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Implements of GST in India and its Impact on Stakeholders

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Abstract

Goods and Service Tax (GST) is a comprehensive tax levy on manufactures, sale and consumption of goods and services. The fundamental aim of GST is to make uniform the scattered indirect tax system in India and avoid the cascading effect in taxation. The impact going to make by GST will be a transformation in the entire tax system in India. This paper deals the study and effect of GST process of implementing the Goods and Services Tax (GST), bringing out the perspectives of different stakeholders and the controversial problems. The important stakeholders in the process were the Government of India and States. The states faced challenges of apparent loss of revenue extent of uniformity across various commodities and their tax rates, input credit mechanism and dispute settlement. A number of legal and administrative steps need to be taken prior to the implementation of GST, include stakeholder consultations. Carry out research, study best practices & provide training to the stakeholders. Finance Minister Arun Jaitley has been affirming that India will implement GST from 1st July 2017.

Keywords: Goods and services tax, stakeholders, Tax

1. Introduction

The word tax is derived from the Latin word "taxare" meaning "to estimate".

"A tax is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority" and is any contribution imposed by government whether under the name of toll, tribute, impost, duty, custom, excise, subsidy, aid, supply, or other name."

The first known system of taxation was in Ancient Egypt around 3000 BC - 2800 BC in the first dynasty of the Old Kingdom. Records from that time show that the pharaoh would conduct a biennial tour of the kingdom, collecting tax revenues from the people. Other records are granary receipts on limestone flakes and papyrus. Early taxation is also described in the Bible. In Genesis, it states "But when the crop comes in, gives a fifth of it to Pharaoh. The other four-fifths you may keep as seed for the fields and as food for yourselves and your households and your children." Joseph was telling the people of Egypt how to divide their crop, providing a portion to the Pharaoh. A share 1 of the crop was the tax.

In India, the tradition of taxation has been in force from ancient times. It finds its references in many ancient books like 'Manu Smriti' and 'Arthashastra'. The Islamic rulers imposed jizya. It was later on abolished by Akbar. However, Aurangzeb, the last prominent Mughal Emperor, levied jizya on his mostly Hindu subjects in 1679. Reasons for this are cited to be financial stringency and personal inclination on the part of the emperor, and a petition by the ulema.

The period of British rule in India witnessed some remarkable change in the whole taxation system of India. Although, it was highly in favor of the British government and its exchequer but it incorporated modern and scientific method of taxation tools and systems. In 1922, the country witnessed a paradigm shift in the overall Indian taxation system. Setting up of administrative system and taxation system was first done by the Britishers. Broadly, there are two types of Taxes viz. Direct and Indirect taxes. Taxes in India are levied by the Central Government and the State Governments. Some minor taxes are also levied by the local authorities such as Municipality or Local Council. The authority to levy tax is derived from the Constitution of India which allocates the power to levy various taxes between Centre and State.

A number of legal and administrative steps need to be taken prior to the implementation of GST. These include stakeholder consultations, amendments to the Constitution and state laws, administrative reorganization, preparation of GST registration, assessment and audit manuals, staff training and conduct of awareness campaigns amongst stakeholders.

2. Need of the study

This study will help us to examine the impact of GST on stakeholders after its implementation; it will show the gap between present indirect taxes and GST.

3. Objectives of the Study

The objectives of present studies are,
To study the impact of GST on stakeholders in India

4. Research Methodology

The study focuses on extensive study of Secondary data collected from various books, National & international Journals, government reports, publications from various websites which focused on various aspects of Goods and Service tax. The accessible secondary data is used only for study.

5. Need for GST Model in India

Following are the supporting reasons to adopt GST:

- Present system allows for multiplicity of taxes, the introduction of GST is likely to rationalize it.
- Many areas of Services which are untaxed. After the introduction of GST they will also get covered.
- GST will help to avoid distortions caused by present complex tax structure and will help in development of a common national market.
- Existing taxes i.e. Excise, VAT, CST, Entry Tax have the cascading effects of taxes. Therefore, we end up in paying tax on tax. GST will replace existing taxes.
- GST will lead to credit availability on interstate purchases and reduction in compliance requirements.
- Introducing GST will do more than simply redistribute the tax burden from one sector or Group in the economy to another.
- Achieves, uniformity of taxes across the territory, regardless of place of manufacture or distribution.
- Provides, greater certainty and transparency of taxes.
- Ensure tax compliance across the country
- GST will avoid double taxation to some extent.
- The implementation of GST would ensure that India provides a tax regime that is almost similar to the rest of world. It will also improve the International cost competitiveness of native Goods and Services.
- GST will provide unbiased tax structure that is neutral to business processes and geographical locations.
- If the Goods and Service Tax is implemented in the true spirit, it will have many positives for the stakeholders and will lead to a better tax environment.

7. Impact of GST on Stakeholders

Goods & Service Tax (GST) or VAT serves the purpose to impose a broad-based tax on final consumption by households. Hence, GST is a comprehensive tax levy on supply of goods and services.

- Both Government and Industry are keen to implement GST

- Governments are looking at increasing the tax base and tax collections (i.e. increase revenue buoyancy) through GST
- State is looking at GST as a window for taxing services
- Centre is looking at GST to go beyond the point of manufacture
- Industry wants GST to eliminate the cascading effect of taxes
- Harmonization of taxes

GST would also address issues of development through greater interaction between VAT-GST systems, along with growing risks of double taxation and unintended no taxation in the absence of international VAT-GST coordination. Basic principles of VAT-GST are generally same across the tax jurisdictions in so far as they are designed to tax final consumption in the jurisdiction where it occurs according to the destination principle. The fundamental proposition is that GST-VAT is a tax on final consumption and hence the burden should not rest on the business. GST-VAT prescribes that the tax should be collected at every stage of value addition. Each business tax payer in the supply chain should take integral part in the process of controlling and collecting the tax, remitting the proportion of tax corresponding to its margin, i.e. on the difference between GST imposed on its taxed inputs/supplies and the GST imposed on its taxed supplies. This design of tax structure ensures the neutrality of the tax. As a result, the GST thereby "flows through the business" to tax supplies made to final consumers, hence gives its essential character in domestic trade/supplies as an economically neutral tax. The proposed reform through introduction of GST would bring about a sea change in the legal provisions for imposing duty/tax liability in stages of manufacture, sale (inter-state/intra-state) of goods, rendering of services and shall stand replaced with the place of supply, where the final consumption/ enjoyment and use of goods/services were made. Hence, this revolutionary reform is necessary to be introduced to perceive the following benefits for the intended stakeholders:

(A) To Trade

- Reduction in multiplicity of taxes
- Mitigation of cascading/ double taxation
- More efficient neutralization of taxes especially for exports
- Development of Common National Market or Common Economic Market
- Simpler tax regime with fewer rates and exemptions
- Increase in cost competitiveness' for domestic industries with reduction in tax cost and also reduced cost of compliance

(B) To Government

- Simpler tax system
- Broadening tax base
- Improved compliance and revenue collections
- Efficient use of resources
- Investments out of savings by consumers - due to mitigation of cascading effect, contributes to increase in availability of funds out of savings of consumer - which may be used for financing developmental activities

(C) To Consumer

- Reduction in cost of goods and services due to elimination of cascading effect of taxes
- Increase in purchasing power and real income
- Increase in savings due to decrease in cost
- Increase in investments due to increase in savings

8. Challenges for GST

There are few aspects with disagree with the growth story and might be seen as hurdle. The aviation industry was witnessing the much awaited growth with increasing domestic traffic since from establishment; the GST implementation might slower the rate at which the industry is expecting growth as flying will become expensive. Service tax on various fares currently ranges between 6% - 9% (depending on traveling class). With GST, the rate will surpass 15%, if not 18%, effectively doubles of the tax rate. India, on one hand, has the lowest insurance percentage in the world and on the other GST will further make the insurance products popular. Life, health & motor insurances will begin to cost more from July 2017 as taxes will go up by up to 300-320 basis points. If the rate of GST will be over 15 % the all the services will be costlier. It is really required that all the states implement the GST together and that too at the same rates, It will help to stay service charge constant. Different tax analysts say that real estate market will be 12 % down by GST and may affect demanded of new houses because of increased cost up to approx 10%. As per the Constitutional Amendment Bill placed in the Lok Sabha, it was proposed that all state government would be allowed to an additional 1% non vatable tax on inter-state supply of goods for the initial two years, in order to compensate the states for loss of revenue while moving to GST. This was supported by a few states, while a few others criticised the same. The success of GST mainly depends upon major factor the Revenue Neutral Rate, is the rate at which there will be no revenue loss to the government after implementation of GST. These are some of the major challenges for the central and state government with the industry, ahead of the actual implementation of GST.

9. Other Issues

- Central government need to coordinate with all states for "input credit" due to transfer of credit in SGST.
- State tax requires officials training and development before implementation of GST.
- Effective credit mechanism between central and state government is essential for GST.
- Effective implementation also requires for peoples who are directly and indirectly part of GST.

10. Conclusion

The proposed GST law being a reform, with greater degree of simplicity, certainty and transparency, besides the GST Tax payers in India, the investors across the World are looking forward on the degree of success. The GST System is basically structured to simplify current Indirect Tax system in India. Creating awareness within the general public conducting training courses, seminars, and workshop would go a long way in serving the various stakeholders. A well designed GST is an attractive method to get rid of deformation of the existing process of multiple taxation also government has promised that GST will reduce the compliance burden at present there will be no distinction

between imported and Indian goods & they would be taxed at the same rate. Many Indirect Taxes like Sales Tax, VAT etc., will be finished because there will be one tax system i.e. GST, that will reduce compliance present burden. GST will face many challenges after its implementation and will result to give many benefits. In overall through this study we conclude that GST plays a dynamic role in the growth and development of our country.

They need more analytical research to resolve the battling interest of various stake holders and accomplish the commitment for a cardinal reform of tax structure in India. They need more analytical research to resolve the battling interest of various stake holders and accomplish the commitment for a cardinal reform of tax structure in India. The much desired implementation of Goods and Services Tax - so as to ensure and establish investor-friendly tax environment of doing business in India' thereby motivating Investors-manufacturers to establish business in India to support and achieve the path-breaking goal of "Make-In-India".

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