

GST : Positive and Negative Effects on Common Man in India

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Abstract

The Goods and Services Tax is considered as a biggest tax reform since 1947. It seeks to stream line the taxation system so that there is a single tax paid for supply of goods and services. The bill will replace nearly 15 states and federal taxes which is inline with the government focus on cooperative federalism and a mission for unity of Indian economy. The government want to implement GST on 1st April, 2017 and for this efforts are made continuously. The main expectation is that this land mark will go a long way in facilitating ease going business and enabling India to compete with World Trade.

GST bill have a far reaching impact on all almost all the aspects in the business organization in the country for example pricing of products and services, supply chain optimization, IT, accounting and tax compliance system. That's why GST bill has been described as a reform measure of unparalleled importance in independent India. The GST bill facilitate "Make In India" by bringing India on single tax platform.

It can be said that the real success of GST depends upon the impact on the common Indian consumer. The essence of GST is that all goods and services be taxed at moderate rate. Single tax for one India proves to be a game changer in a positive way and proves to be beneficial not only to the common man, but to the country as a whole. It is our expectation that impact of GST will be positive and will bring positive effect to Indian economy and convert India into a unified national market with simplified tax position.

Keywords : GST., GDP, VAT .

1. INTRODUCTION

GST was Ist introduced by France in 1954 and now it is followed by more than 150 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 Indian idea of GST was mooted by "Vajpayee Govt. in 2000 and constitution amendment for same was passed by the "Lok Sabha" on 6th May,2015. The constitution amendment bill for Goods and Services Tax (GST) has been approved by the President of India (Rajya Sabha on 3rd August 2016 and Lok Sabha on 8th August, 2016). The Government on India is committed to replace on the indirect taxes levied on goods and services by centre and states and implement GST by 1st April,2017.

Since India is now 3rd largest economy so GST is most significant tax reform since Independence. It will increase revenues and growth stimulate investment and make investment doing business in India easier. GST bill have a far reaching impact on all almost all the aspects in the business organization in the country for example pricing of products and services, supply chain optimization, IT, accounting and tax compliance system. That's why GST bill has been described as a reform measure of unparalleled importance in independent India. In India presently tax rates differ from state to state. GST will bring uniformity, reduce the cascading effect of these taxes by giving input tax credit , will help industry, which will be able to reap benefits of common procedures an claim credit for taxes paid. This is expected to reduce the cost for

consumers. GST will increase India's GDP by around 2% as per the Finance Ministry.

In present, Central Government levies tax on manufacture (Central Excise Duty), provision of services (Service Tax), interstate sale of goods (levied by the Centre but collected and appropriated by the States) and states levy tax on retail sales (VAT), entry of goods in the State (Entry Tax), Luxury Tax, Purchase Tax, etc. We can say that this fractured mandate of taxation between central and State Governments leaves a lot of gaps in the supply of chain. Since taxes levied by the central Government are not available to set off against the taxes being levied by the State Governments so there is cascading of taxes. In addition, it can be said that different variety of VAT tax laws and different tax rates divides the country into separate economic atmosphere. Tariff and non-tariff barriers for example Octroi, Entry tax on Check Posts make hindrance of free flow on trade in the whole country. In addition, the large number of taxes arise high cost for the tax payers in the form number of returns, payments etc. Really, we can conclude that our tax laws have created a situation where business decisions are not based on logical economic factors but on tax considerations. That's why it is the appropriate time that there should be one tax to solve number of these problems to a large extent.

All the taxes mentioned earlier are proposed to be merged in a single tax called the Goods and Services Tax (GST) which will be levied on supply of goods or services or both at each stage of supply chain starting from manufacture or import and till the last retail level. GST is proposed to be a dual levy where the Central Government will levy and collect Central GST (CGST) and the State will levy and collect State GST (SGST). The Centre will also levy and collect Intergrated GST (IGST) for inter-state supply of goods and services.

2. FUNDAMENTALS ISSUES OF GOODS AND SERVICES TAX

Following Taxes/duties are to be subsumed in GST:

(a) From Central Government:

- i) Central Excise Duty
- ii) Duties Of Excise (Medicinal and Toilet Preparations)
- iii) Additional Duties of Excise (Textiles and Textile Products)
- iv) Additional Duties of Customs (CVD)
- v) Special Additional duty

(b) From State Government:

- i) State VAT
- ii) Purchase Tax
- iii) Luxury Tax
- iv) Central Sales Tax
- v) Entry Tax (All forms)
- vi) Entertainment Tax (except those levied by the local bodies)
- vii) Taxes on lotteries, betting and gambling
- viii) Taxes on advertisements
- ix) State cesses and surcharges as far as they relate to supply of goods or services

(c) Commodities to be included in GST at all:

- i) Natural Gas
- ii) High speed diesel
- iii) Motor spirit (petrol)
- iv) Petroleum crude
- v) Aviation Turbine Fuel
- vi) Existing system of VAT and sales Tax will continue for these products.

(d) Commodities not included in GST at all:

- i) Real Estate
- ii) Electricity
- iii) Alcohol for human consumption

(e) Tobacco to be treated under GST:

- i) GST to be levied on tobacco and tobacco products. In addition, the centre would have the power to levy Central Excise duty on these products.

(f) Compensation to the states for revenue loss, if any, after introduction of GST:

- i) States to get full compensation for revenue loss, if any, for first five years.

(g) How import and exports to be treated:

- i) Imports of Goods and Services will not be treated as inter- state supplies and IGST will be levied on import of goods and services into the country.
- ii) Exports will be treated as Zero rated supplies.

(h) List of goods and services to be exempted:

- i) Effort is to keep the list of exemptions smaller. GST council will decide about goods and services to be exempted

3. GST COUNCIL

Setting up of GST Council was a major big development. It is an apex body including Centre and the State for GST. It has the power to finalize nitty-gritty of GST and to resolve disputes. Union Finance Minister is the head of the Council while the Union Finance Minister of State (In- charge of revenue) and the Minister in charge of finance or taxation or any other Minister nominated by each State Government will be members. The council will have two members including the Chairman from the centre and one member each from 29 States and the 2 Union Territories (with legislature) taking the total strength to 33. The Union Revenue Secretary will be Ex- officio Secretary to the GST Council while the Chairperson, Central Board of Excise and Customs (CBEC) will be a permanent invitee (non-voting) to all proceedings of the Council. The Council will make recommendations to the Union and the States on important issues related to GST :

- a) Goods and Services that may be subjected or exempted from GST.
- b) Model GST laws.
- c) Principles that govern Place of Supply, threshold limits.
- d) GST rates including the floor rates with bands

- e) Special rates for raising additional resources during natural calamities / disasters.

- f) Special provisions for certain States, etc.

Every decision of the Council will be taken at a meeting, by a majority of not less than three-fourths of the weighted votes of the members present and voting. The vote of the Central Government will have a weightage of one-third of the total votes cast, and the votes of all the State Governments (including the Union Territories with legislatures) taken together shall have a weightage of two-thirds of the total votes cast. In the last two meetings held on 22nd, 23rd and 30th September, 2016, the GST Council has already decided on issues including the threshold for businesses on which GST would be levied, the Drafts Business Rules, the future of Area Based Exemptions as well as control over small businesses among others. Simultaneously, the work on IT infrastructure for GST- GST Network (GSTN) that will provide a common system to States, Centre and taxpayers is almost complete. Working of GST Network will be tested in January and February next year.

4. IMPACT OF GST ON PRICING OF PRODUCTS AS COMPARED TO CURRENT SYSTEM

we can take an example to understand this clearly.

Present Tax System:

1. Product sold from Bareilly to Meerut. Price is Rs. 1000
2. VAT is @ 10% = Rs 100
3. Product sold from Meerut to Delhi. Cost is Rs 1100.
4. Profit = RS 1000.
5. Sell Price = Rs 2100
6. CST @ 10% =RS 210
7. Total Cost of the product = Rs 2310.

Proposed GST System:

1. Product sold from Bareilly to Meerut. Price is Rs. 1000

2. CGST is @ 5% = Rs 50. SGST is @ 5% = Rs 50.
3. Product sold from Meerut to Delhi. Cost is Rs 1100.
4. Profit = RS 1000.
5. Sell Price = Rs 2100
6. IGST @ 10% =RS 110=210 - CGST- SGST
7. Total Cost of the product = Rs 2210.

In the above example we can conclude that the tax paid on sale within state can be claim against tax paid on sale outside state in GST system, which is not in present tax system.

The credit of CGST cannot be taken against SGST and credit of SGST can not be taken against CGST but both credit can be taken against IGST.

5. POSITIVE EFFECTS OF GST

There will be positive effects of implementation of GST in India without doubt.

Dr. R. Vasaathagopal (2011) , "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.

Nitin kumar (2014) studied , "Goods and Service Tax- A Way Forward" and concluded that implementation of GST in India help in removing economic distortion by current indirect tax system and expected to encourage unbiased tax structure which is indifferent to geographical locations.

Some positive effects may be as follows:

- a) At present we pay service tax and vat both, but after implementation of GST eating out would be cheaper as there will be a single tax.
- b) As the GST reaches its final stages, the historic legislation promises to unify the tax system for the nation and increase the GDP by 2 per cent.
- c) Small cars, FMCG products, etc. may become cheaper.

d) Television could get cheaper, as part of the Make in India initiative, the GST is expected to be lower. So at present for Rs 40,000 LED TV we pay around 24.5 per cent tax, shelling out Rs 49800 eventually. Under GST if it is around let say 18 per cent, it will cost Rs 47,200, thereby bringing the cost down for the consumer.

e) Nowadays, Goods are typically taxed at 12.5 per cent (excise duty) plus 5-15 per cent (VAT) which is invariably passed on to the end customer. If the standard rate of GST is capped at 18 per cent, there exists a scenario where prices of goods can significantly reduce for the customer. This is because procurement costs will also go down for a business and some of the profit can be passed on to the end of the chain.

f) GST is expected to bring down the manufacturing cost and even a 2 per cent reduction in production or distribution cost is believed to add over 20 per cent to profits. If the rate of GST is below the current total tax rate, it will eventually help consumers by making healthcare and medicines more affordable which already is a big goal for the Indian Government.

g) The GST will definitely take the Indian economy to the next level for the better.

h) Greater use of IT sector in GST will reduce human interface between the taxpayer and the tax administration, which will go a long way in reducing corruption.

i) It will boost export and manufacturing activity, generate employment for common man in India.

j) Finally, it will help in poverty elimination by generating more employment and more financial resources.

7. NEGATIVE EFFECTS OF GST

There may be some negative effects also:

a) As the states are expected also to decide service tax rates, our phone / mobile bill could

- see escalation of taxes Services consumed by a common man such as telecom, rail, transportation, banking, air travel, etc. may become expensive.
- b) Buying bags, shoes, electronics goods online will be getting more expensive as the e-commerce industry comes into a tax net and will have to pay tax deducted at source for every purchase from its sellers. So e-commerce companies which will see shrinking of profit margins and increase tax compliance net could slash discounts and freebies that they offer.
- c) Some essential items in a household (textiles, books, cooking oil, etc.) are actually subject to about 5-8 per cent tax because of exemptions. If the rate hits 18 per cent, then goods go up in pricing, wobbling the entire structure.
- d) In the service industry, the typical tax output will go up from 15 per cent to 18 per cent.
- e) Health insurance and diagnostic centres, which are mainly service-oriented, may fall under higher tax rates, thereby making such services more expensive for consumers.

It can be said that the real success of GST depends upon the impact on the common Indian consumer. The essence of GST is that all goods and services be taxed at moderate rate. Single tax for one India proves to be a game changer in a positive way and proves to be beneficial not only to the common man, but to the country as a whole. It is our expectation that impact of GST will be positive and will bring positive effect to Indian economy and convert India into a unified national market with simplified tax position. The main expectation is that this land mark will go a long way in facilitating ease going business and enabling India to compete with World Trade.

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