

Assessment and Impact of GST in India

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Abstract— The Goods and Service Tax aimed at playing an important role in the achievement of revenue collection for the current government. In current scenario, there were many different taxation is adopted by the Indian government like (service tax, VAT, excise duty, CST, additional excise duty, luxury tax, Entertainment tax, etc.) for collection of revenue for the government and act as a source of expenses involved in the development of the society. In this paper, an attempt is made to compare the existing indirect tax revenue system and the proposed the new tax system (GST), which is going to be applied for the entire sector (except aviation turbine fuel, diesel, petrol and alcoholic liquor). It is anticipated that the proposed GST the taxation system will change the entire taxation structure and its consequences among certain sectors like agriculture, pharmaceutical industry, textile, and transportation. The influence of GST to the stake holders of taxation is proposed to be assessed by the development of theoretical model.

Key words: GST, revenue for the government, overtake existing tax revenue, proposed tax system

I. INTRODUCTION

GST is termed as Goods and Service Tax it's one of the new concepts in India. It's the tax collection instrument of the government revenue from the business people and general people. GST is amendment from India's East, West, North, and South among the all over states to centralised tax system. And the entire product rates computed or selling and buying the common tax rate and except the alcoholic liquor, aviation turbine fuel, diesel, petrol, gas. Because of the state government have 40% of revenue earned by these commodities.

Some better example for, GST is anticipated that the tax base will be comprehensive, as virtually all goods and services will be taxable, with minimum exemptions. It is basically the Tax on final consumption. It reduces from government tax collection expenditures. It will impact the tax structure, tax incidence, tax computation, tax payment, compliance, credit utilization and reporting, leading to a complete renovation of the current indirect tax system. It is centralized tax levy and federal tax system.

The proposed goods and service tax was passed in the legislature of Parliament the upper house (Rajya Sabha on 3 August 2016) and the lower house (Lok Sabha on 8 August 2016.) for the ratification of more than 50% states. The government of the India is committed amended indirect tax system to convert on federal based. It will be made for several council meeting to members of the all states finance ministers and headed by the central finance minister Arun Jaitley for a purpose of rule out the GST successfully. The 10th council meeting should be confirmed that GST will be amended on 1st July 2017. Presently, there are around 160 countries that have implemented GST/VAT in some form or other. In some countries, VAT is the substitute for GST, but conceptually it is a destination based tax levied on

consumption of goods and services. France was the first to introduce GST. (Source: newspaper).

II. LITERATURE REVIEW

Mr Herekar (2012) "Evaluation of impact of goods and service tax (GST)" told that GST will move to radical changes on the current tax system and existing approach is disagreed by the author, because the GST will reduce the government expenditure and to achieve the fiscal consolidation. Finally, the author concluded that the implementation of a comprehensive GST in India is expected to lead to efficient allocation of the production factors thus leading to gains in GDP and exports. This would translate into improve economic welfare and returns to the factors of production likewise land, labour, and capital.

Anshu Jain (2013) "An empirical analysis on goods and service tax in India: Possible impact, implication and policies" attempted to explore the impacts, implications, and policies of an introduction of GST in India. The author described GST as an all-inclusive levied on goods and services and has a wide range of operations. In addition to that, it was stated that finance is an essential factor in governing the country's economic growth. The good tax structure and identifying the evasion also helps the government to spend expenditure on public service and infrastructure development. Cascading revenue to make a different impact on the firm, it creates international competitiveness of the negatively affected of production sectors in the economy. These international factors lead to inefficient allocation of productive resource in the economy. He told about the Value Added Tax is one of the important instruments of indirect taxation. Since VAT can be applied on goods and services it has also termed as goods and service tax (GST) during the last four decades, 130 countries was adopted VAT, which results in 1:5 of world tax revenue. Thus indication of other countries, willing to adopt VAT. Taxation policy will grow up economic efficiency and reduces distortion to efficient resource allocation.

Mr Garg (2014) "Basic concepts and features of goods and service tax in India" investigated the impact on goods and service tax will be on Indian tax system. The author told about the GST is an indirect tax but its direct effects all the sectors. The author aimed to enlighten future prospects of GST with a start-up of general. All sections of economy viz., big, medium, small scale units, intermediaries, importers, exporters, traders, professionals and consumers shall be directly affected by GST.

Mr Debnath (2016) "Implementation of goods and service tax (GST) in India and its control over the tax collection" discussed about the Indian fiscal system that attempted to create the root for tax collection and segmented in fair rate then share to state and central. In this paper, the author mentioned the unified taxation system except for alcohol, tobacco, and petroleum product. The author

concluded that the uniformed GST will improve the tax collection and boost the development of India's economic by breaking fraudulent activity.

Dr Suresh and MR. T. Shiva Kumar (2016) "overview of GST in INDIA" the author discussed about the goods and service tax in addition to that author said about the FMCG sector, food industry, Information technology, Infrastructure sector and impact on small enterprises. The threshold limits for Empower Committee has been proposed.

Dr Jaiseela (2016) "Implementation of Goods and Service Tax in India 2016: Challenges and Opportunities" the professor told the historical background of the GST and she is viewed on flawless GST is designed as a consumption type destination VAT based on invoice-credit method and also justifies the central level and states level tax system. Finally she has concluded by this paper a flawless GST in the context of the federal structure which would optimize efficiency, equity and effectiveness.

III. BACKGROUND OF GOODS AND SERVICE TAX (GST) IN INDIA

Vijay L. Kelkar is an Indian economist and academic. He was earlier Advisor to the Ministry of Finance (2002–2004) and he is known for his role in economic reforms in India. The Kelkar task force on implementation of Fiscal Responsibility and Budget Management (FRBM) Act, 2003 had brought up the indirect tax policy. In India has been steadily progressing in the focus on VAT principle since 1986. Many more changes have been brought up regarding VAT tax from 2003 to 2016. The following table shows the VAT in India.

A. Timeline

| | |
|--|--|
| 4 th January 2005 | The VAT replaced sales tax. |
| 17 th January 2005 | The empowered committee released a white paper on VAT. (This was constant source the states decided to adopt to evade competition between the states). The empowered committee, established by the government of India, provided a fundamental framework for uniform VAT laws in the states but the states have a freedom to set their own judgement for VAT levied in their own territory. |
| 2006-2007 union budget speech | The effort to presentable the new tax regime was reflected, for the first time. |

Table 1:

B. Till now we discussed about the VAT, to overcome the VAT system GST been proposed and discussed below:

| | |
|--|--|
| 2006-2007 union budget speech | Then the finance minister Mr P. Chidambaram proposed 1st April 2010 as the date for introducing GST. Phasing out of central sales tax CST began from April 2007 with the reduction in central tax rate from 4% to 3%. |
|--|--|

| | |
|---------------------------------------|---|
| | Subsequently, the empowered committee of state finance ministers constituted a joint working group in May 2007. Empower Committee finalised its views on broad GST structure-consensus on dual GST (central & state GST) Separate legislation, levy & administration. Empower Committee finalised its views on broad GST structure-consensus on dual GST (central & state GST) Separate legislation, levy & administration. |
| 2007-2008 union budget speech | CST rate was further reduced from 3% to 2%. June 2008. |
| December 2009 | First Discussion Paper on GST was released by Empower Committee the 13th Finance Commission released its Report on GST. |
| 2011 | The Constitution Amendment Bill to enable the roll-out of GST was tabled in Parliament. |
| 6 th May 2015 | Passage of Constitutional Amendment Bill on GST at Lok Sabha. Selection of Committee has presented its report to the Rajya Sabha. |
| October 2015 | The Joint Committee constituted by Empowered release its business process reports on GST related to Payment, Registration, and Refund in public domain for comments. |
| 14 th June 2016 | Model draft law released in public domain |
| 3 rd August 2016 | Passage of Constitutional Amendment Bill on GST in Rajya Sabha. |
| 22 nd September 2016 | The First Meeting of GST Council held. |
| 3 rd November 2016 | The GST rates decided There was four slabs have been set at 5%, 12%, 18% and 28%. |
| 8 th November 2016 | The GST portal www.gst.gov.in was made a life for migration of existing taxpayers. |
| 26 th November 2016 | Revised Draft Model GST Law, Draft IGST Law and Compensation Law released. |
| 18 th February 2016 | In the 10th council meet they decided to extend the GST deadline. The council has announced that GST will be amended on 1st July 2017. The major highlights of the meeting were: The GST council approved the draft compensation bill for the states. The government will table the bill in the next session of the parliament. |
| 4 th March 2016 | The 11 th GST council meeting also discussed about passage of IGST and SGST bills. |
| 11 th March 2016 | |

Table 2:

Source: (GSTIndiaExpert.com Feb 22, 2017)

IV. IMPACT OF GST IN FUNDAMENTAL NEEDS

The major reason for regulating the GST to make product fair pricing and the prime minister Narendra Modi has viewed on the passage of the enabling the legislation for GST has marked a most important step towards freeing India from tax terrorism, corruption and making the consumer as the king. This paper assess the fundamental needs was namely affected by the GST. According to The Maslow's hierarchy of basic needs said to physiological needs like physical requirement for human survival. This paper study on what is the impact of GST in Agriculture and, Pharmaceutical Industry, Textile, Transportation, and Real Estates. The influence of GST to the stake holders of taxation is proposed to be assessed by the development of theoretical model.

V. AGRICULTURE

Agricultural commodities are fulfilling the requirement of general people. In addition to that increases in export will increase GDP of India. The proposed GST is implanted and expected to bring uniformity across states and centre. GST council would make effective tax support policy of a particular commodity. Additionally, it will affect the general consumer requirements in day to day transaction likewise purchasing perishable goods (vegetables, fruits, milk foods etc.) and non-perishable goods (rice, wheat, sugar, groceries etc.).

The comparison between existing tax rate of the product and proposed tax rate of the product from the following table give the better example for the stake holders, general customers and consumers.

| Process | Material cost/purchase price in per kg | VAT % | Excise duty/service tax (CBEC) % | Cost of the product per kg |
|----------------------------------|--|-------|----------------------------------|----------------------------|
| Production | Rs.10/- | 0 | 0 | Rs.20/- |
| Value added by supply chain cost | Rs.20/- | 10 | 15 | Rs.30/- |
| Hole seller | Rs.30/- | 10 | 15 | Rs.40/- |
| Retailer | Rs.40/- | 10 | 15 | Rs.55/- |
| Final consumers | Rs.55/- | - | - | - |

Table 3: The existing tax rate computation of agricultural product

| Process | Material cost/purchase price in per kg | CGST +SGST % 14+14=28% value of tax rate | Cost of the product per kg |
|------------|--|--|----------------------------|
| Production | Rs.10/- | 0 | Rs.20/- |

| | | | |
|----------------------------------|---------|-----|------------------------|
| Value added by supply chain cost | Rs.20/- | 5.6 | 30-5.6=24.4 Rs.30/- |
| Hole seller | Rs.30/- | 6.8 | 40-6.8=33.2 Rs.40/- |
| Retailer | Rs.40/- | 9.3 | 45-9.3=35.7 Rs.45/- |
| Final consumers | Rs.45/- | | |

Table 4: The proposed tax rate computation in agricultural product

VI. MILK FOODS

Though latest information is indicative that GST would be applied at a minimum of 18% on all products, whether it is applicable for all dairy products is not yet clear. It would be unfortunate if such a bracket is applied to processed dairy product. Compared to other industries, the dairy sector has a direct implication on the milk producers in India.

The proposed GST is well known that milk production in India has been consistently growing at 4-4.5% annually. This is because the milk producer in India has a seamless farm to fork linkage through direct access to the ever-expanding market for milk and milk products. The high rate of GST taxation might reverse this cycle. This would cause a decline in these prices of raw milk producer. The milk producer would find it difficult to manage cows and buffaloes. He might shy of making an investment in the purchase of livestock assets for increasing milk production.

VII. PHARMACEUTICAL INDUSTRY

As GST almost ready to implement 1st July 2017, entire organization has started to make future strategies. In the current scenario Indian drugs exported more than 200 countries in the world. India is a biggest provider of generic drugs medicines globally and expected to expand further experiencing and huge development of medical industries which will help to increasing the additional returns for the industry.

A. Now let us understand the impact on GST

The rate of GST should be kept at the comparative level in the lowest slab for the pharmaceuticals industries. Analysis specifies the GST rate up to 12% to be neutral tax rate whereas anything above will have an inflationary effect on pricing. The GST will have negative impact on supply chain management to providing discount and bones, other transactions, and interstate stock transferring, etc. pharmaceutical industry will moved to more experience for strategic formation and decision making processes. It will also benefit for the warehousing strategy. As of now the companies' have warehouses in different states to avoid central sales tax of different states. Now they can consolidate warehouses strategic location and will have to pay only IGST (Integrated Goods and Service Tax) on interstate supply on goods and services.

The overall impact of GST on the pharmaceuticals industry is still uncertain as of now. It will reduce complexities and hurdles. It needs to be tax-free under GST regime to maintain the prices at an optimum level.

VIII. TEXTILE

To compare the current tax structure and after the application of GST, though there will be an increase in the effective tax rate, it has negative impact on the textile industries. Overall GST will need to modify the current structure of textile industries. GST will result in transparency; the tax burden will shift to the ultimate consumer by claiming the credit of taxes paid on input. The GST rate is yet to be determined; it may lead to the higher tax burden on textile units. But the impact on demand will be less or neutral. It will encourage effective development and growth in Indian textile sector. The future of the textile industry looks promising, buoyed by both strong domestic consumption as well as export demand.

Example with Difference between existing tax system and proposed GST system in Textile sector:

Raw material of cotton price is Rs.100/-

Profit from the capital Rs.30/-

For example Tax rate is 10 %

| Process | Rs. |
|------------------------------|-----|
| Production cost | 100 |
| +Tax 10 % | 10 |
| Tax included production cost | 110 |
| + Profit | 30 |
| Cost of the product | 140 |
| +Tax 10 % | 14 |
| Total selling price | 154 |

Table 5: Existing tax Calculation:

| Process | Rs. |
|------------------------------|-----|
| Production cost | 100 |
| +Tax 10 % | 10 |
| Tax included production cost | 110 |
| - paid tax | 10 |
| After tax deduction | 100 |
| +profit | 30 |
| Cost of the product | 130 |
| +Tax 10 % from the profit | 3 |
| Total selling price | 133 |

Table 6: Proposed GST calculation:

IX. TRANSPORTATION

In transportation sector, it will create positive impact of GST. The union budget reports at 2017-2018, it is exposed to the government allocates more fund for transportation development. The process for the introduction of GST for transportation has been initiated by the government. With the current deadline of 1st July 2017, the implementation of GST, abatements need to be made available for various transport services as provided under the current service tax regime. Common viewed on GST slap rates will decides it impacts. The transportation industry is driven by the main element which is fuel. Fuels such as Aviation turbine fuel, Diesel, Petrol, Gas are not covered by the GST. Most states have manipulated this and have taken the liberty to fluctuate the taxes. For instance the state of TamilNadu increased the VAT. Because of this the daily livelihood of the people is affected. Therefore it would be great if the GST is also applied to the petrol and diesel.

| GST exempted products | Old VAT rates | Increased VAT rates |
|-----------------------|---------------|---------------------|
| Petrol | 27% | 34% |
| Diesel | 21.43% | 25% |

Table 7:

X. CONCLUSION

After implementing GST, India will face so many problems like state's chequer revenue reduces, broad base regime in the taxations system. Almost many of the states accept this system and the compensation is not enough for the state government. So, they are not accepting the slap rate, by that this process is been delayed. So by slap rate of each sector depend on the result of GST post implementation. But GST council has to be given the better compensation solution for the each and every state exchequer for the lack of indirect revenue. Now the GST was modified by each state because, for the revenue or wealth of the state, till it meets the normal condition. It will be succeed by the central government and Kelkar task force goals.

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