Impact of Goods and Service Tax (GST) on Business and Tax Reforms in India

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Abstract. Goods and Services Tax (GST) comes under Indirect Tax regime covers whole of India replaced various indirect taxes levied by the Central and state governments. The GST is governed by GST Council and its Chairman is Union Finance Minister of India "GST is not a tax reform in true sense, but it is a major business reform which will change the way business activities are carried in the country. The dual structure of GST is the fundamental character of our country and therefore a single GST across the country is not possible in true sense under GST ,the taxpayer will be ease the burden of taxpayers to deal with multiple indirect taxes as under present Indirect system but GST will cost high compliance burden on the taxpayers requiring a registration in every state from where taxable activities are carried out but it would definitely reduced cumbersome documentation and save time. This research Paper discuss about the biggest step taken in indirect tax system that is GST and challenges in implementation. The paper aims to show that GST is a merely a Business reform, not a uniform tax system.

KEYWORDS: GST, Tax Reform, Business Reform

Introduction

The Goods and Services Tax (GST) is a vast concept that simplifies the giant tax structure by supporting and enhancing the economic growth of a country. GST is a comprehensive tax levy on manufacturing, sale and consumption of goods and services at a national level [1]. The Goods and Services Tax Bill or GST Bill, also referred to as The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014, initiates a Value added Tax to be implemented on a national level in India. GST will be an indirect tax at all the stages of production to bring about uniformity in the system (*See* Dani S., 2016).

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.

Historical Background

2006: In the budgetary speech, Finance Minister of India,Shri P. Chidambaram announce implementation of the Goods and Services Tax w.e.f April 1, 2010.

2009: First task force was set up and further the discussion report was presented.

2010: Date of implementation of the GST was changed to April 1, 2013.

2011: The cabinet of India approved the Constitutional Amendment Bill and placed it before the Parliament. This amendment was further referred to the Standing Committee constituted for the specific purpose.

2012: The Standing committee placed negative list and provision of Service Rules.

2013: Three sub-committees were formed and their chief work was to sort out the contentious issues. These sub-committees after deliberations submitted the report to the Standing Committee and the amended bill was sent to the States for consideration.

2014: Finance Minister distributes the funds to compensate the States and Constitution Amendment Bill is introduced in the Lok Sabha.

2015: All efforts are being made to meet the necessary deadlines to ensure that GST is rolled out by 1 April 2017.

2016: From 8th September, 2016, the GST Council was originated by the Cabinet within a period of one week along with the Secretariat. six meetings of the Council have been held in New Delhi. These meetings were held on 22-23 September, 2016; 30 September, 2016; 18-19 October, 2016; 3-4 November, 2016; 2-3December, 2016 and 11 December, 2016.

2017: With the passage of the Constitutional Amendment Bill by the Rajya Sabha, the GST has finally been set in motion for introduction of GST from 1st july,2017.

REASONS: GST Is a Business Reform

One Registration: Businesses currently have to registred under VAT from the state's sales tax department to start on their own. It is very difficult to get a VAT registration for every state since each state has a different regulation regarding its VAT law, whereas under GST, every process will become centralized. Businesses registered themselves in the state where it has its branch and can supply goods and services across the country.

Integration of Multiple Taxes: Presently under indirect taxes goods and services are taxed under different VAT registrations and sales tax, CST, purchase tax, luxury tax. Under the GST, all these taxes are comes under one umbrella. The taxes which are merged under GST are- Central taxes including service tax, central excise duty, additional customs duty, special additional customs duty, central purchases and cess. State taxes include VAT, central sales tax, octroi and entry tax, purchase tax, luxury tax, taxes on lottery, betting, gambling, state cess and charges, entertainment taxes.

GST Exemption for Start ups and Small Businesses: Presently, it is mandatory for businesses crossing an annual turnover of Rs 5 lakh or Rs10 lakh in some states to have VAT registration and VAT payment. The confusing practice comes to an end with GST introduction. Once it is implemented, businesses in north-east and hilly areas having turnover of Rs. 10lakhs while for the rest of India having turnover less than Rs. 20 lakh need not to register for GST or even collect it. Moreover, those with a turnover between Rs. 20 and Rs. 50 lakh may have to pay the GST at a lower rate, under the composition scheme. This only gives a big acceleration to startups with a nominal turnover and thus making easy taxation procedures.

Bring Improvement: Now, all businesses goods or services, have to comply with various indirect regulations across the state, which leads to the complexity for conducting a business. With the implementation of GST, the bifurcation between goods and services will be gone. Also, invoicing will be easier for businesses since there would only be one rate for similar goods or services. It is expected that GST will make the conducting of business smooth and easy and reduced overall logistics cost.

Impact Of GST on Sector-Wise

Automobiles: Mostly, in case of automobile sector, car are manufactured in one state and supplied or consumed in other state so CST of 2% is charged which is removed with the introduction of GST as it is a consumption based tax. octroi and check points removed under GST which will lead to reduced transportation time and the overall. Easily set off input tax credit against output liability whether it is for capital goods, input services or manufactured goods.

Only negative point is state incentives is not available as IGST is paid on inter-state transfer which is part of central revenue. In a long run, GST is expected to bring positive results for automobile sector.

Consumer durables*:* Under GST, consumer durables are taxed at 18% tax slab which is lower than current tax slab of 28%. It is expected that with Introduction of the 7th Pay Commission, the demand of goods and services increased and ultimately boost fund inflow in the consumer durables sector by the end of the year. **In the long run,** the impact of GST is positive.

FMCG: Under GST regime, companies get level playing field as branded and unbranded products of similar nature are taxed in same tax bracket. Lower tax burden passes in form of lower prices to consumers. People move from unbranded to branded products like Colgate can also lower tax rates like Patanjali and Dabur enjoys currently.

	Detergents	Baby foods	Sanitary napkins	Shampoo
GST RATE	28%	18%	18%	28%
CURRENT RATE	23%	5-12%	10-11%	24-25%
COMPANIES IMPACTED	HUL, P&G, Jyothy Lab	Nestle	P&G Hygiene and Health Care	HUL, P&G, Dabur, Himalaya

GST will adversely affect some consumer products as they are kept under highest slab of 28%.

	Skin care	Ayurvedic medicine	Hair dyes	Paints
GST RATE	28%	12%	28%	28%
CURRENT RATE	24-25%	7-10%	23-28%	25-26%
COMPANIES IMPACTED	HUL, Dabur	Dabur, Emami	Godrej Consumer Products (GCPL)	Asian Paints, Berger Paints, Kansai Nerolac, Akzo Nobel

GST ensure that the price difference amongst the unorganised sector and the organised sector is narrow down. This will improve opportunities for the organised sector. People move from unbranded to branded products like Colgate can also lower tax rates like Patanjali and Dabur enjoys currently. In the long run, GST is expected to bring the unorganised sector under a single tax base and improve growth opportunities for the organised sector.

Logistics: The Indian logistic sector is mainly categorized into four segments i.e transportation, warehousing, freight forwarding and value-added logistics. GST will reduce multiple taxes and thereby, lower transit time and also generate higher logistics efficiency. Demand for logistics services is increased due to increased inter-state flow of goods. In the long run, price gap between organised and unorganised sector of logistics services is reduced effectively.

Cement: GST put cement in higher tax bracket of 28% against 31% including different indirect taxes. Higher tax slab of 28% which will ultimately affect housing sector negatively.

Entertainment: We have divided in two main categories i.e. Multiplexes and Media. We expect a significant impact on both the sectors after implementation of GST. In the long run, The overall impact is expected to be positive.

Media: Rolling out of GST will lower tax rate for the DTH provider and higher for the broadcaster. GST will attract tax payment from the news and print media which is currently exempted from all indirect taxes. Implementation of GST will be positive for the DTH providers and negative for broadcasters. In the long run, the overall impact on the news and print sector will be neutral.

Pharma: Being the important sector, it enjoys various location-based tax incentives. Under GST, almost 80% of drugs are taxed at 12% and essential drugs are taxed at 5%.

Hospitality: Currently, indirect tax on food is 18.5% whereas under GST it will be 18% i.e direct saving of 0.5% and in five-star hotel 28% rate is charged under GST. Presently, restaurant owners cannot set off service tax received against VAT paid on purchases but under GST, Input Credit is available. Thus, working capital improved for restaurant owners. Overall, GST bring positive impact for customer and owners.

Telecom: Telecom sector is expected to increase tax to 18 per cent from 14 per cent presently under GST. Ultimately, Telecom companies transfer the burden of extra tax on post paid subscribers. In the long run, extra tax rate creates marginal negative effect for telecom sector.

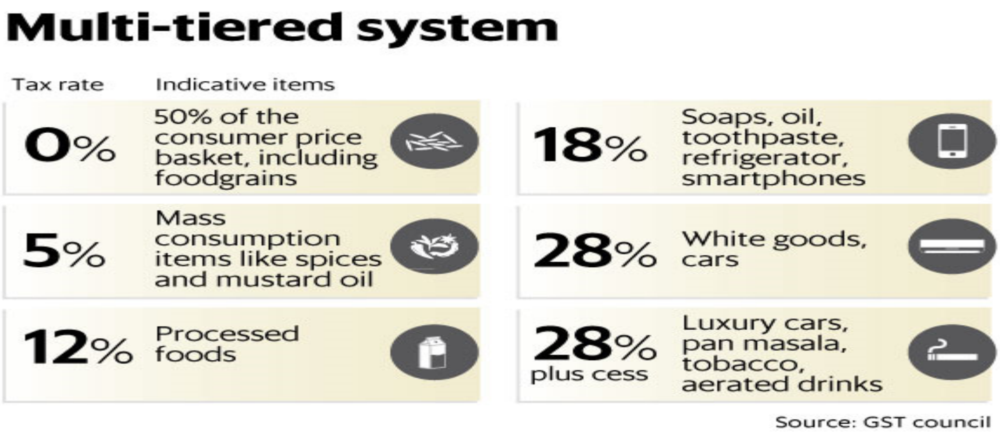
Metal: Higher tax rates are imposed on precious metals i.e. 2-6% which is higher that VAT. Under GST, precious metals attract high tax rates but it removes various unseen taxes which will ultimately bring minimum impact on the metal sector.

Banking and Financial Services: GST will increased compliance cost as banks have multiple branches in various states so banks needs one central registration for numerous branches in one state but separate registration for every state in which it operates. Deciding place of consumption would be difficult as bank branches have numerous transactions on each day. Banking services becomes expensive as services attract 18% tax rate under GST.

REASONS: GST is not a Tax Reform

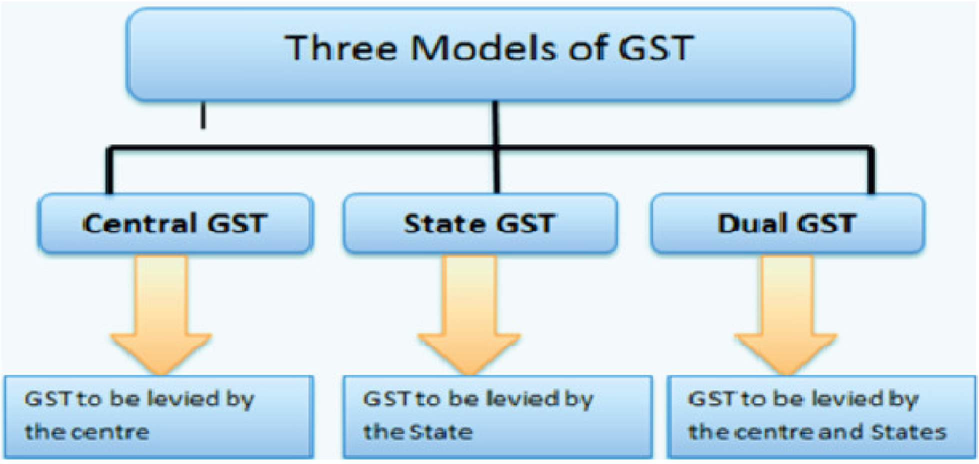
5-Tier Tax Structure: Presence of multiple tax slabs under GST regime will keep GST few steps away from becoming "one nation one tax" in true spirit as many companies are diversified in nature in India so charging different rate for different products would be difficult as various products are falling in different slabs. Example: if a XYZ company manufacturing food grains which are under Zero –tax slab and tobacco which is under 28% tax slab. This is a very mere example; there are companies which are manufacturing goods falling in each category. Therefore, GST will not achieved Unified Tax system in real sense

- Exempted categories – 0
- Commonly used Goods and Services – 5%
- Standard Goods and Services fall under 1st slab – 12%
- Standard Goods and Services fall under 2nd Slab – 18%
- Special category of Goods and Services including luxury - 28%



Dual GST Model

India is a federal country where both the Centre and the States have been given the powers to levy and collect taxes. Therefore, under GST regime, three classes of rates are decided:



GST is a consumption based tax i.e. the tax should be received by the state in which the goods or services are consumed and not by the state in which such goods are manufactured. IGST is designed to ensure smooth flow of input tax credit from one state to another. One state has to deal only with the Centre government to settle the tax amounts and not with every other state, thus making the process easier. For e.g.: – A dealer in Kolkata sold goods to the consumer in Kolkata worth Rs. 10,000. The GST rate is 18% comprising of CGST rate of 9% and SGST rate of 9%, in such case the dealer collects Rs. 1800 and Rs. 900 will go to the central government and Rs. 900 will go to the Kolkata government.

Now, if the dealer in Kolkata had sold goods to a dealer in Rajasthan worth Rs. 1,00,000. The GST rate is 18% comprising of CGST rate of 9% and SGST rate of 9%. In such case the dealer has to charge Rs. 18,000 as IGST. This IGST will go to the Centre. Thus, Dual GST not an ideal model as tax would be levied at two levels i.e at central and state level and therefore, its compliance costs may not lessen significantly. Ultimately, Cascading effects would be present as there would be tax at two levels.

Increase working capital requirement

Inter-state self-supplies like stock transfers, branch transfers or consignment sales shall be taxable under IGST though such transactions may not involve payment of consideration. Every supplier is liable to register under the GST in the State or Union territory from where he makes a taxable supply of goods or services.

Conclusions

It is concluded that GST is a business reform in true spirit as there is going to be a paradigm shift in the way that business is done in India. But it is the SO CALLED biggest tax reform as GST have settled on a complex structure with at least four different brackets as well as an additional levy on sin and luxury goods and dual model .Thus, Resorting to multiple rates sacrifices keep GST somewhat far away from a TAX REFORM in True sense.

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