now it is followed by 140 countries. Most of the countries followed unified GST while some countries like Brazil, Canada follow a dual GST system where tax is imposed by central and state both. In India also dual system of GST is implemented including CGST and SGST. 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.

Fig.1. A GST Journey

2000
- **In 2000** the Vajpayee Government started discussion on GST by setting up an empowered committee, The committee was headed Asim Dasgupta, (Finance Minister, Government of West Bengal).

2002-2004
- The **Kelkar Task Force** on the implementation of Fiscal Responsibility and budget Management (FRBM) Act, 2003 and suggested a comprehensive Goods and Services Tax (CGST)

2006
- A proposal to introduce a national level Goods and Services Tax (GST) by April1, 2010 was first mooted in the budget speech for the financial Year **2006-07**

2007
- **May 2007**- Empowered committee of state Finance Ministers, on this request, started worked on GST roadmap.
- **Nov 2007**-The Joint Working Group, submitted its report to the Empowered Committee on November 19, 2007

2008
- **April 2008**-Empowered Committee finalized views ove GST and submitted report titled "A model and roadmap for Goods and Services Tax (GST) in India"

2009
- **Nov 2009**-First discussion paper on released by Empowered Committee

2010
- **Feb 2010**-Mentioned in the Speech of then FM-GST to be introduced in April 2011

2011
- **March 2011**- The Constitution 115th amendment bill introduced in Loksabha for levy of GST ion all goods or services except for the specified goods.

2013
- **Aug 2013**- Standing Committee submitted its report on GST
- **Nov 2013**- EC rejected Govt's proposal to include petroleum products

2014
- **Dec 2014**- The Constitution 122nd amendment bill passed in Loksabha for levy of GST which enables the introduction of GST Probably by April 2016 on 17th December, 2014

2016
- **03 Aug, 2016**- The Constitution (122nd Amendment) Bill passed by rajyasabha

2017
- **16 March 2017**- GST Council clears State GST and union Territory GST Laws

II. SYSTEM MODEL

While the lower Goods and Services Tax (GST) rates may lead to a decline in inflation, economic growth may not improve significantly in the short term even though it will benefit both India Inc and the government in the medium term.

Most economists forecast inflation to come down as GST rates for most goods have been fixed at a lower rate.

India Inc will have to reorganise their businesses as the country switches to the GST regime, which will bring in more small companies into the tax net.

"It's not optimal, but let the best not be the enemy of the good. Even with its imperfections, it could usher in significant benefits, especially through a quantum leap in transaction trails and logistical efficiencies," DK Joshi, chief economist of Crisil, wrote in a report.

But most say the Reserve Bank of India is unlikely to cut policy interest rates at the next policy review on June 6-7, as it will assess the monsoon situation as well as the way the new tax regime pans out, says Sunil Sinha, chief economist of India Ratings.

Need of the study: This study will help us to examine the impact of GST after its implementation, it will show the gap between present indirect taxes and GST, & also the study will show benefits and challenges which GST may face after implementation.

Objective of Study

- To understand the concept of goods and service tax
- To understand how GST will work in India
- To enquire the impact of GST after its implementation.
- To find out difference between present indirect taxes and GST.
- To evaluate benefits and challenges of GST after implementation.

The Centre and the States would have concurrent jurisdiction for the entire value chain and for all taxpayers on the basis of thresholds for goods and services prescribed for the states and the Centre. The taxpayer would need to submit common format for periodical returns, to both the central and to the concerned State GST authorities. Each taxpayer would be allotted a PAN-linked Taxpayer Identification Number (TIN) with a total of 13/15 digits. Till know 22 States ratify GST, which are as follows: Bihar (16 August), Jharkhand (17 August), Himachal Pradesh (22 August), Delhi (24 August), Nagaland (26 August), Maharashtra (29 August), Haryana (29 August), Telangana (30 August), Sikkim (30 August), Mizoram (30 August), Goa (31 August), Odisha (1 September), Pondicherry (2 September), Rajasthan (2 September), Andhra Pradesh (8 September), Arunachal

Pradesh (8 September), Meghalaya (9 September), Punjab (12 September) thus it seems that GST will lead to growth in country. Know the question arises why do we need GST? Well while conducting study we concluded that in Indian economy the service sector contributes over 55%, Separate taxation of goods and services is neither viable nor desirable, value added in manufacture and sales of goods require inputs of both – goods and services and vice versa which is often not separable. What is expected to happen next is that with the passage of the GST Bill, the government will have to put up a mad scramble to put together all the mechanism and state approvals in place to implement the GST by its rollout date of April 1, 2017.

III. PREVIOUS WORK

Dr. R. Vasanthagopal (2011)2studied,"GST in India: A Big Leap in the Indirect Taxation System" and concluded that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy. Success of GST will lead to its acceptance by more than 130 countries in world and a new preferred form of indirect tax system in Asia also.

Sehrawat and Dhanda (2015) studied, "GST in India: A Key Tax Reform" and concluded that due to dissilent environment of India economy, it is demand of time to implement GST.

Chaurasia et al. (2016) Studied, "Role of Goods and Services Tax in the growth of Indian economy" and concluded that in overall GST will be helpful for the development of Indian economy and this will also help in improving the Gross Domestic Products of the country more than two percent.

IV. PROPOSED METHODOLOGY

The study focuses on extensive study of Secondary data collected from various books, National & international Journals, government reports, publications from various websites which focused on various aspects of Goods and Service tax. Considering the objectives of study descriptive type research design is adopted to have more accuracy and rigorous analysis of research study. The accessible secondary data is intensively used for research study.

V. SIMULATION/EXPERIMENTAL RESULTS

India's biggest tax reform is now a reality. A comprehensive dual Goods and Services Tax (GST) has replaced the complex multiple indirect tax structure from 1 July 2017.

The concept of GST was visualized for the first time in 1999. On 8 August 2016, the Constitutional Amendment Bill for roll out of GST was passed by the Parliament, followed by ratification of the bill by more than 15 states and enactment of the bill in early September.

The GST Council consisting of representatives from the Central as well as state Government, met on eighteen occasions in last ten months and cleared –

- GST laws,
- GST Rules,
- Tax rate structure including Compensation Cess,
- Classification of goods and services into different rate slabs,
- Exemptions,
- Thresholds,
- Tax administration

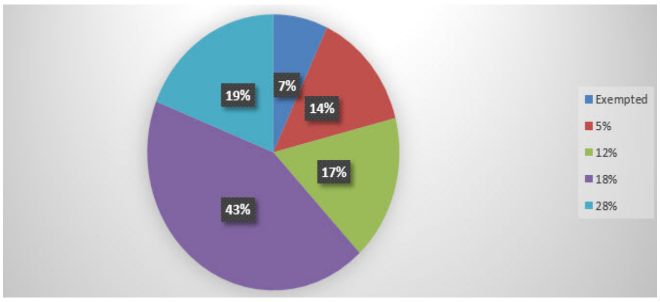


Fig.2.GST Rate Ratio

Table-1: Rate classification for goods

Exempt	5%	12%	18%	28%	28% + Cess
Food grains Cereals Milk Jaggery Common Salt	Coal Sugar Tea & Coffee Drugs & Medicine Edible Oil	Fruit Juices Vegetable Juices Beverages containing milk Jams	Kitchenware Hair Oil Soap Tooth paste Glass fibre	Air conditioner Refrigerators	Small cars (1% / 3% cess) Luxury cars (15% cess)

Table-2: Rate classification for Services

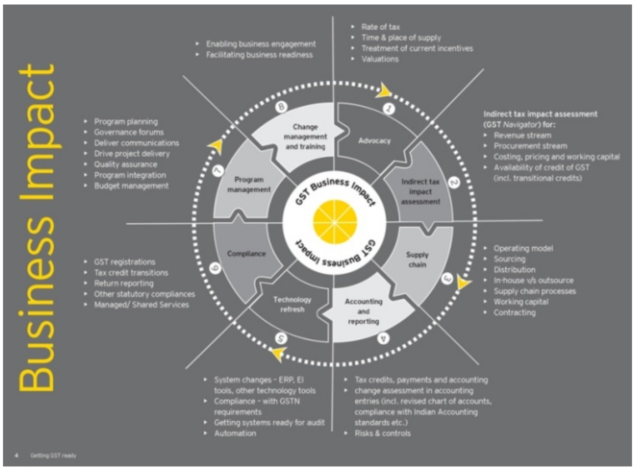
Exempt	5%	12%-18%	28%
Education Healthcare Residential accommodation Hotel/ Lodges with tariff	Goods transport Rail tickets (other than sleeper class) Economy	Works contract Business Class air travel Telecom	Cinema tickets Betting Gambling Hotel/ Lodges

below INR 1000	class air tickets Cab aggregators Selling space for advertisements in print media	services Financial services Restaurant services Hotel/ Lodges with tariff between INR 1000 and 7500	with tariff above INR 7500

Only rates of select goods and services have been mentioned here

- GST rate on pearls, precious or semi-precious stones, diamonds (other than rough diamonds), precious metals (like gold and silver), imitation jewellery, coins – 3%
- GST rate on rough diamonds – 0.25%

Business Impact



5.1 How would a particular transaction of goods and services be taxed simultaneously under Central GST (CGST) and State GST (SGST)?

The Central GST and the State GST would be levied simultaneously on every transaction of supply of goods and services except on exempted goods and services, goods which are outside the purview of GST and the transactions which are below the prescribed threshold limits. Further, both would be levied on the same price or value unlike State VAT which is levied on the value of the goods inclusive of Central Excise.

A diagrammatic representation of the working of the Dual GST model within a State is shown in Figure 1 below.

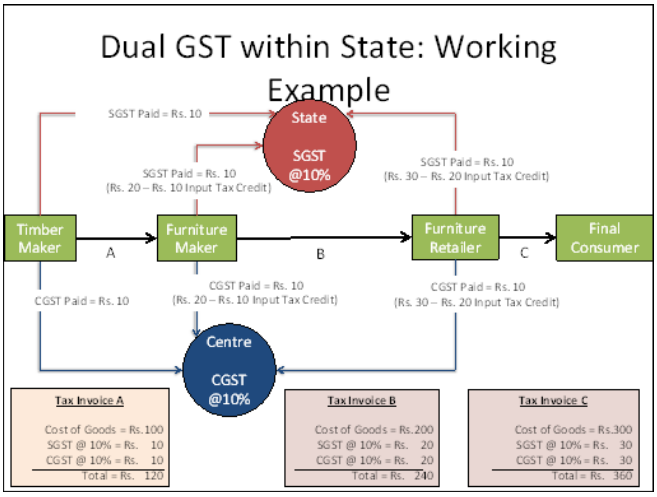


Fig.3.Dual GST within State: Working Example

5.2 Which taxes at the Centre and State level are being subsumed into GST?

At the **Central level**, the following taxes are being subsumed:

1. Central Excise Duty,
2. Additional Excise Duty,
3. Service Tax,
4. Additional Customs Duty commonly known as Countervailing Duty, and
5. Special Additional Duty of Customs.

At the **State level**, the following taxes are being subsumed:

1. Subsuming of State Value Added Tax/Sales Tax,
2. Entertainment Tax (other than the tax levied by the local bodies), Central Sales Tax (levied by the Centre and collected by the States),
3. Octroi and Entry tax,
4. Purchase Tax,
5. Luxury tax, and
6. Taxes on lottery, betting and gambling.

5.3 What are the benefits of GST?

For business and industry

Easy compliance: A robust and comprehensive IT system would be the foundation of the GST regime in India. Therefore, all tax payer services such as registrations, returns, payments, etc. would be available to the taxpayers online, which would make compliance easy and transparent.

Uniformity of tax rates and structures: 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.

Removal of cascading: A system of seamless tax-credits throughout the value-chain, and across boundaries of States, would ensure that there is minimal cascading of taxes. This would reduce hidden costs of doing business.

Improved competitiveness: Reduction in transaction costs of doing business would eventually lead to an improved competitiveness for the trade and industry.

Gain to manufacturers and exporters: The subsuming of major Central and State taxes in GST, complete and comprehensive set-off of input goods and services and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports. The uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cost.

For Central and State Governments

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.

For the consumer

Single and transparent tax proportionate to the value of goods and services: Due to multiple indirect taxes being levied by the Centre and State, with incomplete or no input tax credits available at progressive stages of value addition, the cost of most goods and services in the country today are laden with many hidden taxes. Under GST, there would be only one tax from the manufacturer to the consumer, leading to transparency of taxes paid to the final consumer.

Relief in overall tax burden: Because of efficiency gains and prevention of leakages, the overall tax burden on most commodities will come down, which will benefit consumers.

5.4 Impacts of GST in Indian Economy

1. Shaking up corporate operations

The new tax regime will force many companies to restructure their operations. Companies will now insist vendors and suppliers to furnish invoices as GST will make it impossible for firms to evade taxes. Big companies stand to benefit as they have a supply chain in order and can offset taxes paid on inputs. Smaller firms may end up spending more as compliance cost will rise. “While the impact on companies varies following existence of production units in the excise exempted zones, implementation of GST should result in cost savings in the supply chain network and expedite a shift from unorganized to organized trade,” foreign brokerage firm Jefferies said in a note.

2. Passing on the benefit of lower tax

While the GST Council, headed by finance minister Arun Jaitley, will keep a close vigil on whether companies are passing on the benefit of lower taxes to consumers, experts expressed doubt on the implementation of anti-profiteering norm. “We believe that while corporate would pass on the direct benefits of GST (like a lower tax rate), they would aim to retain partly (if not fully) the indirect benefits from the saving in logistics costs, streamlining of business processes and the seamless flow of input credits,” Nomura said in a report. While GST laws include anti-profiteering measures—the benefits of the reduction in the tax rate and input credit shall be passed on by a commensurate reduction in prices—such measures are difficult to implement and would be a retrograde step, similar to price controls, if implemented in haste, Nomura added. Companies may use the savings from tax outgo under the GST regime to improve profit margin to some extent and invest the rest in building new capacities.

3. Inflation may remain low

Analysts have no doubt that inflation will remain low as GST rates on essential goods such as food grain, household consumer items and essential services have been either exempt or kept lower. However, assuming that GST does have the intended effect of increasing tax compliance, the tax burden would increase, Morgan Stanley said in a note. This could lead companies to pass the costs of higher tax compliance on to the consumer at a later stage, it said. Most of the services are not accounted in the consumer price CPI inflation basket and hence the higher GST rates may not get reflected on the retail price movement as measured by the government data. “Services sector component in CPI is around 20%, whereas they account for almost 50% of the total consumption basket in the economy,” says Soumya Kanti Ghosh, chief economic adviser at State Bank of India. There are services like health, education, miscellaneous segment, transportation are outside the ambit of GST. “Hence, GST implementation on CPI impact will be minimal. We estimate that GST will have neutral impact on headline CPI," he said forecasting the average inflation at 4-4.5% during 2017-18.

4. RBI may not cut rates in June

While inflation is expected to ease further with GST rollout from a record low of 3% in April, analysts expect RBI may not immediately lower policy interest rates. "RBI will watch out for the monsoon progress as also how the GST pans out," said Sinha of India Ratings. In the last policy review, RBI had flagged concerns that the "one-off" impact GST may be inflationary. The central left policy rates unchanged in April. SBI's Ghosh says the RBI will most probably pause on June policy review.

5. Economic growth may not jump immediately

Economists are not sure of the immediate impact of GST and some even say it may impeded growth in the short term as big companies reorganise their businesses and as small firms lose revenue. "The GST implementation will be disruptive as there will be a major change in the supply chain," India Ratings' Sinha said but added the tax reform will be beneficial to the economy in the medium to long term. While GST is unlikely to be a "positive" for economic growth in the short term, Crisil's Joshi said the reform will improve the ease of doing business, bolster investor sentiment and lure more foreign investment in coming years.

VI. CONCLUSION

The GST System is basically structured to simplify current Indirect Tax system in India. We estimate that GST will have neutral impact on headline GST does have the intended effect of increasing tax compliance, the tax burden would increase A well designed GST is an attractive method to get rid of deformation of the existing process of multiple taxation also government has promised that GST will reduce the compliance burden at present there will be no distinction between imported and Indian goods & they would be taxed at the same rate. Many Indirect Taxes like Sales Tax, VAT etc., will be finished because there will be one tax system i.e. GST, that will reduce compliance present burden. GST will face many challenges after its implementation and will result to give many benefits. In overall through this study we conclude that GST play a dynamic role in the growth and development of our country. Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services No doubt, 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.

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