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AN OVERVIEW OF GST IN GLOBAL ASPECT

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Abstract—*GST is nowadays talk among the business man and the ordinary citizen, since it affects their day to day activities. Goods and Service tax is a value added levied on most of goods and service sold for domestic consumption. It is a tax which is paid by the consumer, toward the government by the business selling of goods and services. It is a revenue generated for the government from the public, another name of the GST is Value Added Tax. The Indian (INDY) manufacturing PMI in 2017 declined to 50.9%. Since it is the conceptual paper the researcher try to give a wide knowledge about the GST. All the data are secondary which is collected from the book and the net resource. This paper gives you the idea about the GST concept and also the Impact on Various countries.*

Keywords—*Central Taxes, Consumer, Domestic Consumption, GST, Provincial State Tax*.

INTRODUCTION

Goods & Services Tax Law in India is a **comprehensive**, **multi-stage**, **destination-based tax** that will be levied on every **value addition**.

In simple words, GST is an indirect tax levied on the supply of goods and services. GST Law has replaced many indirect tax laws that previously existed in India.

The goods and services tax (GST) is an indirect federal sales tax that is applied to the cost of certain goods and services. The business adds the GST to the price of the product; a customer who buys the product pays the sales price plus GST; and the GST portion is collected by the business or seller and forwarded to the government.

France was the first country to implement the GST in 1954, and since then an estimated 160 countries have adopted this tax system in some form or another. Some of the countries with GST include Canada, Vietnam, Australia, Singapore, UK, Monaco, Spain, Italy, Nigeria, Brazil, and South Korea. India is set to join the GST group on July 1, 2017.

Most countries with a GST have a single unified GST system, which means that a single tax rate is applied throughout the country. A country with a unified GST platform merges central taxes (e.g. sales tax, excise duty tax, and service tax) with state-level taxes (e.g. entertainment tax, entry tax, transfer tax, sin tax, and luxury tax) and collects them as one single tax. These countries tax virtually everything at a single rate.

Only a handful such as Canada and Brazil have a dual GST structure. Compared to a unified GST economy where tax is collected by the federal or central government and then distributed to the states, in a dual system, the federal GST is applied in addition to the state sales tax. In Canada for example, the federal government levies a 5% tax and some provinces/states also levy a provincial state tax (PST) which varies from 7 to 10%. In this case, a consumer's receipt will clearly have the GST and PST rate that was applied to his or purchase value.

India is proposed to have a dual GST set up in 2017, which will be the biggest reform in the country's tax structure in decades. The main objective of incorporating the GST is to eliminate tax on tax i.e. double taxation which cascades from the manufacturing level to the consumption level. For example, a manufacturer that makes notebooks obtains the raw materials for, say $10 which includes a 10% tax. This means that he pays $1 in tax for $9 worth of materials. In the process of manufacturing the notebook, he adds value to the original materials of $5, for a total value of $10 + $5 = $15.

The 10% tax due on the finished good will be $1.50. Under a GST system, this additional tax can be applied against the previous tax he paid to bring his effective tax rate to $1.50 -$1.00 = $0.50.

The wholesaler purchases the notebook for $15 and sells it to the retailer at a $2.50 markup value for $17.50. The 10% tax on the gross value of the good will be $1.75 which he can apply against the tax on the original cost price from the manufacturer i.e. $15. The wholesaler's effective tax rate will, thus, be $1.75 - $1.50 = $0.25.

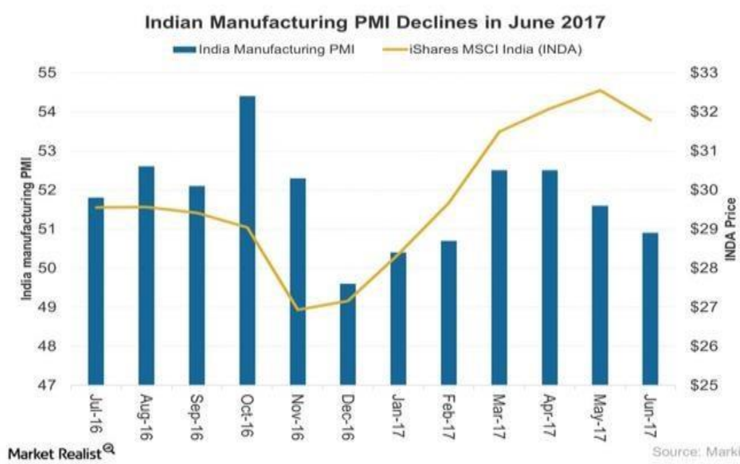
If the retailer's margin is $1.50, his effective tax rate will be (10% x $19) - $1.75 = $0.15. Total tax that cascades from manufacturer to retailer will be $1 + $0.50 + $0.25 + $0.15 = $1.90.

The current system with no GST implies that tax is paid on the value of goods and margin at every stage of the production process. This would translate to a higher amount of total taxes paid, which is carried down to the end consumer in the form of higher costs for goods and services. Implementing the GST system in India is therefore, a measure that will be used to reduce inflation in the long run, as prices for goods will be lower.

GST Impacts India's Manufacturing Activity in June 2017

Manufacturing activity in June 2017

On July 1, 2017, India (INDA) implemented its goods and services tax (or GST), a unified tax system that replaced the previous multi-layered tax system. The implementation of the GST is expected to improve the performance of the manufacturing sector in India (EPI). However, the implementation of this new tax system affected the manufacturing sector in June 2017.



The Indian (INDY) manufacturing PMI in June 2017 declined to 50.9 in June from 51.6 in May 2017. The manufacturing sector saw weaker growth in June, as it reported a four-month low due to softer expansion in new order work. The chart above illustrates India's manufacturing PMI over the last year.

Production expands at weaker pace

India's output rose at a softer rate in June 2017, as the growth of order books decreased compared to the previous month. The growth of total work orders eased to a four-month low, particularly due to the intermediate goods category.

The new work orders for the consumer goods category continued to rise in June, while capital goods recovered from contraction in the previous month.

The tough economic conditions, water shortages, and the implementation of the GST seemed to have affected manufacturing activity in India (VWO) in June, according to the Market report released in July 2017. **Employment and price pressures**

India's employment and purchasing activity increased marginally in June 2017. The new work orders from international markets increased sharply in June 2017 over the last eight months.

Price pressures remained soft in June, with the input and output costs increasing at a slower pace in June 2017 compared to May 2017.

Expectations

Manufacturers in India (EEM) have an optimistic outlook toward the output growth in the next 12 months. New product developments and expectations of higher demand due to lower tax rates are expected to improve the manufacturing sector's activity in 2017.

However, the confidence level in the sector fell to a three-month low due to the implementation of the GST. The GST could have a negative short-term impact on businesses until it is absorbed by the market. The I Shares MSCI India ETF (INDA), which tracks Indian equities, fell ~2% in June 2017.

EMERGING MARKET MANUFACTURING:

BRAZIL'S POLITICAL CRISIS

Brazil's (EWZ) manufacturing activity took a hit in June 2017, as it was distracted by its political scandals. Brazil's interim President Michel Temer's was implicated in several corruption charges in June 2017. Also, the public revolt against Temer's austerity measures seems to be affecting the confidence level in the country.

The manufacturing PMI in Brazil (BRZU) fell to 50.5 in June 2017 compared to 52.0 in May 2017. However, the manufacturing PMI level standing above 50 in June indicates the third consecutive month of expansion in the sector. The chart below illustrates Brazil's manufacturing PMI over the last year.

BUSINESS CONDITIONS IN BRAZIL

The operating conditions in Brazil's (EEM) manufacturing sector continued to improve in June 2017, mostly due to the sustained growth of new orders and increased output. However, the rates of expansion for both metrics remained soft in June 2017 compared to the previous month's high.

The political issues and competition seem to have affected the country's overall business growth amid improving demand conditions in June 2017.

PURCHASING ACTIVITY AND EMPLOYMENT

Purchasing activity and employment both declined in June 2017, mostly due to cost-cutting measures.

The price pressures in Brazil's manufacturing sector remained high in June 2017. The input costs showed a sharp rise in comparison to output prices due to reduced pricing power and excess supply.

The weak Brazilian real, compared to the US dollar, maintained its upward pressure on the cost of inputs in June 2017.

INVESTMENT IMPACT

Brazilian (ILF) manufacturers remain firmly optimistic about the country's output growth in the next 12 months. The new product launches and export opportunities supported the confidence levels in the manufacturing sector in June 2017.

Investors need to closely watch the ongoing political developments in Brazil (VWO), as they can impact investments in Brazil throughout 2017. Crucial economic reforms are expected to be delayed due to Temer's alleged involvement in a corruption scandal. The iShares MSCI Brazil Capped ETF (EWZ), which tracks Brazilian equities, fell ~3% in June 2017.

Let's look at Indonesia's manufacturing activity in June 2017 in our next article.

MANUFACTURING ACTIVITY IN INDONESIA

The Nikkei Manufacturing PMI in Indonesia (EIDO) fell to 49.5 in June 2017 from 50.6 in May 2017. Factory activity experienced its first drop in the last four months as output fell for the first time during the same period.

The decrease in manufacturing activity in June mainly resulted from sluggish domestic orders. The chart below illustrates Indonesia's manufacturing activity over the last year.

MANUFACTURING ACTIVITY IN 2017

Manufacturing activity in Indonesia contracted in June 2017, as its PMI fell below the critical level of 50. Indonesian (IDX) manufacturing worsened in June, mainly due to subdued demand conditions that led to lower production volumes and losses within the sector.

However, the new export orders picked up the pace in June 2017. The total new work orders remained the same as in May.

SOLID INTERNATIONAL DEMAND

The global (ACWI) growth appears to be supporting economic activity in Indonesia in 2017. The new business from international markets increased mainly from regions like Europe (VGK) and the US (SPY). The new export orders in June 2017 in Indonesia experienced the fastest growth in the last six years.

PURCHASING ACTIVITY AND EMPLOYMENT

Buying activity decreased in June 2017, although at a slower pace for the first time in the last four months. Employment dropped for nine straight months through June 2017, but the pace of contraction remained marginal.

INVESTMENTS

Despite President Joko Widodo’s fiscal reforms, domestic demand remained weak and resulted in reduced output and employment in June 2017. However, the Indonesian (EEM) manufacturing PMI average for the first half of 2017 remained in expansionary territory despite the recent decline.

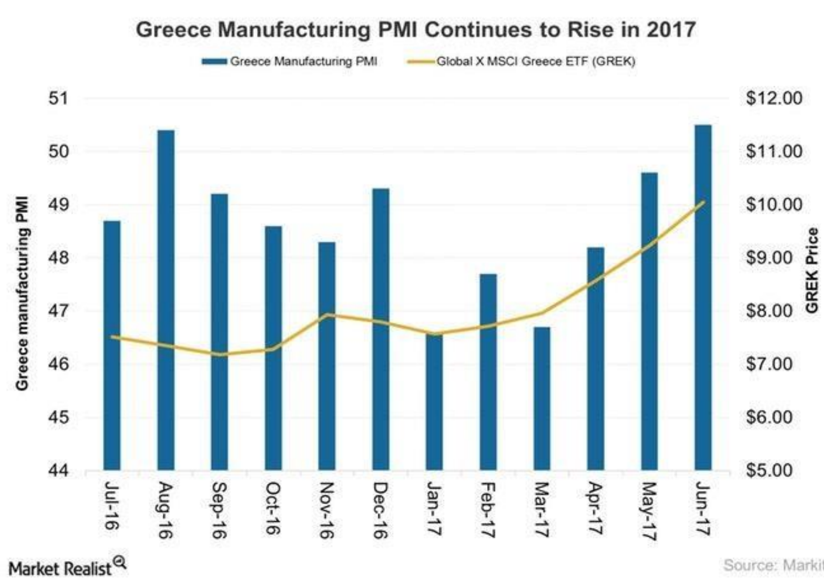
The manufacturing activity above the critical 50 mark indicates expansion, which could provide a stronger contribution to GDP growth in Indonesia in 2017. According to the July IHS Market report, the 2017 economic growth forecast held steady at 5.0%.

Let’s look at the manufacturing activity in Greece in our next article.

MANUFACTURING ACTIVITY IN GREECE

The manufacturing PMI in Greece (GREK) continued to improve in June 2017, reaching 50.5 compared to 49.6 in May 2017. Greece’s manufacturing activity returned to expansionary territory in June 2017 with the rise in new orders and output. The expansion in June 2017 indicated the first improvement in Greek manufacturing sector conditions over the last year.

The improvement in the manufacturing sector in Greece follows the positive development of the avoidance of debt default in July. In June, the European Union released loans of 8.5 billion euros to Greece to service its debt of ~7.0 billion euros to be paid in July. The chart below shows Greece’s manufacturing activity.



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BUSINESS CONDITIONS IN GREECE

Business conditions in the Greek manufacturing sector improved marginally in June 2017. New orders and outputs increased in June. New orders increased for only the second time in June over the last three years.

The rate of expansion remained marginal as a rise in client demand was offset by political instability, leading to a decline in demand from abroad.

EMPLOYMENT AND PURCHASING ACTIVITY

Greece's employment improved for the second consecutive month in June 2017, mostly due to increased client demand. The purchasing activity fell in June despite an increase in new orders. However, the rate of decrease remained at the same levels as in May 2017.

On the price front, the input prices increased slightly in June from the previous month. The average selling prices increased in line with the input costs, as the cost burden was passed to its customers.

EXPECTATIONS

Greek manufacturers remained optimistic about the growth in output over the next 12-month period.

Greece's economic output is estimated to grow 1.3% and 1.4% in 2017 and 2018, respectively, according to the latest IMF report.

Any improvement in economic activity in Greece is expected to positively impact investments in Europe (EZU) (VGK) (IEV) in 2017.

GST IN INDIA

India's biggest tax reform is now a reality. A comprehensive dual Goods and Services Tax (GST) has replaced the complex multiple indirect tax structure from 1 July 2017.

The concept of GST was visualized for the first time in 1999. On 8 August 2016, the Constitutional Amendment Bill for roll out of GST was passed by the Parliament, followed by ratification of the bill by more than 15 states and enactment of the bill in early September.

The GST Council consisting of representatives from the Central as well as state Government, met on eighteen occasions in last ten months and cleared –

In a short span of time, all the states (excluding Jammu and Kashmir) approved their State GST (SGST) laws. Union territories with legislature, i.e., Delhi & Puducherry, have adopted SGST Act and the balance 5 Union territories without legislatures have adopted UTGST Act.

The government has also notified GST rules, tax rates on goods and services, exemption list and categories of services on which reverse charge is applicable.

The second phase of enrolment process for migrating existing taxpayers to the proposed tax regime through GST common portal has already commenced from 1 June 2017. GST Network, an IT backbone of GST, has also carried out the test run of its Portal. GSTN has released offline utility for GSTR-1.

Return filing procedure for the first two months of GST implementation is relaxed. Tax would be payable for the first two months based on a simple return Form GSTR – 3B containing a summary of outward and inward supplies. This form is required to be submitted before the 20th of the succeeding month. However, invoice details in regular GSTR-1 would also have to be filed for the month of July and August 2017, as per the timelines given below:

Registered persons who are entitled to avail transitional input tax credit and opting to file Form GST TRAN-1 on or before 28 August, 2017 can file Form GSTR-3B on or before 28 August, 2017.

Rate classification for goods, GST rate on pearls, precious or semi-precious stones, diamonds (other than rough diamonds), precious metals (like gold and silver), imitation jewellery, coins – 3%GST rate on rough diamonds – 0.25%

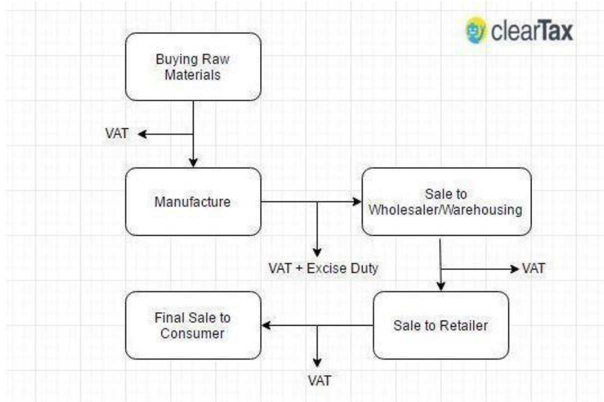
BENEFITS OF GST

- **Reduces transaction costs and unnecessary wastages:** A **single registration and a single compliance** will suffice for both SGST and CGST provided government produces effective IT infrastructure and integration of states level with the union.
- **Eliminates the multiplicity of taxation:** The reduction in the number of taxation applicable in a chain of transaction will help to reduce the paper work and clean up the current mess that is brought by existing indirect taxation laws.
- **One Point Single Tax:** They would be focus on business rather than worrying about their taxation that may crop at later stages. This will help the business community to decide their supply chain, pricing modalities and in the long run helps the consumers being goods competitive as price will no longer be the function of tax components but function of sheer business intelligence and innovation.
- **Reduces average tax burdens:** The cost of tax that consumers have to bear will be certain and it is expected that GST would reduce the average tax burdens on the consumers.
- **Reduces the corruption:** As the no. of taxes reduces so does the **no of visits to multiple department reduces** and hence the reduction in corruption.

GENERAL POINTS ON VARIOUS BUSINESS SECTORS THAT ARISE AFTER GST IMPLEMENTATION

- **Real Estate Industry:** Construction and Housing sector need to be included in the GST tax base being high tax revenue generating sector and for **reduction in no. of tax legislations involved.**
- **FMCG Sector:** Implementation of proposed GST and opening of Foreign Direct Investment (F.D.I.) are expected to fuel the growth and raise industry's size.
- **Rail Sector:** There have been suggestions for including the rail sector under the GST umbrella to bring about significant tax gains and **widen the tax net** so as to keep overall GST rate low. This will have the added benefit of ensuring that all inter–state **transportation of goods can be tracked through the proposed Information technology (IT) network.**
- **Information Technology enabled services:** At present, if the software is transferred through electronic form, it should be considered as Intellectual Property and regarded as a service and if the software is transmitted on media or any other tangible property, then it should be treated as goods and this **classification is full of litigation**. As GST will have uniform rate for Goods and Services and no concept of state revenue being VAT or central revenue being service tax and hence, the **reduction in litigation.**
- **Transport Sector:** Truck drivers spend **more than half of their time while negotiating check post and tolls**. At present there are more than 600 check points and more than ton types of taxes in road sector.
- After the introduction of GST, the **time** spend by the road transport industry in **complaining with laws will reduce** and service is going to be better which will boost the goods industry and thus the taxes also.
- **Impact on Small Enterprises:** There will be three categories of Small Enterprises in the GST regime.
- Those below threshold limit of **Rs.1.5 Crores** would **not be covered.**
- Those between the threshold and composition turnovers will have the option to pay a turnover based tax i.e. **composite tax or opt to join the GST regime.**
- Those **above threshold limit will need to be within framework of GST**. Possible downward changes in the threshold in some States consequent to the introduction of GST may result in obligation being created for some dealers.

So, before GST, the pattern of tax levy was as follows:



Under the GST regime, tax will be levied at every point of sale.

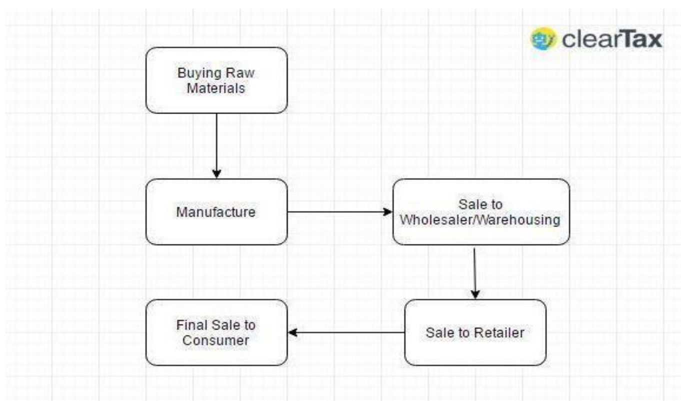
Now let us try to understand "GST is a comprehensive, **multi-stage**, **destination-based tax** that will be levied on every **value addition**."

MULTI-STAGE

There are multiple change-of-hands an item goes through along its supply chain: from manufacture to final sale to consumer.

Let us consider the following case:

- Purchase of raw materials
- Production or manufacture
- Warehousing of finished goods
- Sale of the product to the retailer
- Sale to the end consume



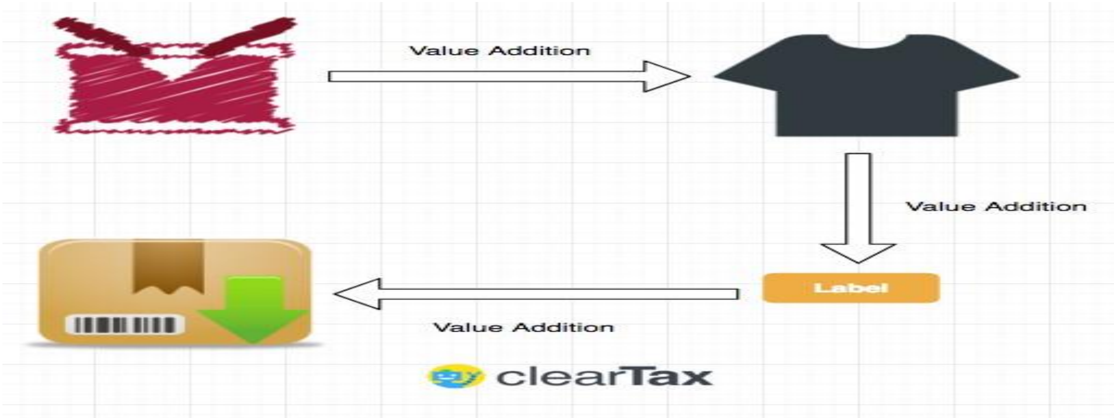
Goods and Services Tax will be levied on **each** of these stages, which makes it a multi-stage tax.

VALUE ADDITION

The manufacturer who makes shirts buys yarn. The value of yarn gets increased when the yarn is woven into a shirt.

The manufacturer then sells the shirt to the warehousing agent who attaches labels and tags to each shirt. That is another addition of value after which the warehouse sells it to the retailer.

The retailer packages each shirt separately and invests in the marketing of the shirt thus increasing its value.

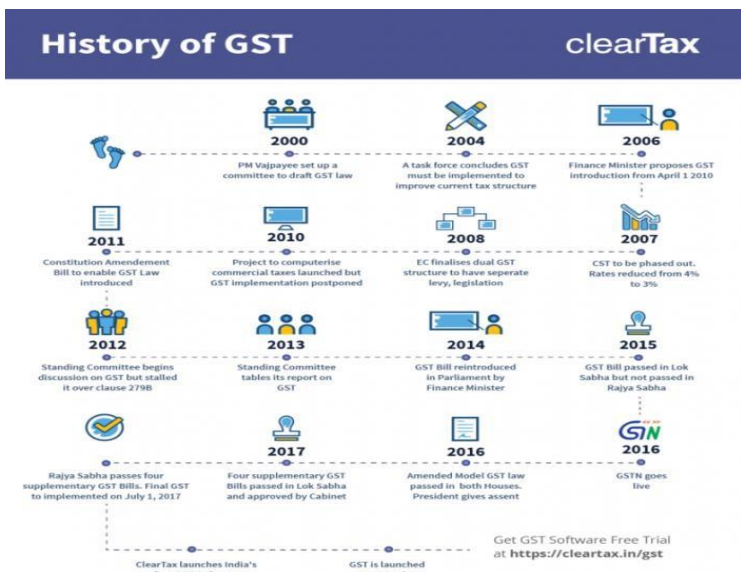


CLEAR TAX GST SOFTWARE

GST will be levied on these value additions i.e. the monetary worth added at each stage to achieve the final sale to the end customer. **Destination-Based**

Consider goods manufactured in Rajasthan and are sold to the final consumer in Karnataka. Since Goods & Service Tax (GST) is levied at the point of consumption, in this case Karnataka, the entire tax revenue will go to Karnataka.

HISTORY OF GST IN INDIA



COMPONENTS OF GST

There are 3 applicable taxes under GST: CGST, SGST & IGST.

- CGST: Collected by the Central Government on an intra-state sale (Eg: Within Karnataka)
- SGST: Collected by the State Government on an intra-state sale (Eg: Within Karnataka)
- IGST: Collected by the Central Government for inter-state sale (Eg: Karnataka to Tamil Nadu) In most cases, the tax structure under the new regime will be as follows:

India's biggest tax reform is now a reality. A comprehensive dual Goods and Services Tax (GST) has replaced the complex multiple indirect tax structure from 1 July 2017.

An Overview of GST in Global Aspect

The concept of GST was visualized for the first time in 1999. On 8 August 2016, the Constitutional Amendment Bill for roll out of GST was passed by the Parliament, followed by ratification of the bill by more than 15 states and enactment of the bill in early September.

The GST Council consisting of representatives from the Central as well as state Government, met on eighteen occasions in last ten months and cleared –

- GST laws,
- GST Rules,
- Tax rate structure including Compensation Cess,
- Classification of goods and services into different rate slabs,
- Exemptions,
- Thresholds,
- Tax administration

On 12 April 2017, the Central Government enacted four GST Bills:

- Central GST (CGST)
- Integrated GST (IGST)
- Union Territory GST (UTGST)
- Bill to Compensate States

In a short span of time, all the states (excluding Jammu and Kashmir) approved their State GST (SGST) laws. Union territories with legislature, i.e., Delhi & Puducherry, have adopted SGST Act and the balance 5 Union territories without legislatures have adopted UTGST Act.

The government has also notified GST rules, tax rates on goods and services, exemption list and categories of services on which reverse charge is applicable.

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Return filing procedure for the first two months of GST implementation is relaxed. Tax would be payable for the first two months based on a simple return Form GSTR – 3B containing a summary of outward and inward supplies. This form is required to be submitted before the 20th of the succeeding month. However, invoice details in regular GSTR-1 would also have to be filed for the month of July and August 2017, as per the timelines given below:

Return for month	*GSTR – 1*	*GSTR – 2 (Auto Populated From GSTR-1)*	*GSTR 3*	*GSTR 3B*
	Due date	*Due date*	*Due date*	*Due date*
July 2017	1—5 September	6—10 September	15 September	*25 August
August 2017	16—20 September	21—25 September	30 September	20 September

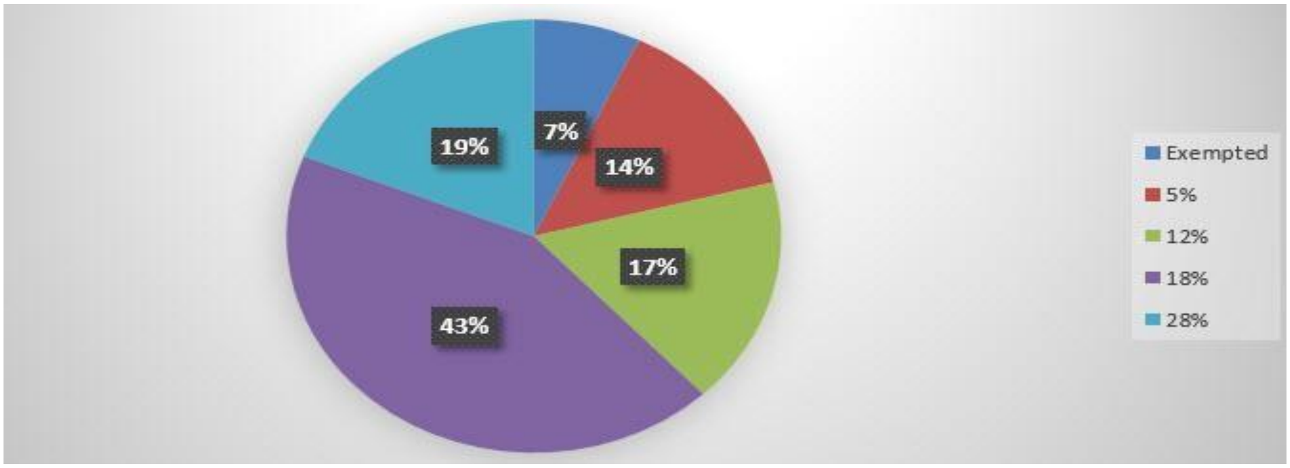
***** Registered persons who are entitled to avail transitional input tax credit and opting to file Form GST TRAN-1 on or before 28 August, 2017 can file Form GSTR-3B on or before 28 August, 2017.

WAY FORWARD

o Facility for uploading details of outward supplies for July 2017 on GST portal is expected to be available from 15 July 2017. o Filing of return in form GSTR – 3B and payment of taxes for the month of July 2017 is to be done before 20 August 2017.

GST RATES

Rate classification for goods



Exempt	*5%*	*12%*	*18%*	*28%*	*28% + Cess*
Food grains Cereals Milk Jaggery Common Salt	Coal Sugar Tea & Coffee Drugs&Medicine Edible Oil	Fruit Juices Vegetable Juices Beverages containing milk Jams	Kitchenware Hair Oil Soap Toothpaste Glass fibre	Air conditioner Refrigerators	Small cars (1% / 3% cess) Luxury cars (15% cess)

Rate classification for services

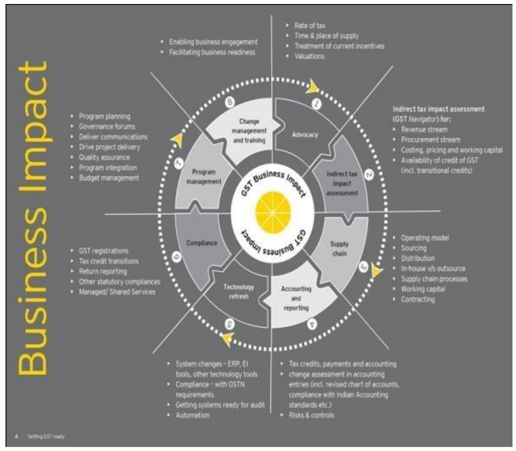
Exempt	*5%*	*12%-18%*	*28%*
• Education • Healthcare • Residential • accommodation • Hotel/ Lodges with tariff below INR 1000	• Goods transport • Rail tickets (other than sleeper class) • Economy class air tickets • Cab aggregators • Selling space for advertisements in print media	• Works contract • Business Class air travel • Telecom services • Financial services • Restaurant services • Hotel/ Lodges with tariff between INR 1000 and 7500	• Cinema tickets • Betting • Gambling • Hotel/Lodges with tariff above INR 7500

Only rates of select goods and services have been mentioned here o GST rate on pearls, precious or semi-precious stones, diamonds (other than rough diamonds), precious metals (like gold and silver), imitation jewellery, coins – 3%, GST rate on rough diamonds – 0.25%

TECHNOLOGY EDGE

EY has developed a Proprietary Tool - 'GST *Navigator*' to assess and simulate business impact in the GST environment. It focuses on taxes payable, credits, pricing and margin impact and cash flow considerations. This will drive key business decisions on operating model changes required to optimize tax outcomes.

BUSINESS IMPACT



BENEFITS OF GST

GST has been envisaged as a more efficient tax system, neutral in its application and attractive in distribution. The advantages of GST are:

- Wider tax base, necessary for lowering the tax rates and eliminating classification disputes
- Elimination of multiplicity of taxes and their cascading effects
- Rationalization of tax structure and simplification of compliance procedures
- Harmonization of center and State tax administrations, which would reduce duplication and compliance costs
- Automation of compliance procedures to reduce errors and increase efficiency

DESTINATION PRINCIPLE

The GST structure would follow the destination principle. Accordingly, imports would be subject to GST, while exports would be zero-rated. In the case of inter-State transactions within India, the State tax would apply in the State of destination as opposed to that of origin.

TAXES TO BE SUBSUMED

GST would replace most indirect taxes currently in place such as:

Central Taxes	*State Taxes*
• Central Excise Duty [including additional excise duties, excise duty under the Medicinal and Toilet Preparations (Excise • Duties) Act, 1955] o Service tax • Additional Customs Duty (CVD) o Special Additional Duty of Customs (SAD) o Central Sales Tax (levied by the Centre and collected by the States) • Central surcharges and cesses (relating to supply of goods and services)	• Value Added Tax • Octroi and Entry Tax • Purchase Tax • Luxury Tax • Taxes on lottery, betting & gambling o State cesses and surcharges • Entertainment tax (other than the tax levied by the local bodies) • Central Sales Tax (levied by the Centre and collected by the States)

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