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Impact of goods and service tax (GST)

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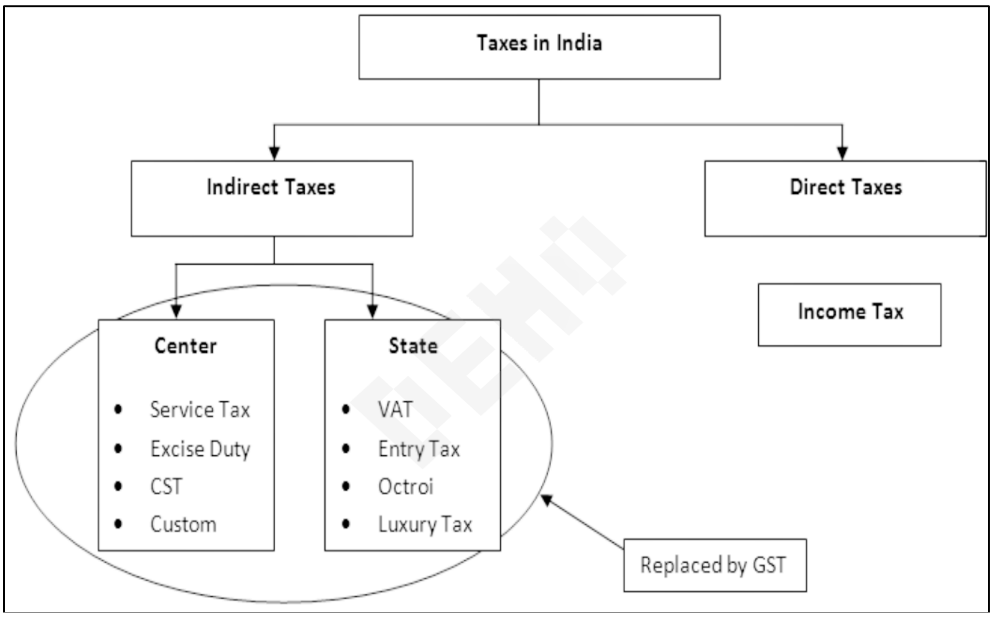
Abstract
GST stands for "Goods and Services Tax", and is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. GST is charged on the value or selling price of the products. GST is intended to include all these taxes into one tax with seamless ITC and charged on both goods and services. Thus, excise duty, special additional duty, service tax, VAT to name a few will get repealed and will be added into GST. For this, GST will have 3 parts – CGST, SGST and IGST. The central taxes like excise duty will be subsumed into CGST and state taxes like VAT into SGST. For the introduction of GST in the above form, the Government needs to get the Constitution Amendment Bill passed so that the proposed objective of subsuming all taxes and allowing states to tax subjects in Union list and vice versa is achieved. Without these powers it is not legally possible to move towards GST. This will be one of the biggest taxation reforms that will take place in India. The basic idea is to create a single, cooperative and undivided Indian market to make the economy stronger and powerful.

Keywords: GST, goods and services, India, VAT, CGST, SGST, IGST and Indian economy

Introduction
Goods and Services Tax (GST) is an indirect tax reform which aims to remove taxbarriers between states and create a single market.The Goods and Services Tax was launched at midnight on 1 July 2017 by the President of India, Pranab Mukherjee, and Prime Minister of India, Narendra Modi. The launch was marked by a historic midnight (1 July – 2 July) session of both the houses of parliament convened at the Central Hall of the Parliament. It is a consumption based tax/levy. It is based on the "Destination principle." GSTis applied on goods and services at the place where final/actual consumption happens. GST is collected on value-added goods and services at each stage of sale or purchase in the supply chain.



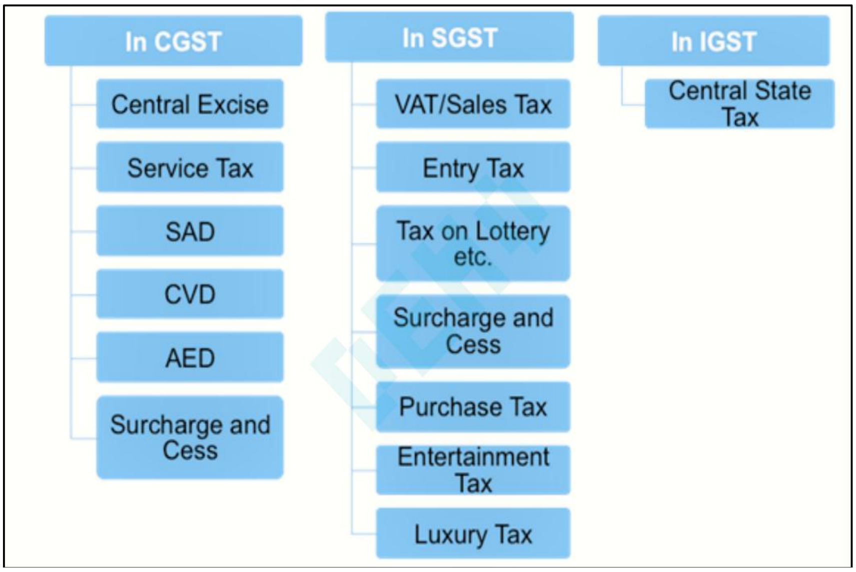
GST is nothing but a hybrid version of the Value Added Tax (VAT), modified to suit the complexities of a federal system. The central taxes do not cover value addition in goods beyond the manufacturing stage, and in services only listed services are covered. On the other hand, in the case of state taxes, only sale of goods is covered. GST rectifies this defect by covering all goods and services. It is essentially a tax only on value addition at each stage, permitting a supplier at each stage to set-off, through a tax credit mechanism. The final consumer will bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages. GST is the latest in the category of indirect tax reform.

Components of GST

From July 2017, India will follow the dual-GST model which is made up of the following components:

- SGST - A form of GST collected by the state government
- CGST - A form of GST collected by the central government

Both the taxes will be levied when sale of goods and services take place within a same state. If the movement of goods occurs between two different states i.e. an interstate transaction, a combined tax called the IGST or the Integrated GST (SGST + CGST) will be collected by the central government. The IGST will replace the currently levied Central Sales Tax (CST) of 2%.The tax amount collected as IGST will later be distributed to respective state governments.



Levy of SGST, CGST and I GST

Let us assume that you're a distributor in Chennai and you buy goods from a manufacturer in Tirupur, Tamil Nadu. Since the sale and movement of goods happen within the state, SGST and CGST will be levied on the sale. Also, the distributor gets tax credit on the input SGST and CGST. Let us assume that you're a distributor in Belgaum and you buy goods from a manufacturer in Tirupur. Here, the sale and movement of goods happen between two different states, IGST will be levied on the sale.

GST Tax Structure

The four-tier tax structure of GST has the following slabs: a zero rate, a lower rate, two standard rates, and a higher rate. This article is aimed at providing a brief overview of each GST rate.

- **Zero rate**

The zero-rate tax is a nil tax that is applied on goods and services. This is equivalent to tax exemption and does not have any effect on the price of the product. Items that are eligible for zero rate tax are decided by the government. As per the four-tier tax structure, the zero-rate tax will be applied on 50% of the items of the consumer price index (CPI) basket - an index that constantly measures prices of commonly purchased consumer goods and services to measure inflation. The zero rate items could include such items as all food grains, cereals, milk, and other essentials. Including zero rate as part of the GST structure will keep the prices of basic items in check, regardless of whether the government decides to increase tax rates in the future.

- **Lower rate**

A lower rate of 5% will be applied on the rest of the items in the CPI basket and other items of mass consumption. This, along with the zero-rate tax, will help prevent inflation from having much of an impact on zero rate and lower rate items, keeping the prices of all essential items in check.

- **Standard rate**

There are two standard rates that have been finalized by the GST Council: 12% and 18%. Finance Minister Arun Jaitley, in his address to the press, said that the Council had finalized two standard rates in order to keep inflation in check. Imagine a product, which is currently taxed at 13%, charged a rate of 18% GST. This would increase the price of the product by 5%, leading to inflation. To avoid this, the GST council decided to tax all goods and services that are currently taxed at 9-15% at a standard rate of 12%. Processed foods will also be taxed at 12%. The rest of the goods and services will be taxed the second standard rate of 18%.All taxable services that are currently charged at 15% will now be moved to the 18% bracket. This could increase the price of a majority of services that are currently offered.

- **Higher rate**

A higher rate of 28% will be levied on white goods. This includes items such as washing machines, air conditioners, refrigerators, small cars, etc. Previously, the tax on white goods was around 27% (including an excise of 12.5% and VAT of 14.5%), but the cascading effect elevated the tax as high as 30-31%. This will be minimized by the new higher rate of 28%.

- **Additional cess**

The additional cess, which had been a topic of debate since the proposal of the GST rates, is now finalized. People worried that demerit goods (such as tobacco products and aerated drinks), which were previously taxed at 65% and 40%, would become cheaper and too easily accessible with the new higher rate of GST set at 28%. Keeping this in mind, the new GST structure will collect an additional cess on top of 28% GST. The cess will only be applied on demerit goods like luxury cars, tobacco products, pans, and aerated drinks. The percentage of the additional cess is yet to be determined by the government.

Why Do We Need GST?

The current tax system gives businesses a tough time as it involves multiple taxes, complex compliance procedures, and intervention by several state and central tax divisions. This makes it highly difficult to setup a business in India which already stands at 133rd position when comes to doing business. The reason for introducing the GST regime in India is due to the following:

- **Multiple taxes and tax cascading**

In the current indirect tax structure, up to 20 taxes are levied by the state and the central government before a product reaches the end consumer. At each stage of a supply chain, taxes are applied on the total value of the product, even though it has already been taxed at the previous level. This process of taxing already taxed goods is referred to as tax cascading. This happens when the government fails to provide credit for input tax (the tax that was paid at the previous stage) to the consumer who buys the product in the next stage. This heavy tax cascading increases the amount of tax involved in the making of a product, which often is included as part of the manufacturing cost. This shifts the entire tax burden on the end consumer, who will pay upwards of 30-35% in taxes by the time they buy a product.

- **Interstate movement of goods is difficult**

When goods are moved from one state to another, a Central Sales Tax (CST) of 2% is collected on the total value of the goods at the state border. For example, if you have a textile showroom in Chennai and buy garments from Surat, the truck carrying the consignment will be charged a CST of 2% for each state border it crosses. This amount gets added to the cost of the garments that you buy from the manufacturer. On top of all that, the constant taxing of interstate goods delays their arrival, as time is wasted at tax checkpoints at each state border.

- **Complex compliance procedures**

A lack of a uniform tax rate across the country means that Indian businesses today have to comply with multiple tax laws, follow various different tax rates, and face intervention from tax authorities from many states. Businesses that sell goods across states have to maintain a separate record to manage costs according to each state's tax rate, as well as manage piles of paperwork specific to each state's tax laws. Failing to comply with all of these rules puts businesses at risk for heavy penalties from the tax department. All of this additional work makes managing interstate taxes complex and stressful, and it often consumes a considerable amount of time, money, and resources.

How Can GST Change This?

Instead of applying taxes on the total value of the product at each stage, the GST only imposes tax on value addition. Because it provides credit for the input tax paid at each previous stage of a supply chain, this method considerably reduces the overall manufacturing cost.

Benefits of GST: Many industrialists and finance experts believe that the GST will transform the way we do business in India. Here's how the GST would bring major benefits to businesses.

- Development of common national market
- Tax booster for government
- Lesser compliances
- Increased efficiency in logistics
- Free movement of goods
- Automated compliance
- Reduce tax cost and tax credit

Impact of GST

Agriculture

Agriculture has always been the root of the Indian economy. With that in mind, the government has been exempting many food items such as meat, eggs, coarse grains, fruits, and vegetables from the CENVAT (Central VAT), even though cereals and food grains are associated with a state VAT (Value Added Tax) of 4 percent. This is going to change with the implementation of GST as all the indirect taxes associated with agriculture will be merged together and streamlined across all Indian states. A majority of agricultural goods will be exempt from tax. To be more specific, 50% of items that are currently present in the Consumer Price Index (CPI) basket will be exempt from tax. The remaining 50% of the items will come under the lower tax bracket of 5%.

Fast Moving Consumer Goods

Fast Moving Consumer Goods (FMCG) industry includes food, beverages, household and personal care items. These are currently liable to a total tax of >26% (this is the result of a 12.5% excise and a VAT of 12 to 14.5% on top of excise). This excludes most of the agricultural processed products that either enjoy a VAT exemption, or are liable to a lower bracket of taxation (4-5% of the value). With GST at a rate of 12-18%, we will see a drop in the prices of most FMCGs.More than pricing, the greatest impact of GST on FMCG companies would be on their product distribution and warehousing. As of today, the distribution costs for FMCGs account for up to 7% of business turnover, and to keep it as low as possible, they establish warehouses in every state where they operate (this is done in-order to avoid Central Sales Tax, or CST, on interstate sales). Based on demand, the goods are transferred among warehouses and sold to distributors locally. Under the GST, local and interstate supply would be tax neutral and India would be treated as a single common market. This shift would allow companies to reconsider the location of warehouses from a tax saving stand point to a market centric one that offers more savings and faster deliveries.

Manufacturing

The manufacturing sector encompasses a wide range of industries. Currently, this sector is subjected to an array of taxes such as the excise duty, VAT, CST, etc which are levied at each level and are added to the whole value of the product (this is known as tax cascading). One of the biggest challenges of this sector is to try and reduce the cost of production while delivering the maximum value to end customers. The new GST regime will make it more easier on this sector by contributing to a lower cost of production as tax at each level will be charged only on the value added to an item. One of the major defects of the current indirect tax regime – the absence of tax credit for central/union taxes over state taxes and vice versa – could be eliminated by allowing unrestrictive tax credit under GST. Another major challenge faced by the manufacturing sector today is transferring goods from one state to another while also acquiring raw materials from another state. This is because the state-border checkpoints that ensure material scrutiny and location-based tax compliance take up roughly 60% of a truck's transit time. These unproductive transit hours coupled with regulatory impediments reduce the efficiency of Indian manufacturers as compared to their international counterparts.The new GST regime will once again better the situation by unifying the Indian market and facilitating a smoother flow of goods within the country. Although border checkpoints may still exist for some time, the lesser scrutiny at these checkpoints will greatly reduce transport hassles.

Ecommerce & Supply Chain Logistics

According to the Constitution (122nd Amendment) Bill that advocates the GST regime, when we talk about supply, it does not differentiate between "supply to oneself" and "supply from one person to another". This means that both the act of selling goods as well as transferring goods from one state to another will be treated in the same way. Though we cannot say for sure, if this was enforced, it will warrant a redrawing of warehouse strategy in-order to optimize organizational profits (you won't be needing too many warehouses anymore). This will transform warehouses into fulfilment centers instead of distribution centers. This means lower distribution and holding costs, less bureaucratic red tape, and an increased ability to focus on your market. That being said, the additional 1% tax, envisaged as a replacement for Central Sales Tax, may not be available for credit, which will add to the cost of products.

Further to this, the GST has two major benefits

- Because of the availability of input tax credits on inter-state sales, you are now exempt from any form of tax cascading.
- With no CST or octroi on top of sales taxes in the picture, you no longer have to maintain extra warehouse steps in your supply chain.

We saw the impact of GST on our supply chain logistics; now let's see how it also affects our e-commerce industry. With no tax laws currently in place for this industry, taxes are imposed by state governments based on their outdated and non-uniform tax laws. The GST aims to correct that, by increasing its tax base and levying a uniform tax rate for goods and services all over India. This will result in fewer regulations, lesser paperwork and consecutively consistent item prices and faster product shipments and returns.

Services

- **Technology**

On the plus side, GST will eliminate multiple tax levies and allow for deeper penetration of digital services. At the same time, it will be a disadvantage to IT companies that have several delivery centres and offices working together to service a single contract. This is because each centre is required to generate a separate invoice to every contracting party.

- **Telecommunication**

On the bright side, GST will bring down/streamline the prices of handsets across states owing to uniform taxation and lower production and distribution costs. On the other hand, call charges and internet data rates will go up if GST ends up exceeding 15%.

- **Media & Entertainment**

Things are looking bright for DTH providers (Direct to Home dish tv providers), film producers and multiplex players who are currently liable to a non-uniform entertainment tax on top of regular service taxes. This is because the GST regime will bring down the tax levied on their services by 2-4%.Additionally, the GST will also offer input credits on all taxes levied under this regime; that means more revenue gained for these service providers and a possible reduction in the prices of their services.

- **Insurance**

Life, health and motor coverage will become more expensive from April 2017 as taxes will go up by 3%.

- **Air Travel**

Air travel in India will become far more expensive, as the current service tax of 6-9% will be replaced by a GST of 15-18%. (It's better to buy a tourer and travel by road than travel by air as automobiles will be cheaper with GST ;)

Shortcomings of GST

Multiple registrations

According to the model GST law, a business should register for GST in every state where they have an establishment/ branch / outlet / warehouse (in simple terms, you must register every billing address that belongs to your company individually.

No Threshold limit for Ecommerce Suppliers

Ecommerce operators are not eligible for the threshold limit (Rs. 20 lakhs) that is currently available for other businesses. Irrespective of their annual turnover, registration is mandatory and they will have to pay GST. This would affect several brick and mortar stores, who make a few extra bucks by selling their products online.

Multiple Returns

According the GST regime, every business should file three returns on a monthly basis and an annual return. This amounts to 37 returns in a fiscal year which can make compliance difficult for businesses due to the significant amount of time spent on filing returns.

Conclusion

Introduction of this transformational tax reform is expected to broaden the tax base, increase tax compliance and reduce economic distortions, caused by Inter-State variations in taxes. GST will boost economic activity and benefit everyone. Compliance cost for the industry will go down and it will create more job opportunities. From the above discussion it is clear that GST is basically an indirect tax that brings most of the taxes imposed on most goods and services, on manufacture, sale and consumption of goods and services, under a single domain at the national level. In the present system, taxes are levied separately on goods and services. The GST is a consolidated tax based on a uniform rate of tax fixed for both goods and services and it is payable at the final point of consumption. At each stage of sale or purchase in the supply chain, this tax is collected on value-added goods and services, through a tax credit mechanism. The Goods and Services Tax (GST) further will indeed a significant improvement – the next logical step – towards a comprehensive indirect tax reforms in the country.

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