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Impact of GST on Indian Financial System

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ABSTRACT

The Goods and Services Tax Bill or GST Bill is officially also known as The Constitution (One Hundred Twenty Second Amendment) Act, 2016 which proposes a national value added tax to be applied in India from July 1, 2017. The GST bill was initially accepted in the Lok Sabha on March 29, 2017 and got its final acceptance in the Rajya Sabha on April 6, 2017.Goods and Services Tax (GST) is an all-inclusive tax levied on manufacture, sale, and consumption of goods and services at a nationwide level. In this paper an attempt has been made to see the benefits of GST & its current status in India. Paper gives knowledge about GST and a flawless implementation would trigger an increase in the government revenue and a surge in the Indian economy. Present Indian tax system is very complex as it includes cascading effects of tax. GST, being one single indirect tax scheme for the entire nation will attempt to make India united common market. India needs a strong and defined system of GST to overcome the shortcomings of VAT. This paper highlights advantages, objectives and history of GST.

Keywords : GST, VAT, Indian Tax, Indian tax structure, Indian tax scenario.

I. INTRODUCTION

The introduction of Goods and Services Tax would be a very noteworthy step in the field of indirect tax reforms in India. By amalgamating a large number of Central and State taxes into a single tax, it would alleviate cascading or double taxation in a major way and pave the way for a common national market. From the consumer point of view, the biggest advantage would be in terms of reduction in the overall tax burden on goods and services. Introduction of GST would also make Indian products competitive in the domestic and international markets. Last but not the least, this tax, because of its transparent character, would be easier to administer. However, once implemented, the system holds great promise in terms of sustaining growth for the Indian economy.

The pioneering Goods and Services tax is now on its way to be implemented from 1st July. It is important to understand that GST is not a tax concession scheme where the government has reduced the tax rates and hence all the goods and services would become cheaper once GST is implemented.

Government was attempting to fix a single Revenue Neutral Rate (RNR) on the goods and services so that the total tax revenue of the State and the Central Government remain same. The GST Council has finalized a four-tier GST tax structure of 5 per cent, 12 per cent, 18 per cent and 28 per cent, with lower rates for essential items and the highest for luxury and de-merits goods, including luxury cars, SUVs and tobacco products, that would also attract an additional cess. There is also a special rate for precious metals. The rate of 18% would however be applicable for most goods and services.

Most goods would become more expensive since the GST rate of 18% or 24% is much more than the present VAT rates which are around 12-15 %. Some goods would become cheaper due to lower rates levied on such items. The dealers and retailers are not likely to pass on this extra rate immediately to the consumer and they would profit from the increase Input Credit Tax (ICT).

However, soon the consumer would reap the benefit and the prices would come down. All the services would become more expensive immediately since the present Service Tax rate is only 15% which is now raised to 18% in GST.Most analysts forecast the economy to grow close to 7.4% in 2017-18, the first year of GST rollout, which is slightly higher than 7.1% in 2016-17, but lower than 7.9% of 2015-16. 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.

II. REVIEW OF LITERATURE

Dr. G Sunitha and P.Satischandra had highlighted the concept of GST, its effect on Indian economy and the benefits in their paper “**Goods and Service Tax (GST): As a new path in Tax Reforms in Indian Economy”.**

Dr. R. Vasanthagopal highlighted that GST will definitely will be a step towards a growing economy in his paper “**GST in India: A Big Leap in the Indirect Taxation System**” in the year 2011.

Garg concluded in his article **“Basic Concepts and Features of Good and Services Tax in India”** that GST will make Indian economy stronger and will lead towards economic development.

Nitin Kumar (2014) mentioned in his research paper that implementation of GST will try to remove all the shortcomings of present tax structure in India in his research paper **“Goods and Service Tax in India-A Way Forward”**

Rathod M (2017) in his paper **“An Overview of Goods and Service Tax (GST) In India”** concludes that GST will be a step towards a developed India benefiting to many parties and entire nation.

A. OBJECTIVES OF THE STUDY

The objective of the study is to understand the concept, benefits and impact of GST on Indian Economy.

III. METHODOLOGY

Various secondary data is collected from various articles, magazines, newspapers.

A. CURRENT INDIRECT TAX STRUCTURE IN INDIA

Presently government of India is collecting Indirect taxes by Excise duty, Service tax, Vat, Custom duty etc. These all taxes are contributing major portion in Government revenues. The rates vary according to government rules and policies.

GST (GOODS AND SERVICES TAX) GST known as Goods and Services Tax applicable to both goods and services, will be levied at all the stages of supply. Tax will be charged on all taxable goods and services in India. There are two components included in GST: CGST and SGST charged by Central and State government respectively. In the interstate transaction central government will collect GST and distribute it to the imported states.

B. MODELS OF GST

Very First County to adopt GST is France, adopted GST in the year 1960. Different models of GST are as under:

1. STATE GST: In this model tax is charged by respective states of the nation, it is applicable in USA.
2. NATIONAL GST: In this system Central government collects the taxes and distributes it among the states with certain provisions. It is followed by China and Australia.
3. NON CONCURRENT DUAL GST: in this model states collect GST on goods where as GST on the services would be charged by Central Government.
4. CONCURRENT DUAL GST: Tax in this model is levied by central and state government on both goods and services.
5. QUEBEC MODEL: In this system different provisions prevail for States and central government for collecting tax. Concurrent Dual GST model comprises three terms which are:

1. CGST: Central Goods and Services Tax
2. SGST: State Goods and Services Tax
3. IGST: Integrated Goods and Services Tax

CGST is going to be charged by Central Government for the transactions related to intra state which will be paid to the account of central government. SGST is proposed to be collected by state government, IGST is going to be collected by Central government on interstate transactions which Is an additional tax to be levied.

C. GST RATES

GST Council has declared four tier tax structures: 5%, 12%, 18% and 28%. Lower rates are kept for essential items and higher ones for luxury goods. For controlling the inflation food items will be taxed at zero rates.

D. BENEFITS OF GST

- **Increased FDI:** The flow of Foreign Direct Investments may increase once GST is implemented as the present complicated/ multiple tax laws are one of the reasons foreign Companies are wary of coming to India in addition to widespread corruption.
- **Growth in overall revenue:** It is estimated that India could get revenue of $15 billion per annum by implementing the Goods and Services Tax as it would promote exports, raise employment and boost growth. Over a period, the dilution of the principles may see that only part of this is accruing.
- **Single point taxation:** Uniformity in tax laws will lead to single point taxation for supply of goods or services all over India. This increases the tax compliance and more assesses will come into tax net.
- **Simplified tax laws:** This reduces litigation and waste of time of the judiciary and the assess due to frivolous proceedings at various levels of adjudication and appellate authorities. Present law appears to be much worse and an amalgam of the bad parts of VAT/ ST/ CE.
- **Increase in exports and employment-** GST could also result in increased employment, promotion of exports and consequently a significant boost to overall economic growth and factors of production land labour and capital.

E. IMPACTS OF GST

1. WHAT ARE THE IMPACTS OF GST ON AIRLINES, TELECOM INDUSTRIES?

Costly transportation and communication services: Airlines traveling will be expensive after GST Act, the tax rate for the current airline is 9 percent which will change to 12 percent. Although, GST on economy class traveling is set to 5% from 6%. Telecom Industry: Reliance Jio being a headache, poaching customers of other telecoms by providing services at cheap rate has put large telecom industries in a dilemma, and with the GST Telecom services will be taxed at 18% to previous 15%.

2. WHAT IS THE IMPACT OF GST ON CARS/AUTOMOBILES?

Four wheeler vehicle is somewhat a milestone for every person in their life as it gives easy of transportation but mostly prestige. Cars are considered as luxury goods under GST. Therefore cars fall under 28% slab of GST. Apart from daily private transportation, there will be a problem for the farmers whose daily work depends on the tractor vehicles. After GST there will be a hike from 6-7% to 12% in tractors. Not only has that but the hike in insurance and loans for cars been to be expected as well. Hybrid cars will be taxed 28% whereas the tax on Electric cars will remain at 12%.

3. WHAT IS THE IMPACT OF GST ON REAL ESTATE?

Real estate will get costlier, but buyers will be happy to pay more because instead of paying numerous taxes like VAT tax, service tax, Cess tax, etc. They have one direct tax GST which gives clear knowledge of the amount they are paying to the developer. GST on real estates will extend up to 12% that is 6.5% more than the current tax. Developers have to face the burden of paying the tax of the unsold flats which then can be recovered quickly.

4. WHAT IS THE IMPACT OF GST ON ELECTRONICS LIKE MOBILE PHONES AND LAPTOPS?

A mobile phone is a necessity for each nowadays. Electronics are getting cheaper except for mobiles which will get costlier except for imported mobile phones which will be cheaper compared to the mobiles manufactured in INDIA. There is 47% rise of tax on mobile phones making them costlier. Same with laptops and desktops they fall under 18% GST slab that’s a 4-5%

hike. But all these hikes in cost can be brought down if India starts Mass producing laptops and other peripherals.

5. WHAT IS THE IMPACT OF GST ON MANUFACTURING SECTOR?

Suppose a manufacturer buys raw material for 100 Rs where he/she pays tax of 10% that means 10rs goes to the government and when the manufacturer sells the product with added value of 20 Rs making it 100+20 =120rs, government collect tax of 12rs, but the manufacturer has already paid 10rs which makes him liable to pay only 2rs to the government. This transparency of taxation system is likely to enhance economic growth and make corruption free tax system. Goods and services prices are likely to come down if the majority of manufacturing is done in India.

6. WHAT IS THE IMPACT OF GST ON LOGISTICS?

Logistics plays an integral role in supplying goods from one corner to another its the sole reason for the growth in manufacturing and consumption. Because of GST goods can move freely from one state to another.

F. WHAT IS THE IMPACT OF GST ON COMMON MAN?

The ordinary man can take a big sigh of relief because there will be many opportunities for making significant savings on GST.

Personal care: Products like oil, soap, kajal tissue prices will come down by 6% to 10%.
Hotels: If you are avid traveler great news for you. Accommodation under 1000rs will be exempted from GST tax, and 18% tax will be levied on above 5000rs accommodation. Taxes on hotels have been reduced from 22% to 18%.
Air Travelling: Economy class fares have been reduced as it only attracts 5% tax of GST.
Branded Goods: Most branded goods that were taxed at 23-25% are reduced to 18% which means more shopping of branded goods at reasonable rates.

NEGATIVE IMPACT OF GST IN INDIA GST is confusing the common man even large scale businesses; they need to rely on advocates and chartered accountants to make them understand what GST is and how it works. Not only that but using computerized process, online registration and return filing is a hassle for those who are barely in touch with technology. The government has estimated that Indian economy will require at least 2 years becoming stable.

IV. IMPACT OF GST ON INDIAN ECONOMY

- **INCREASE PRODUCTION**: Reduce tax burden on producers and foster growth through more production. This double taxation prevents manufacturers from producing to their optimum capacity and retards growth. GST would take care of this problem by providing tax credit to the manufacturer.
- **ELIMINATES TAX BARRIERS:** Various tax barriers such as check posts and toll plazas lead to a lot of wastage for perishable items being transported, a loss that translated into major costs through higher need of buffer stocks and warehousing costs as well. A single taxation system could eliminate this roadblock for them.
- **REDUCE PRICES:** A single taxation on producers would also translate into a lower final selling price for the consumer.
- **TRANSPARENCY:** Also, there will be more transparency in the system as the customers would know exactly how much taxes they are being charged and on what base.
- **WIDEN TAX BASE:** GST would add to government revenues by widening the tax base.
- **INCREASES THE COVERAGE AREA OF TAXATION:** GST provides credits for the taxes paid by producers earlier in the goods/services chain. This would encourage these producers to buy raw material from different registered dealers and would bring in more and more vendors and suppliers under the purview of taxation.
- **INCREASE COMPETITIVENESS:** GST also removes the custom duties applicable on exports. Our competitiveness in foreign markets would increase on account of lower cost of transaction.

V. CONCLUSION

The introduction of Goods and Services Tax would be a very noteworthy step in the field of indirect tax reforms in India. By amalgamating a large number of Central and State taxes into a single tax, it would alleviate cascading or double taxation in a major way and pave the way for a common national market. From the consumer point of view, the biggest advantage would be in terms of reduction in the overall tax burden on goods and services. Introduction of GST would also make Indian products competitive in the domestic and international markets. Last but not the least, this tax, because of its transparent character, would be easier to administer. However, once implemented, the system holds great promise in terms of sustaining growth for the Indian economy. While comparing challenges with its advantages, it is clearly visible that its advantages are more compared to challenges. GST will give Indian economy a strong and smart tax system for economic development. But for gaining those benefits country will need to build strong mechanism.

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