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## Goods and service tax (GST) and its impact

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### Abstract

**GST:** Goods and Service Tax is a comprehensive tax levy on manufacture, sale and consumption of goods and services. GST is termed as biggest tax reform In Indian Tax Structure. It will not be an additional tax, it will include central excise duty, service tax additional duties of customers at the central level, VAT, central sales tax, entertainment tax, octroi, state surcharge, luxury tax, lottery tax and other surcharge on supply of goods and services. The purpose of GST is to replace all these taxes with single comprehensive tax, bringing it all under single umbrella. The purpose is to eliminate tax on tax. This paper will throw light on GST its features and also effect of GST on prices of goods and Services.

**Keywords:** G.S.T., mechanism of GST, feature, impact, prices, organised sector, employment

### Introduction

The Rajya Sabha unanimously passed the constitution (22<sup>nd</sup> amendment) bill 2014, on 3<sup>rd</sup> August 2016 with 203 votes in favour. All parties, except the AIADMK, backed the bill. GST would be a comprehensive indirect tax on manufacture consumption and sale of goods and services throughout India, to replace taxes levied by central Govt. and state Govt. GST would be levied and collected at each stage of sale or purchase of goods and services. Taxable goods and services are not distinguished from one another and are taxed at single rate in supply chain till goods and services reach the consumer.

The easy passage was facilitated by the congress after the Govt. made key changes, including scraping of 1 percent manufacturing tax and incorporating clearer provision for compensating state for revenue loss for five years. Mr. Arun Jaitly assured the house that the tax rates would be kept as low as possible.



As today some taxes are levied by the state Govt. and some are levied by central Govt. How nice will it be if there is only one unified tax rate instead of all these taxes, GST is applied on goods and services at the place where actual consumption happens. It is based on the Destination Principle. GST would be levied and collected at each stage of sale or purchase of goods and services. Goods and services are not distinguished and are taxed at single rate in supply chain till the goods and services reach consumer. It is the consumer of goods and services who bears the tax. The manufacture or wholesaler or retailer will pay the applicable GST rate but will claim back through tax credit mechanism.

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Administrative responsibility would be generally rest with single authority to buy tax on goods and services. Under the current system, levies are charged at multiple points and by different authorities, for example at the police at check points, by state Govt. agencies at inter-state borders. This encourages corruption, that a common nationwide tax is expected to eliminate. It is believed that it would make the tax procedure more fair, transparent and efficient.

The current tax structure does not allow business person to take tax credit. There are many chances of overlapping or doubling of taxation at every step of supply chain. This will be eliminated with the implementation of GST. Indian Govt. is opting for dual system of GST. This system will have two components which will be known as: -

- Central Goods and Service Tax (CGST)
- State Goods and Service Tax (SGST)

The current taxes like excise duties, service tax, custom duty etc. will be merged under GST. The taxes like sales tax, entertainment tax, VAT, and other state taxes will be included in GST.

#### How GST is levied

GST will be levied on the place of consumption of goods and services. It can be levied on following states.

- Intra-state supply and consumption of goods and services.
- Inter-state movement of goods.
- Import of goods and services.

#### Features of GST

- GST will subsume central indirect taxes like excise duty, services tax etc and also state levies like VAT, Octroi, entry tax, luxury tax etc.
- It will have two components, central GST levied by Centre and State GST levied by the States.
- Only Centre may levy and collect GST on supplies in case of inter-state trade and collection of tax will be divided between centre and state.
- A two-rate structure will be adopted. It means lower rate for necessary items and goods of basic importance and a standard rate for goods in general. There will also be a special rate for precious metals and a list of exempted items.
- Over-lapping of tax, tax on tax will be eliminated with GST.
- Both Goods and Services are taxed in same manner in chain of supply till they are reached to consumer. They are not distinguished under GST.

#### Impact of GST on prices of goods and services

Tax experts claim that the current practice of tax on tax - for example, VAT is being charged on not just cost of production but also on the excise duty that is added at the factory gate leading to cost building up, will go once GST is rolled out. This will help in bringing down the prices of consumer durables, electronic products and ready-made garments. On the other hand, for goods which are currently taxed at low rate, the impact of GST will bring price hike. Services barring essential ones like ambulance, cultural activities, pilgrimages etc. are exempted from levy, will become costlier. GST is the most powerful tax reform that India has seen, aims to do away with multiple - tax regime on

goods and services and bring them under one rate. We can just predict the following impact of GST on prices.

#### What would be cheaper?

**Electronic Goods:** Electronic goods like AC, microwave ovens, refrigerators, washing machines etc will be cheaper because presently there is 12.5% excise and 14.5% VAT is levied on them but after GST only single tax will be levied which will bring the prices of these electronic goods.

**Restaurant Bill:** Eating out will also be cheaper because presently both VAT and service tax are levied on it. But when GST will be levied, it will cut the bill.

**Multiplex and Media:** Currently 22 to 24 percent taxes are charged on multiplex and media as service tax and entertainment tax both are levied. But after implementation of GST this tax amount will be reduced to 18 to 20 percent.

**Medicines:** On medicines different taxes are levied. After GST the rate of tax may be reduced by 6 percent.

**Small SUV Cars:** Small cars will also be cheaper.

**Cement:** After implementation of GST 18 to 20 percent less tax will be charged on cement, this will reduce the prices of cement. Accepts these luxury cars, FMCG products, consumer durable, ready-made garments etc will be cheaper when GST will be implementation. On the other hand following are some items which will be costly after levy of GST.

#### What will be Costly?

**Packed Food:** Packed food will be costly by 12 percent. It include tea, coffee etc. on which presently no duty is charged, but after levy of GST, if Govt charge at base rate, even then prices of packed food will increase.

#### Diamonds, Jewellery, Ready-made Garments

After GST implementation diamonds, jewellery and readymade garments will be costly because currently three percent tax is charged on them and after implementation GST the tax may be 12%

**Services:** There will be increase in prices of mobile bill, Credit Card bill etc. Presently 15% tax is charged on these services and with levy of GST it will be 18%, which will make these services costly.

**Textile, edible oil, Low Value Footwear:** Tax rate of excise duty is nil and VAT in most states is 5%. Thus the overall tax cost for these goods is about 8 to 9 percent. If these goods are kept at standard GST rate of 18% then there would be significant increase in cost of these items for the end customers. If these are kept at lower GST of 12% there would be an increase in cost for consumers.

While the Govt is sure of the benefits of GST will bring to common man, it is still early days to predict that which items will be more cheaper are expensive. Experts say inflation can go up for a year after implementation of GST that's has been the international experience. We have on economy where services tend to dominate and GST will on services will be higher that current situation. On the other hand some articles are outside the taxation right now which will also get added. This is also the reason of higher prices.

**Impact of GST on organized Sector:** Another major regime is that it will shift trade from unorganized to organized sector and improve efficiency in the system. India has significant presence of unorganized sector. According to some estimates in 2005, out of 485 million persons employed in India, 86% to 395 million worked in unorganized sector, generating 50.6% of GDP. Implementation of GST is expected to narrow the large indirect tax difference between organized and unorganized segments. This would be achieved by ensuring better compliance and enforcement by reducing the threshold limit for exemption from indirect taxes, tracking the flow of GST in entire chain.

**Impact on Employment:** Analysis say that the fear of job losses in GST regime persist as it hits the unorganized players, who have to now come under tax compliance while benefitting the mid large sized companies which are already under the organized sector.

### **Conclusion**

At the end we can say no doubt it is the biggest ever change in tax structure of India. There will be fall in prices of some commodities but on the other hand price of some other goods and services will rise. There is threat of inflation too and states may face reduction in their financial resources. But overall it will be a great change.

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