Goods and Services Tax in India: an Overview

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Abstract

Goods and Service tax is considered as one-nation, one-market and one-tax system. It is the nation's biggest tax reform which has impact both on the businesses as well the common man. It is controlled both by the central and state tax authorities. GST reduces the cost of doing business for firms; reduce logistics costs of moving goods across states, no loss in equity, lead to higher tax collection and greater digital financial inclusion. Keeping health and education out of tax slab, Goods and Service tax is criticized as "inconsistent with equity" as these services are consumed disproportionately by the rich people. As of December 2017, there are 9.8 million unique GST registrants,(Economic Survey of India, 2018). The first section of the paper gives the introduction of Goods and Service tax. The second section analyses perspectives of GST in India, the third section examines the positives and negative of GST in India and the fourth section attempts to analyze the immediate impact of Goods and Service tax on the various sectors of economy and concludes.

Keywords: GST& Digital Financial Inclusion, health, education, business, firms

1. Introduction

Goods and Service tax is one of the biggest tax reforms in India has it subsumed 17 indirect taxes and 23 cesses.GST framework makes the entire country of 1.3 billion consumers as one single market as it changes the production-based taxation to a consumption-based system. GST checks tax evasion by removing cascading effects which means more revenue to the government and more services to people which in turn leads to the economic integration and strengthen national integration of the country. GST structure consists of Centre GST Act, the Integrated GST Act and the State GST Act. Under the GST regime, all goods that are imported will pay the full rate of central and state GST in the form of integrated or IGST. Any individual who sells goods and or provides services of more than 20 lakh (10 lakh for North East states) in a financial year must seek registration under GST. The GSTIN is a 15-digit alpha numeric code and it is assigned to each registered business or trader. The GSTN is the nodal agency that uploads the invoices and files the returns. In the first phase, GSTN shortlisted 34 companies including EY, Deloitte, Tata Consultancy and Reliance Corporate IT Park and in the second phase CSC e-Governance Services, Compare InfoBase, Tax spanner, Adaequare and Gamut Info systems were selected to be GSPs. The GST Common Portal enables the taxpayers to file returns and make tax payments and over 60 lakh taxpayers have enrolled in the first round while more than four lakh have enrolled in the second round till the second last day (June 15, Economic Times).The objectives of the present paper are to study positive and negative side of GST in India and to analyze the impact of GST on various sectors of Indian economy. The present paper is based on secondary sources collected from various reports, journals and websites.

2. Perspectives of GST in India

This section discusses the perspective on GST in India. On March 20, 2017 the cabinet cleared the four GST related bills such as the Central Goods and Services Tax Bill 2017, the Integrated Goods and Services Tax Bill 2017, the Union Territory Goods and Services Tax Bill 2017 and the Goods and Services Tax (Compensation to the States) Bill 2017 and on March 29, 2017 the four Bills were tabled in the Loksabha for discussion. The GST Council decided four-slab structure 5 percent, 12 percent, 18 percent and 28 percent for both goods and services and the peak rate of 40 percent. Hotels and restaurants across segments in Tamil Nadu, Pondicherry, Bengaluru, Kerala and parts of Andhra Pradesh and Telangana came together to stage a protest against the steep rates of tax under the goods and services tax

(GST) regime. Not only the hotels and restaurants but even the traders of branded rice, lentils and sugar went on a strike protesting the imposition of goods and services tax in the country. The industrial sector reported 80-100 percent growth in sales in June during the GST discounting. On 18 January 2018, the GST council rearranges the rates of 29 Items, 53 Services (Table.2).

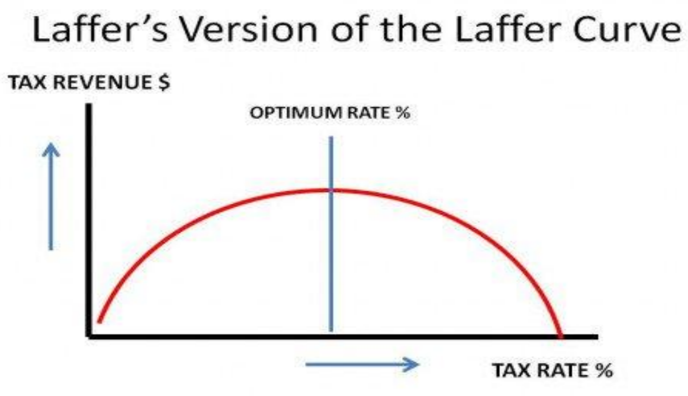
3. Positives & Negatives of GST in India

The positives of goods and service tax: GST helps to remove the cascading tax effects; it checks tax evasion which means more revenue to the government and more services to people. It reduce associated documentation and related hassle. It widens the tax base and helps bring down rates. GST is expected to bring greater transparency, improve compliance levels and create a common market for businesses by combining various central and local taxes. Goods and service tax enables to remove custom duties on exports, increases competitiveness in foreign markets. It is likely to promote exports from India. When goods are exported, the taxes paid on those products within the country should be fully refunded and this is done by a single authority that is state government or the central government. Goods and Service tax reduces the cost of doing business for firms and also reduces logistics costs of moving goods across states. GST will lead to expansion of formal economy as it is expected to result in a transition from unorganized to organized market.

The Negatives of GST

GST does not follow Adam smith's cannons of taxation Cannon of Convenience: Smith wrote, "Every tax ought to be levied at the time or in the manner which it is most likely to be convenient to pay it" but the Goods and Services tax has created lot of inconvenience to the individuals due to technical errors, flaws in digital infrastructure and delay in uploading the returns. Cannon of Elasticity; this canon points out that a tax should automatically bring in more revenue as the country's population or income increases. If, an increase in the rate of the tax brings in increased income, then the tax is elastic. The Goods and Services tax has imposed 28 percent and the peak tax rate is 40 percent on the sin goods but a question arises whether will it increase the revenue? The Laffer curve in the figure 1 helps us to understand the relationship between the tax rate and the tax revenue and its implications when the tax rate increases.

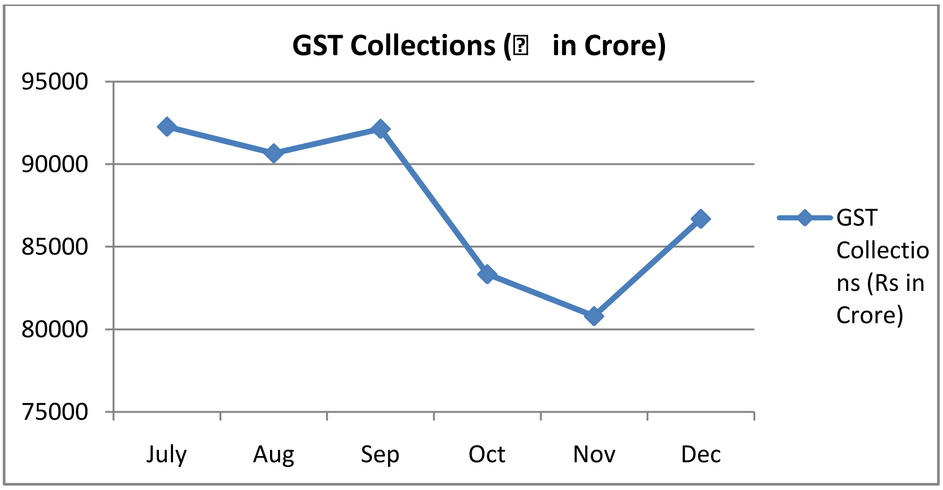
Fig 1: The Laffer curve



Source: Internet

The Laffer curve is used to determine the rate of taxation that will raise the maximum revenue that is "optimizing" revenue collection. One implication of the Laffer curve is that high or increasing tax rates will not yield additional tax revenue since the workforce will prefer to work less in such circumstances, substituting earned income with leisure and this will hinder the growth. However, Adam Smith in his principle of cannon of elasticity argues that the tax system should be simple otherwise there would be confusion and further leads to corruption but the common man finds GST complicated since it is quite difficult to understand with various tax slabs. Further, in his principle of cannon of elasticity emphasize that the cost of collection should be as small as possible and the revenue collection should be more whereas the revenue collections under the goods and services tax dropped marginally this has been portrayed in figure 2.

Fig2: GST Collections in India (2017)



Source: Derived from table 1

Fig.2 reveals that the GST collections marginally decreased from □92,283 crore in July to □90,669 in August by (-1.74 percent) and this is due to delay in filing the tax. It drastically fell to □83,346 in October by (-9.55 percent), further the GST collections increased from □80,808 in November to □ 86,703 in December by7.29 percent.

The other negatives of GST are the taxability on inter-state stock transfer from one branch to another of the same firm. Buying of goods from firms not registered with GST will be more expensive as the buyer won't get input tax credit. GST compliance requirements are cumbersome with three monthly and one annual return for a dealer operating in just one state.GST introduces provision of blacklisting a firm which will help or affect their future business prospects. Keeping health and education out of GST is criticized as "inconsistent with equity" as these services are consumed disproportionately by the rich people.

4. Impact on Various Sectors of Economy

The following are the immediate impact on various sectors of economy after the implementation of GST.

Automobiles: The immediate impacts of GST on the automobile sector have been witnessed with fall in prices. The prices of luxury cars like MercedesBenz, BMW, Audi and JLR became cheaper by 5- 10 percent. Maruti announced a 3 percent price reduction across models, whereas Toyota Kirloskar reduced prices 10,500 to by 217,000 across its portfolio. Honda Cars India reduced prices across its range of vehicles by up to 131,663 and Ford India too slashed prices by 4.5 percent across the portfolio (SIAM, Aug 2017 report).

Industry: Due to delay in GST transition, the primary sales from companies to distributors and trade were severely hit in the month of July 2017.However; it increased from August growing by 30-50 percent with retailers building up their inventory.

Logistics / Warehousing: GST is considered to transform this sector by removing multiple tax structure, delays in transit, wastage of fuel and investment, varying regulations, policies and approvals in different states that the sector struggles. Large format modern warehousing will be closer to consumption centers.

Telecommunication: The immediate impact of goods and service tax in telecommunication is Apple slashing prices of all IPhone models by 4-7.5 percent. Phone 7 plus with 256 GB storage reduced price by ₹6600 from ₹92,000 to ₹84,000 and the 128 GB version is cheaper by 6 percent at 35,000. The IPhone business reduced by almost 35 percent due to online discounting.

5. Conclusion

GST replaced multiple central taxes such as Central Excise Duty, Countervailing Duty, Cesses and State taxes including Value-Added Tax, Octroi, Purchase Tax and Luxury Tax with a single tax. The primary impact felt by the consumers due to change in prices of goods and services because of GST rates. Logistics, Warehousing, Education and healthcare are considered to be the gainers due to roll out of GST in the economy. Pradhan Mantri Awas Yojna will also get bigger support towards the housing for all initiative. After the implementation of GST, the immediate impact is reduction in the prices of luxury cars and IPhones in order to increase the sales among the customers.GST is said to be beneficial tax in the long run for the input tax credit given to sellers.

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ANNEXURE

Table -1: GST Collections in India (July- December 2017)

GST Collections in 2017 (₹ in Crore)		
Month	Rs in Crore	% change
July	92283	-
Aug	90669	-1.74
Sep	92150	1.63
Oct	83346	-9.55
Nov	80808	-3.04
Dec	86703	7.29

Source: Finance Ministry of India

Table-2: 25th GST Council in India

25thGST Council in India	
Goods that will cost less	
Goods	Tax rates
Buses running on bio fuels	Down from 28 percent to 18 percent
Old and used motor vehicles(other than medium and large cars and SUVs)	Down from 28 percent to 18 percent
Straw, esparto,basketware articles etc.	Down from 12 percent to 5 percent
Sugar boiled confectionery, 20-litre packaged drinking water, Fertilizer-grade phosphoric acid, Biodiesel and select bio pesticides, Bamboo wood building joinery, Drip irrigation systems, Mechanical sprayers	Down from 18 percent to 12 percent
Tamarind Kernel powder,Mehndi paste, LPG to households through by private distributors, Scientific and technical instruments	Down from 18 percent to 5 percent
Vibhuti,, Hearing aid parts and accessories, De-oiled rice ban	Nil GST
Goods that will become expensive	
Cigarette filter rods	18 percent from 12 percent
Services that will cost less	
Theme parks, joy rides, go Karting	Down from 28 percent to 18 percent
Construction of metro and monorail, Mining and drilling for crude/natural gas	Down from 18 percent to 12 percent
Tailoring	Down from 18 percent to 5 percent
Transportation of crude and petroleum products (12 percent without input credit) Job work for leather goods and footwear Small housekeeping service providers (without tax input credit)	Down from 18 percent to 5 percent
Exempt from service tax	
Information under RTI Act Legal services to government, government entities, local authorities Transportation of goods outside India (up to September 2018), Dollar denominated services of international financial Centre SEZs, Fumigation of agriculture warehouses, Subscription of online educational journals/periodicals or educational institutes	
Casinos and race course	All services at 28 percent License to book-maker 18 percent

Source: Economic Times, 19 January 2018.