Impact of GST

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Abstract— GST was implemented in India on July 1st 2017 with a intention to reduce corruption bringing the whole nation under one tax regime and reduce the cascading effect of taxes. GST eliminates the various indirect taxes like VAT, central excise duties, sales tax, and entry taxes, octroi, Advertisements tax. This new method eliminates the value appreciated in each stage of the supply chain and integrates the tax system as single tax. GST makes the unorganized sector compulsory to comply with rules and register with GSTN to file for returns and upload the statement of transactions. The study aims to examine the objectives of GST, how GST works, Benefits and challenges of GST, the effect of GST on different sectors and the economy as a whole.

Keywords— GSTN, cascading effect, indirect taxes, value appreciated.

I. INTRODUCTION

The GST bill was introduced by Arun Jaitley in Lok sabha on July 1st 2017 after the formation of Modi Government. It took 17 years to happen since it came to India. The Tenth prime minister of India Atal Bihari Vajpayee is the first person to initiate GST in India. GST implementation in India is a historical move which integrates all the indirect taxes into one single tax. The motto behind this “ONE NATION ONE TAX”. GST is introduced to bring transparency in the movement of goods and services across the nation with the implementation of GST networks and e way bills. Raw materials cost was considerably brought down to encourage the “Make in India” Programme which aims at making India a manufacturing hub. The main source of income is through taxes and collection of taxes has to be transparent. There are three types of taxes 1) CGST 2) SGST 3) IGST.

II. OBJECTIVES OF GST

- GST was introduced to eliminate the cascading effect of indirect taxes in the supply chain,
- to reduce corruption by making transparency in the transactions making it online
- Increasing compliance by compelling the unorganized sector to file for GST
- Uniform GST Registration, payment, input tax credit
- Increase the GDP and revenue of the country

Though the GST has its own merits it is not able to meet its objectives because of lack of awareness among the public, unavailability of trained staff, and sometimes double registration increases the costs.

III. REVIEW OF LITERATURE:

Mohammed Babagana shettima (2017) in their study on “Impact of GST on Indian economy” has found that GST is a greatest taxation and promotes the country’s overall growth and development.

Dr.Smt.Rajeswari M.shettar in their study on “A key tax reform- GST” has said that GST will broaden the tax base, compliance, and equal treatment for all the states.

Jyoti Nair in her study on “GST—progressive and Disruptive” has found that though there are initial problems while implementing the GST but the outcome is positive.

IV. HOW GST WORKS:

Any businesses who has the volume of trade more than Rs20 lakh has to pay GST, and set at Rs 10 lakh for North Eastern states as special category states. They are allocated a unique tax identification number that is GSTIN. A taxpayer exceeding turnover of Rs1.5-5 crores uses HSN code of four digits (Harmonized system of Nomenclature) HSN will make GST very clear and accepted globally. Under Goods and Services Tax, the tax paid on input is reduced from the total output tax. Any product has to undergo different stages before it goes to the final consumer; they need to pay taxes in all the below stages.

1) Procurement of raw materials
2) Manufacturing
3) Warehousing
4) Sale to wholesaler
5) Sale to retailer
6) Final consumer

Tax calculations in earlier regime:

<table>
<thead>
<tr>
<th>Action</th>
<th>Cost</th>
<th>10% Tax</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturer</td>
<td>2,000</td>
<td>200</td>
<td>2200</td>
</tr>
<tr>
<td>Warehouse adds label and repacks @ 300</td>
<td>2500</td>
<td>250</td>
<td>2750</td>
</tr>
<tr>
<td>Retailer advertises @ 500</td>
<td>3250</td>
<td>325</td>
<td>3575</td>
</tr>
<tr>
<td>Total</td>
<td>3250</td>
<td>775</td>
<td>3925</td>
</tr>
</tbody>
</table>
In the above case tax is paid on tax and the Value of the item gets increased in every stage and this is cascading effect of taxes.

Tax calculations in current regime:

<table>
<thead>
<tr>
<th>Action</th>
<th>Cost</th>
<th>10% Tax</th>
<th>Actual Liability</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturer</td>
<td>2000</td>
<td>200</td>
<td>200</td>
<td>2200</td>
</tr>
<tr>
<td>Warehouse adds label and repacks @ 300</td>
<td>2,300</td>
<td>230</td>
<td>30</td>
<td>2530</td>
</tr>
<tr>
<td>Retailer advertises @ 500</td>
<td>2800</td>
<td>280</td>
<td>50</td>
<td>3080</td>
</tr>
<tr>
<td>Total</td>
<td>2800</td>
<td>280</td>
<td>3080</td>
<td></td>
</tr>
</tbody>
</table>

The final value of the item is reduced from 3575-3080= Rs.495. The final consumer benefits from the lower costs.

There are various types of taxes under GST,

CGST is Central goods and services tax collected by the Central government for transactions done within the state.

SGST- State goods and service tax collected by state governments, and inclusive of both the CGST and SGST.

UTGST Union territory goods and service tax the territories in India are charged the UTGST and consist of CGST+UGST.

IGST is integrated goods and services tax charged on sales from one state to another state or within one state itself and it is inclusive of SGST and CGST. IGST need to be paid on imports as well.

V. BENEFITS OF GST

A. Speedy Transportation: The logistics sector is benefited because of reduced long hour waits at the check posts across borders due to elimination of various indirect taxes.

B. Monotonous Business throughout the nation: GST would change VAT and business need not suffer with VAT Compliances that are different in all states.

C. Lower Tax Compliances: Central GST would replace Service tax, central excise duty, and tax on advertisements, surcharges, cesses and customs duty. State GST would replace state VAT, state cesses, central sales tax, advertisements tax, lottery, gambling, luxury tax, purchase tax and entertainment tax.

D. Startups: Startups need to pay for VAT and service tax if their turnover is Rs.5 lakhs and in some states Rs.10 lakhs. With GST businesses with turnover of Rs.20 lakhs are needed to register for GST. Startups in our country are mostly into service industry.

E. Reduction in Costs: With the reduction in transportation cost, Warehouse maintenance cost reduced, the final product costs is reduced substantially.

F. Inflation: With the input tax credit the prices of goods and services for the consumer will be reduced under GST. Though the services sector are charged 18% which is little higher than before. Inflation would be controlled in the long run.

G. Increase in Foreign Investment: With the reduction in costs, and implementing the GST, India is in line with the international standards and making it easier to sell our products in global market and thereby increasing our exports. FDI also due to the transparency and corruption free government.

H. Different Sectors that are benefitted: Cement, building materials, metal, automobiles, entertainment, consumer durables, FMCG goods, and logistics. Artisans and craftsmen will benefit greatly due to the reduction in cost of locally produced goods and services.

I. Removes cascading taxes: GST absorbs all the indirect taxes both at the centre and state governments and creates a uniform tax for the country.

J. Transparency: With the GST the compliances of tax becomes transparent (registration, returns, and payments) are made online.

K. Composition schemes: Small businesses with a turnover of Rs 20 to 75 lakh can benefit since they need to pay the fixed percentage of their total trade and are from the law compliances, the manufacturer has to pay 1% of their trade and 2.5% in case of supplier of food items and other suppliers need to pay 0.5%

VI. CHALLENGES OF GST:

A. Small scale business have higher tax burden. Small scale business who did not pay taxes earlier now has to pay taxes for their trade volume of more than Rs.20 lakhs.

B. Double Control: Business is indirectly controlled both by centre and state in all tax related cases. The state will lose its
autonomy to replace the tax rate which is regulated by GST council.

C. GST executed in the middle of financial year: GST was introduced during the middle of the financial year in July 2017; it was difficult for the businesses to change from the old tax structure.

D. GST will increase the working costs: The products final rate increases because of “tax on tax” and the working costs for the financial year 2018 has increased by 2-3% under GST.

E. Services tax: The services tax which was at 15% before has been increased to 18% under GST, and services like telecom, airline and banking are affected mainly.

F. Physical Disability tax: Types writer, hearing aid, and motorized wheelchair which were earlier tax free prior to the implementation of GST is now taxable.

G. Discount and reward programs: Most of the companies have suspended the discount and reward programs because of complexities of GST.

H. Registration: The seller needs to register in all the states it does the business and it increases their work.

The GST tax rates for different products:

The GST rates for numerous products are modified and lowered than the prevailing rates. GST council comprises of the Governments and industries conducts meeting from time to time and are revising their policies regarding GST in a way to promote the country’s growth. Recently discussions on petrol, diesel, land and electricity to be included in the GST.

VII. IMPACT OF GST ON VARIOUS SECTORS

The tax rate under GST are 5%, 12%, 18%, and 28% for various goods and services, almost 50% of goods and services comes under 18% tax slab. The GST Council, lowered GST rates on over 200 items, ranging from chocolates to beauty products, wigs and wrist watches and 178 products of daily use product reduced taxes from 28 per cent to 18 per cent, and 5 per cent tax is applied for both air-conditioned and non AC restaurants. Soaps and toothpaste will attract 12%-18% tax, which is lower than the current rate of 20% and household products such as refrigerators and washing machines will be cheaper as the rate of tax now to them is 28% as opposed to the previous rate of 30%-31%.

A. Impact of GST on EXIM: Under GST the imports of goods and services are treated as interstate transaction and need to pay IGST plus the customs duty, the only exemption in this is import of pan masala and petroleum products for which the discussion is going on that diesel and petrol has to be included in GST. The export of goods and services under GST need not pay IGST if paid at any point then can claim the refund.

B. Impact on Real estate: The properties that are for sale and that is under construction are charged a GST of 12% and this excludes the registration and stamp duty. GST for iron and steel cement are reduced from 19.5% to 18%.

C. Impact on Entertainment industry: The GST rates for movies varies from 18% to 28%. The movie tickets below Rs100 will be charged GST rate of 18% but for prices above Rs100 will be charged 28%.

D. Impact on Hotel and Tourism: This industry plays an important role to grow the GDP of our country. Less than Rs. 1000 = 0% (GST free) and 12% for total amount of Rs.2500, and Rs.2500-7500 it is charged at 18% and above Rs.7500 the rates are 28%. India with its world wonders is the hub for tourism and it has considerably low tax rate compared to Japan and Singapore which is 10% whereas in India the tour operators have a 5% GST.

E. Impact on Logistics: The logistics sector under GST has increased the tax on warehouses, and labour. Corruption activities are reduced in logistic services due to easy accessibility within states, no entry restrictions and the transactions are made online through e-way bills.

F. Impact on banking sector: 18% GST rates are charged on banking services like insurance policies, ATM transactions etc. The earlier tax rate was 15%, hence banking and financial services become costly.

G. Impact on Gold industry: Jewellery and gold industry contributes to 6-7% of GDP of the country. 3% GST applies to gold which is slightly higher. The demand for Gold may
fall 50 to 70 percent. But there is more transparency in the gold industry due to the GST implementation. The jewellery shop owners need to file the KYC (know your customer) document for sales above Rs. 50,000. It will definitely turn in a positive impact on a long term.

**H. Impact on textile and clothing:** Textiles contributes 10% of the total annual export, and one of the largest manufacturing sector in the country. The costs are reduced for the manufacturer as he needs to pay only one tax and all the indirect taxes are avoided and is benefited under GST.

**I. Impact on IT industry:** Certain IT products like fax machines, printers, computers will attract 28% tax which is higher than the earlier tax of 18%. There were one point of registration for IT industry but under GST there are 111 points of taxation. Software services are charged at 18% against 15% tax earlier. IT industry will become more transparent under GST, though most of the products and services are charged at 18% it will increase their costs but will have positive impact in the long run.

**J. Impact on FMCG industry (Fast Moving Consumer Goods)**

There are three segments under this sector 1) food and beverages 20% 2) health care constitutes for 30% of this sector and household and personal care products comprises of 50% of this sector, the most needed and basic commodities are charged 5% GST, the medicines and fruit juices are at 12% GST, soaps, tooth paste, hair oil are at 18% GST, cosmetic products, detergents, chocolates are at 28% GST. Since the transactions are recorded online through e-way bills the FMCG sector will have a positive impact on the supply chain of the industry and improves steadily.

**VIII. IMPACT OF GST ON THE ECONOMY**

With the implementation of GST, it will take time for the economy to stabilize on both the revenue and expenditure side. Rising oil prices, a hike in agricultural support prices and exchange rate depreciation could keep the inflation outlook challenging, resulting in bringing the petrol and diesel prices under GST. This move could unify cap taxes on petrol and diesel at a maximum of 28 per cent. Revenue collection under GST for September Rs 94,000 crore as compared to Rs 93,960 crore in August. The latest GST number remains broadly on expected lines but falls short of the Rs 1 lakh crore targets. To Reimburse the loss incurred by state governments after the introduction of GST the central government announced compensation cess for states for a period of 5 years from the implementation of GST. The total number of taxpayers registered for GST has increased from 74, 61,214 in July 2017 to 94, 70,281 in July this year and there is an improvement in tax compliance under the GST regime. The Prime Minister Narendra Modi said that the looking at the pace of Revenue collection within 2-3 years none of the states would come for compensation due to revenue Shortfall under GST, since Jharkhand claimed 17% which was earlier 26% during the year 2017-2018.

**IX CONCLUSION**

The consumer needs to pay lower taxes for goods and services under unified taxing system. GST reduced the taxes for the primary and utmost needed products. The HSBC conducted a study on GST and found that GST would have a positive impact on the GDP of the country. GDP will increase by at least 80bps that is 0.80%. Though it has its shortcomings, with the GST being implemented, Inflation would be reduced, revenue will increase, exports and FDI will grow and fiscal deficit is expected to remain under control. GST is definitely a great reform in the Indian economy which will improve the GDP and help in accelerating the country’s growth in the long run through its transparency.

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