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TRANSFORMATION IN INDIAN TAX REGIME –GST

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ABSTRACT: -

Present study reveals the overall working of GST in India. After a long interval, government decided to impose GST on 01 July 2017 while more than 150 countries have already implemented GST and France was the first nation who adopted GST taxation in 1954. The Central government passed four sets of GST Acts in the Budget session this year. These were Central GST Act, 2017; Integrated GST Act, 2017; Union Territory GST Act, 2017 and GST (Compensation to States) Act, 2017. The Acts were approved by the Parliament after they were introduced as the part of the Money Bill. Lot of expectations are there with new GST regime as it is expected to come down the overall tax rate and further it will increase the efficiency of tax department. It is expected that GST will give India a world class tax system. GST is the only indirect tax that directly affects all sectors and sections of our economy. 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.

KEYWORDS: *GST, Compensation, Tax System, Manufacturing Consumer.*

INTRODUCTION: -

GST which means Goods and Service tax will add a new chapter in the history of Indian Tax regime. There is a long history behind Indian GST bill. It was introduced by former Prime Minister of India Shri Atal Bihari Vajpey in Lok Sabha in 2000. After that it touched many dimensions and crossed lot of stages. Finally, based on a broad consensus reached with the Empowered Committee on the contours of the Bill, the Cabinet on 17.12.2014 approved the proposal for introduction of a Bill in the Parliament for amending the Constitution of India to facilitate the introduction of Goods and Services Tax (GST) in the country. The Bill was introduced in the Lok Sabha on 19.12.2014, and was passed by the Lok Sabha on 06.05.2015 for 122nd amendment in Constitution. It was then referred to the Select Committee of Rajya Sabha, which submitted its report on 22.07.2015. After a long interval, government decided to impose GST on 01 July 2017. It is considered as a biggest tax reform since independence because GST will unify all indirect taxes under one umbrella an increase the efficiency of tax department and government. In early 50s GST was introduced in some European countries and now it is followed by around 150 countries. Introduction of GST

would also make Indian products competitive in the domestic and international markets. 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%. 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.

Methodology of the Study

Present study is totally based on the review of literature and secondary data have been collected from different sources like newspapers, journals, articles etc.

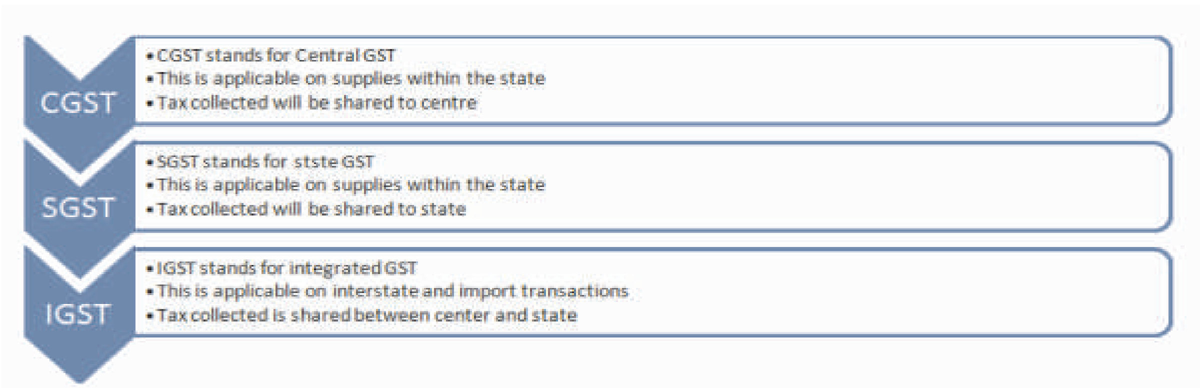
Objectives Of Study

1. To know overall background of GST
2. Disclose the impact of GST on certain Goods and Services
3. To reach the final suggestion and conclusion.

ADMINISTRATION OF GST

Considering the federal structure of India, there will be two components of GST – Central GST (CGST) and State GST (SGST). Both Centre and States will simultaneously levy GST across the value chain. Tax will be levied on every supply of goods and services. Centre would levy and collect Central Goods and Services Tax (CGST), and States would levy and collect the State Goods and Services Tax (SGST) on all transactions within a State. The input tax credit of CGST would be available for discharging the CGST liability on the output at each stage. Similarly, the credit of SGST paid on inputs would be allowed for paying the SGST on output. No cross utilization of credit would be permitted. On inter-state transactions including imports, integrated GST (IGST) shall be levied and collected in lieu of CGST and SGST.

As per Article 279A of the amended Constitution, GST Council will be a joint forum of the centre and the states. As per Article 279A (4), the Council will make recommendations to the Union and the States on important issues related to GST, like the goods and services that may be subjected or exempted from GST, model GST Laws, principles that govern Place of Supply, threshold limits, GST rates including the floor rates with bands, special rates for raising additional resources during natural calamities/disasters, special provisions for certain States, etc.



GST DIFFERENT FROM OTHER TAXES

The current taxation gives rise to a high tax rate as it has several indirect tax and that increases the tax rate along with every state having their own tax rate which increases the amount of tax rate as the goods are being transported from state to state which will no longer be a problem when GST is implemented. It will have no separate tax based on good or services and state borders which will make it easier and less expensive for importers and exporters.

VAT was calculated on the value of sales of good or services which but with the tax rate that is already levied on the goods. But it changed to only paying tax on value addition and separately for the service. With GST coming into the picture the tax will be collected together without separate tax for goods and services.

WORKING OF GST

Imagine a manufacturer of, say, chair. He buys raw material or inputs — wood, nails, paint, manufacturing equipment — worth Rs 1000, a sum that includes a tax of Rs 100. With these raw materials, he manufactures a chair. In the process of creating the chair, the manufacturer adds value to the materials he started out with. Let us take this value added by him to be Rs 50. The gross value of his good would, then, be Rs 1000 + 50, or Rs 1050.

At a tax rate of 10%, the tax on output (this shirt) will then be Rs 105. But under GST, he can set off this tax (Rs 105) against the tax he has already paid on raw material/inputs (Rs 100). Therefore, the effective GST incidence on the manufacturer is only Rs 5 (105 – 100).

The next stage is that of the good passing from the manufacturer to the wholesaler. The wholesaler purchases it for Rs 1050, and adds on value (which is basically his 'margin') of, say, Rs 50. The gross value of the good he sells would then be Rs 1050 + 50 — or a total of Rs 1100. A 10% tax on this amount will be Rs 110. But again, under GST, he can set off the tax on his output (Rs 100) against the tax on his purchased good from the manufacturer (Rs 105). Thus, the effective GST incidence on the wholesaler is only Rs 5 (105 – 100).

In the final stage, a retailer buys the chair from the wholesaler. To his purchase price of Rs 1100, he adds value, or margin, of, say, Rs 100. The gross value of what he sells, therefore, goes up to Rs 1100 + 100, or Rs 1200. The tax on this, at 10%, will be Rs 120. But by setting off this tax (Rs 105) against the tax on his purchase from the wholesaler (Rs 15), the retailer brings down the effective GST incidence on himself to Re 15 (120 –105).

Thus, the total GST on the entire value chain from the raw material/input suppliers (who can claim no tax credit since they haven't purchased anything themselves) through the manufacturer, wholesaler and retailer is, Rs 100 + 5 + 5 + 15, or Rs 125.

In a full non-GST system, there is a cascading burden of "tax on tax", as there are no set-offs for taxes paid on inputs or on previous purchases.

OVERALL IMPACT OF GST TAX IN INDIA

• It will widen the tax regime by covering goods and services and increase its transparency
• It will subsume all the indirect taxes at the center and state level
• It will free the manufacturing sector from cascading effects of taxes and leading to the improvement of cost competitiveness of goods and services
• The prices of goods and services will go down thus increasing the tax GDP ratio
• Doing business in India will be much easier as the rules and structure will be made much simpler
• Taxes on manufactured goods will come down to 24- 25 percent to 20- 21 percent
• Taxes on retail will go up from present 12.5% to 20%
• Local taxes (counter vailing duty) on imported items would go up by around from present 16% to 20%
• Manufacturers and service providers will have to register separately in each state
• There will be a dual control on the GST where state and central authorities will
• All the invoices will be captured online by GSTN
• Only three accounts will have to be maintained CGST, SGST, IGST. This will simply all the tax system that we currently have.
• GST is beneficial for both economy and corporations as it will reduce several burdens on production cost and making exporters more competitive.
• It will reduce corruption as it will help in building a transparent and corruption free tax administration. There will also be a reduction of departments which will reduce corruption

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• The entire country market will be unified market which will make every cost lower for doing business in other states and importing or exporting.
• Suppliers, manufacturers, wholesalers, retailers will be able to recover GST incur more input costs as tax credits. This will reduce the cost of doing business, thus enabling fairer prices for consumers. Companies which are under organized sector will come under tax regime. More business entities will come under the tax system hence, widening the tax base. This will lead to more revenue collections.
• Will bring support to smaller business as it will not collect tax from business that do not have enough revenue according to the GST rule.
• The present tax gives an incentive to evade taxes because excise duty was a cost for traders, there by taking it attractive for them to purchase without invoice.
• The poorer states will have to pay equal amount of tax which will help them to develop.
• Any new business requires making a VAT registration from sales department. There are different process in every state and that makes it difficult for business owners to start branches in different states which will be removed with GST implementation.
• It will remove the layered tax from some goods and hence the prices are likely to come down for such products.
• Wider base of SMEs will be in the GST basket

IMPACT OF GST ON VARIOUS INDUSTRIES

AUTOMOBILES:

The effective tax rate in the sector currently ranges between 30 per cent and 47 per cent.

Highlights:-

⊙ After the implementation the GST rate will be 29 percent from the current 31.4 percent
⊙ It is expected to drive overall demand and reduce cost for the end user by about 10 per cent.
⊙ The transportation time and the overall cost will be reduced as the goods will be transferred from .
⊙ In addition to this, the cost for the logistics and supply chain inventory will be curtailed by almost 30-40 per cent.

Impact: In a long run, GST is expected to remain positive for automobile sector.
key beneficiaries: Maruti Suzuki, Hero MotoCorp, Bajaj Auto, Eicher Motors, Ashok Leyland

CONSUMER DURABLES

The previous tax rate for the sector ranges between 7 per cent and 30 per cent.

Highlights:-

⊙ The implementation of GST The tax rate for the sector was around 25-27 per cent, which has been hiked to 28 per cent under GST.
⊙ It will lead to the reduction of the price gap between the organized and unorganized sector.
⊙ The warehouse/logistics costs across the operational and non-operate.
⊙ The 7th Pay Commission is also expected to boost demand and fund inflow in the consumer durables sector by the end of the year.

Impact: The impact may remain neutral or negative, specifically for companies which either enjoy tax exemptions or fall under the concessional tax bracket.

Key beneficiaries: CGCE, Havells, Voltas, Blue Star, Bajaj Electricals, Symphony, Hitachi

FURNISHING AND HOME DECOR

Impact: Previously, the tax rate for this sector is 4-5%, and under GST the tax rate is 12-28%.

Highlights:-

- At present, the market share for the organised sector is about 65-70 per cent. Effective tax correction practices under the GST regime will ensure that the price difference amongst the unorganised sector and the organised sector is narrowed. This will improve opportunities for the organised sector.
- The overall cost and competitiveness in products such as like ceramic tiles, faucets, paint, sanitary ware and plywood & laminates manufacturer will be curbed.

Impact: Implementation of GST is expected to bring the unorganised sector under a uniform tax base and improve growth opportunities for the organised sector.

Key beneficiaries: Asian Paints, Berger Paints, Kansai Nerolac, Akzo Nobel, BASF India, Pidilite, HSIL , Cera Sanitaryware, Greenply, Greenlam Industries, .. H&R Johnson (Prism Cements), Kajaria Ceramics

LOGISTICS

Impact: Logistics sector to gain most from GST as costs will be down by 20%

Highlights:

- The implementation of GST will lead to lower transit time and thereby generate higher truck utilisation.
- This will boost demand for high tonnage trucks and lead to overall reduction in transportation costs. It will facilitate seamless inter-state flow of goods, which is expected to directly accelerate demand for logistics services.

Impact: The logistics sector is largely fragmented and comprises many unorganized players. Several players in the unorganised sector avoid tax which generates a cost gap between them and the organized players.

With the GST coming into picture, the overall positive impact, with a reduction in the cost competitiveness as all the players will be brought under a uniform tax base, thereby improving growth opportunities for the organized players.

Key beneficiaries: VRL Logistics, GATI, Blue Dart, Transport Corporation of India, Snowman Logistics

CEMENT

The tax on cement ranges was between 27 per cent to 32 per cent .

Highlights:-

- Under GST the tax rate for the cement sector has been increased up to 28%.
- Thereby, overall realisations of cement companies will substantially improve post GST rollout.

Impact: The impact of GST will be positive, as the companies will also be able to save on their logistic costs, due to rationalisation of warehouses and lower transportation costs (due to decline transit time).

Key beneficiaries: ACC, Ultratech, JK Cement, Shree Cement.

TEXTILES/GARMENTS

The pervious tax rate for the sector ranges between 6-7 per cent,

Highlights:-

- Under the GST regime, there is 18% tax rate.
- Companies may be negatively impacted.
- Going forward, several export companies may also avail duty drawback benefits. Though we await more

clarity on the impact of these benefits.

Key players to be impacted: Arvind, Raymond, Page Industries

PHARMA

Currently, the sector enjoys various location-based tax incentives. The effective tax rate (excise duty) for most companies is much below the statutory tax rate (6 per cent).

Highlights:-

- Under the new GST regime, the tax rates on most drugs were raised from 9% to 12%. But the GST on vital drugs like insulin had been reduced to 5%.
- GST is also expected to address inverted duty structure and lower logistic costs for the sector.

Impact: It is expected remain neutral for the pharmaceutical sector.

TECHNOLOGY & IT SECTOR

Previously the IT industry is subject to an effective tax rate of 14 per cent.

Highlights:-

- The tax rate under GST up to increase to 18 per cent.
- The industry earns a large part of its revenue from exports, which will continue to be exempt under GST.
- Litigation around taxability of canned software will probably end under GST regime as there will be no distinction between goods and services.

Impact: It is cosiderd neutral to slightly negative.

TELECOM

Previously, telecommunication services are subject to service tax of 15 per cent.

Highlights:-

- The tax rate is increase to 18 per cent under GST.
- It is that the telecom companies may pass the increased tax burden on postpaid subscribers.
- Availability of input tax credit will lower the sector's capex cost.

Impact: Increase in effective tax rate is marginally negative for the sector. The telecommunication companies may not be able to pass on all the increase in taxes to all the end consumers, especially the ones in the lower Arpu prepaid segment.

BANKING AND FINANCIAL SERVICES

Previously the tax rate is 15 per cent, which is levied only on fee component (and not interest) of the transaction.

Highlights:-

- Under GST, effective tax rate on fee-based transactions is increased to 18%.
- As the taxs on the input services will increase, operating expenses (comprising of rent, legal & professional fee, advertisement, insurance, telecommunication and other expenses) will also increase marginally.

Impact: With the implementation of GST a moderate increase in the cost of financial services such as loan processing fees, debit/credit card charges, insurance premiums, etc.

FINDINGS AND CONCLUSION

After a deep review of proposed GST it is expected to grow Indian economy faster as it an effective tool of fiscal policy. Finally government decided to apply GST from 01 July 2017 onwards after the assent of all stakeholders. Undoubtedly GST will remove the unnecessary tax cascading which was the integral part of previous indirect tax system. Further the cost of goods and services will come down as multiple taxes are not there. It was also observed that it may create some problems at initial level but as we become familiar with this tax structure we will be benefited by this. It is expected to increase job opportunities and increase in GDP up to 1-1.5 %. Further it will increase the efficiency of tax department and the Government.

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