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ONE NATION - ONE TAX (GST) – THE GAINERS AND LOSERS IN INDIA

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Abstract— *All the necessary steps are being taken for the effective implementation of much-awaited Goods and Services Tax (GST) from April 2017 in India. GST will eradicate 17 indirect taxes and as a result the Indian economy will get a major push as many economists have predicted a 1.5 - 2 per cent boost for the country's GDP. Apart from manufacturing sector, logistics, warehousing and even the common man will benefit from the amendment. GST will be beneficial to the Centre, states, industrialists, manufacturers, the common man and the country at large since it will bring more transparency, better compliance, an increase in GDP growth and revenue collections. Thus, GST has been a hot topic of discussion everywhere in India. Therefore, we need to be aware of different aspects of GST. In this connection, this paper is an outcome of an explanatory research which is based on secondary data to understand the concept of GST and its mode of operation. This paper will also focus on the impacts of GST and problem associated with the implementation of GST in India.*

Keywords— *CGST, Goods and Services Tax (GST), Indirect Tax, SGST and Supply Chain*

INTRODUCTION

The word 'Tax' is derived from Latin word 'Taxare' which means 'To Estimate'. A tax is an enforced contribution, exacted pursuant to legislative authority. Taxation System in India includes both Direct and Indirect Tax. Goods and Services Tax (GST) is one of the most debated Indirect Taxation reforms. GST is a comprehensive tax regime levied on manufacture, sales and consumption of goods and services. It is expected to bring about 2% incremental GDP growth of the country. Therefore, the introduction of GST would be a substantial step in the reform of indirect taxation in India. Merging several Central and State taxes into a single tax would diminish cascading or double taxation, facilitating a common national market. The simplicity of the tax would lead to easier administration and enforcement. From the consumer point of view, the major advantage would be in terms of a reduction in the overall tax burden on goods, which is currently estimated at 25% - 30%, free movement of goods from one state to another without stopping at state borders for hours for payment of state-tax or entry-tax and reduction in paperwork to a large extent.

REVIEW OF LITERATURE

According to Akanksha Khurana et. al., (2016)[1], a relief will be provided to producers and consumers by GST by providing wide and comprehensive coverage of input tax credit set-off, service tax set-off and incorporating the several taxes. They also pointed out that an efficient formulation of GST would lead to resource and revenue expansion for both Centre and State governments majorly through widening of tax base and improvement in tax compliance.

Monika Sehrawat et. al., (2015)[2] concluded that, GST implementation stands for a coherent tax system which will colligate most of current indirect taxes and in long term it will lead to higher output, will generate more employment opportunities and will flourish GDP by 1-1.5%. Further they stressed that, GST will give India a world class tax system by clutching different treatment to manufacturing as well as service sectors.

Nitin Kumar (2014)[3] inferred from his study 'Goods and Service Tax- A Way Forward' that, the implementation of GST in India would help in removing economic distortion by current indirect tax system and this would encourage an unbiased tax structure which is indifferent to geographical locations.

Pradeep Chaurasia et. al., (2016)[4] pointed out that, in India, the unified tax will take the form of a Dual GST, to be levied concurrently by both the Centre and States. They concluded that, GST will be helpful for the development of Indian economy as well it will be very much helpful in improving the GDP of our country higher than 2 percent.

Rizal Palil et. al., (2011)[5] stated that the implementation of GST in Malaysia is of course to increase the efficiency of the tax collection system as well as become a major source of indirect income to the government. They also suggested that the government could use media more to promote GST so that people will be ready to accept its impacts. This study also found that consumption behaviour of people would change significantly with the implementation of GST as they are selective in their purchasing behaviour. This may lead to potentially distort the economic growth particularly on aggregate demand.

Srinivas K. R (2016)[6] concluded in his study that the introduction of GST provides more opportunities to the concept of 'Make in India' which would attract new foreign investment, and it would also reduce the manufacturing cost of the products.

According to **Dr. R. Vasanthagopal (2011)**[7], switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy. He also inferred that the success of GST will lead to its acceptance by more number of countries in world and a new preferred form of indirect tax system in Asia too.

OBJECTIVES OF THE STUDY

The study has the following objectives:

1. To understand the concept and supply chain of GST.
2. To know the GST Rate Structure.
3. To grasp the impacts of GST in Indian Economy.
4. To identify the sectors stand to lose or gain from the implementation of GST.
5. To study the challenges for the implementation of GST in India.

SCOPE OF THE STUDY

The scope of the study is extended to understand the concept of GST, its impact and implementation in India.

RESEARCH METHODOLOGY

Being an explanatory research it is based on the secondary data. The data collection is done through various sources like newspapers, articles from different journals and from different websites. Considering the objectives, the descriptive research design is adopted for the study.

AN OVERVIEW OF GST

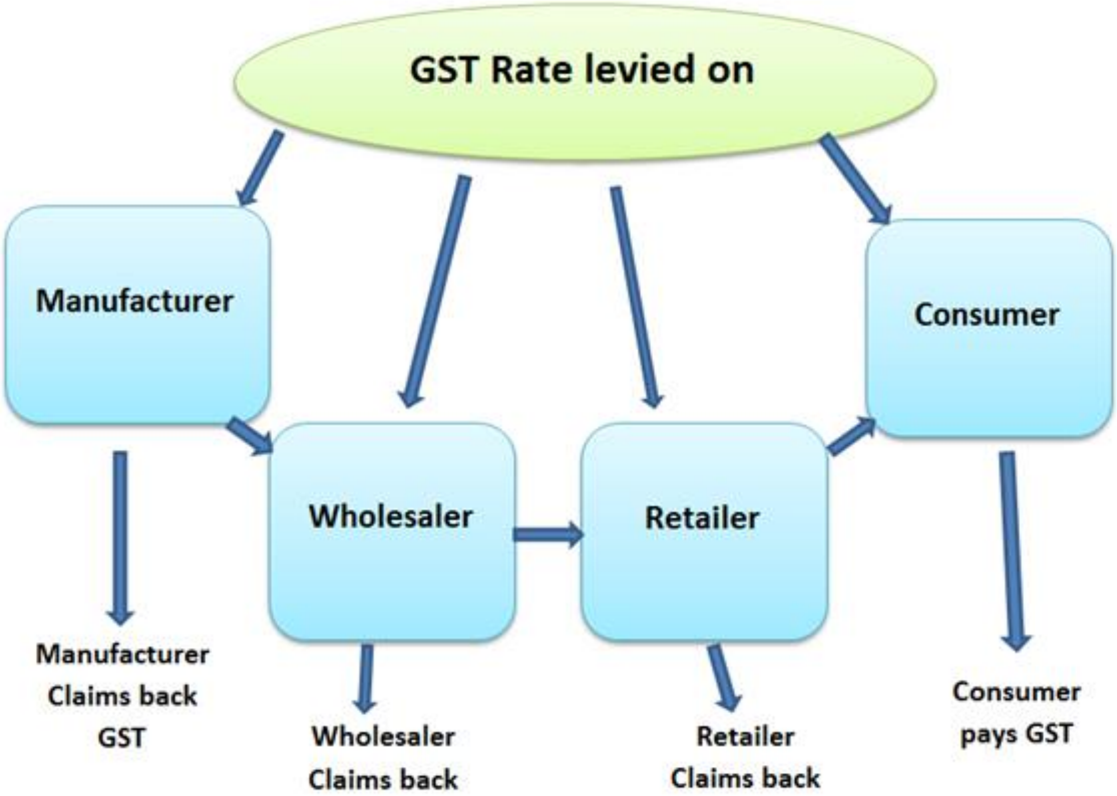
GST was first introduced during 2007-08 budget session. On 17th December 2014, the current Union Cabinet Ministry approved the proposal for the introduction GST Constitutional Amendment Bill. On 19th December 2014, the bill was presented on GST in Loksabha. The Bill is presented in Budget session. The current central government is very determined to implement GST Constitutional Amendment Bill. At present, there are around 160 countries that have implemented GST or VAT in some form or other. In some countries, VAT is the substitute for GST, but conceptually it is a destination based tax imposed on consumption of goods and services. France was the first country to introduce GST in 1954. Right now, only Canada has a dual GST model (somewhat similar to the Dual GST Model that India is going to implement).

Many experts have suggested that to resolve the issues of different types of taxes, there is a need to streamline all indirect taxes and implement a '*single taxation*' system. This system is entitled as Goods and Services Tax (GST). Goods and Services Tax as the name implies, it is an indirect tax applied both on goods and services at a uniform rate. In simple term, GST is a tax that people need to pay on supply of goods and services. Any person, who is providing or supplying goods and services is liable to charge GST. A single form of tax known as GST will be applied throughout the country, replacing a number of other indirect taxes like VAT, Service tax, CST, CAD etc. Therefore, GST shall be the biggest indirect tax reform providing a uniform and simplified way of indirect taxation in India. GST is a consumption based tax (i.e) based on the '*Destination Principle*'. Thus, GST is imposed on goods and services at the place where the actual consumption happens.

SUPPLY CHAIN OF GST

GST is collected on value-added goods and services at each stage of sale or purchase in the supply chain. GST paid on the procurement of goods and services can be set-off against that payable on the supply of goods or services. The manufacturer or wholesaler or retailer will pay the applicable GST rate but will claim back through tax credit mechanism. But being the last person in the supply chain, the end consumer has to bear this tax and so, GST is going to be collected at point of Sale.

Fig. No: 1 – Supply Chain of GST



This is the case even today for all indirect taxes but the difference under the GST is that with streamlining of the multiple taxes the final cost to the customer will come out to be lower on the elimination of double charging in the system. We could understand the above supply chain of GST with the following example:

Table No: 1 - Supply Chain of GST (Example)

GST Supply Chain Example (Assuming GST Rate @ 8%)				
Supply of Goods	*GST Flow*	*Input Costs (ex-GST)*	*Sale Price (ex-GST)*	*GST Collected*
A weaver sells a fabric to a tailor for Rs.108 per metre	The weaver pays GST of Rs.8	0	Rs.100	Rs.8
The tailor sells a ready-made completed shirt to a retailer for Rs.270	The tailor pays GST of Rs.12 (After input tax claim. Weaver claims tax credit for Rs.8)	Rs.100	Rs.250	Rs.12
The retailer sells the readymade shirt in his showroom for Rs.540	The retailer pays GST of Rs.20 (After input tax claim. Tailor claims tax credit for Rs.12)	Rs.250	Rs.500	Rs.20
You purchase the shirt for Rs.540	No tax credit claim. You pay entire GST Rs.40 @ 8%	NA	NA	Total Rs.40

Source: http://www.relakhs.com/gst-goods-services-tax-in-india/

The current tax structure does not allow a business-man to take tax credits. There are lot of chances that double taxation takes place at every step of supply chain. This may set to change with the implementation of GST.

DUAL SYSTEM GST

Indian Government is deciding on for Dual System GST. This system will have two components which will be known as:

- Central Goods and Services Tax *(CGST)* and
- State Goods and Services Tax *(SGST).*

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

- Intra-state supply and consumption of goods and services;
- Inter-state movement of goods;
- Import of Goods & Services.

This is explained with the help of the following table:

Table No: 2 – Indirect Taxes Integration

<table>
<tr><th>Indirect Taxes</th><th>GST</th><th>Goods / Services Produced & Consumed in same State (Intra-State)</th><th>Goods / Services Produced & Consumed in different States (Inter-State)</th><th>Goods / Services Exported</th><th>Goods / Services Imported</th></tr>
<tr><td>Excise Duty</td><td rowspan="4">CGST</td><td rowspan="8">CGST Rate
+
SGST Rate
Levied</td><td rowspan="8">Integrated GST</td><td rowspan="8">GST not Applicable</td><td rowspan="8">CGST Rate
+
SGST Rate
Levied</td></tr>
<tr><td>Service Tax</td></tr>
<tr><td>Custom Duties</td></tr>
<tr><td>Central Sales Tax</td></tr>
<tr><td>State Sales Tax</td><td rowspan="4">SGST</td></tr>
<tr><td>Entertainment Tax</td></tr>
<tr><td>State VAT</td></tr>
<tr><td>Professional Tax</td></tr>
</table>

Source: http://www.relakhs.com/gst-goods-services-tax-in-india/

GST RATE STRUCTURE

On 3rd November, 2016 a four-tier GST rate structure has been passed, the final slab rates being agreed upon are 5%, 12%, 18% and 28%. The final GST slab rates are:

- ***Zero Rated Items:*** Food grains used by common people.
- ***5% Rate:*** Items of mass consumption including essential commodities will have low tax incidence.
- ***12% and 18 % Rate:*** Two standard rates have been finalized as 12% and 18%.
- ***28% Rate:*** White goods like air conditioners, washing machines, refrigerators, soaps and shampoos etc. were taxed at 30 - 31% shall be now taxed at 28%.

Demerit goods like tobacco, tobacco products, pan-masala, aerated drinks and luxury cars shall be charged at the highest rate of 28%. An additional cess on some luxury goods shall also be imposed. Services that are now taxed at 15% shall be taxed at a higher rate of GST @18%. The tax rate on Gold is yet to be decided.

IMPACTS OF GST

Actually, it is in fact too early to predict the actual impact of GST.

Positive Impact of GST

- A unified tax system removing a bundle of indirect taxes like VAT, CST, Service tax, CAD, Excise etc.
- A simplified tax policy as compared to earlier tax structure.
- Tax evasion will become difficult.
- Removes cascading effect of taxes (i.e) removes tax on tax.
- Due to lower burden of taxes on the manufacturing sector, the manufacturing costs will be reduced, hence prices of consumer goods likely to come down.
- Due to reduced costs, some products like cars, FMCG etc. will become low-priced.
- This will help in lowering the burden on the common man (i.e) you will have to spend less money to buy the same products which were earlier costly.
- The low prices will further lead to an increase in the demand of goods.
- Increased demand will lead to increase in supply. Hence, this will ultimately lead to increase in the production of goods.
- The increased production will lead to more job opportunities in the long run. But, this can happen only if consumers actually get low-priced goods.

- More business entities will come under the tax system thus widening the tax base. This may lead to better and more tax revenue collections.
- E-Commerce will get a boost by increasing market penetration.
- Increase in Foreign Direct Investment and improvement in international investors' confidence.
- Companies which are under unorganized sector will come under tax regime.
- The entire Indian market will be a unified market which may translate into lower business costs. It can assist seamless movement of goods across states and reduce the transaction costs of businesses.
- It is good for export oriented businesses. Because it is not applied for goods or services which are exported out of India.
- The procedure of GST registration would also be made simple, thereby improving the ease of starting a business in India.
- Less developed states such as Bihar, Odisha will benefit as the present 2 per cent inter-state tax will be dispersed.
- As goods, will move in and out of states without any hurdle, it will lower down the logistics and inventory management costs of corporates, which is quite high in India.
- GST is expected to boost Indian economy by nearly 2 per cent as movement of goods will be quicker, simpler and cheaper.

But, this is possible only if the actual benefit of GST is passed on to the final consumers. There are also various other factors like the seller's profit margin that determine the final rate of goods. This shows that, GST alone does not determine the final price of goods.

Negative Impact of GST

- Service tax rate @ 15% is presently charged on the services. So, if GST is introduced at a higher rate which is likely to be seen in the near future, the cost of services will increase (i.e) all the services like telecom, banking, airline etc. will become more expensive.
- Increased cost of services means, an add-on to your monthly expenses.
- You will have to reorganize your budgets to bear the additional services cost.
- An increase in inflation might be seen initially.
- If actual benefit is not passed to the consumer and the seller increases his profit margin, the prices of goods can also see a rising trend.

But the rate of GST and how effectively GST is introduced in all the States and at the Centre also plays a crucial role in deciding the actual impact of GST.

THE SECTORS STAND TO LOSE / GAIN FROM THE IMPLEMENTATION OF GST

SECTORS STAND TO GAIN

- **FMCG:** Large companies manufacturing FMCG products like Hindustan Unilevers, ITC, Godrej and Procter & Gamble are likely to be benefited more from lower taxes and logistics cost.
- **Cement:** With the implementation of GST, most cement companies will have more demand and thereby going to lower down the overall cost of infrastructure in India.
- **Logistics:** Logistics with 'Make in India' ground are likely to be gainers. In this regard, the companies which will receive a boost are Container Corporation of India, Allcargo, Interglobe Aviation, Adani SEZ, Aegis Logistics and Gujarat Pipavav.
- **Consumer Durables:** Like FMCG, companies which manufacture consumer durables are also likely to be benefited more from lower taxes and logistics cost and especially manufacturer of electrical appliances are mostly expected to be benefited.
- **Automobiles:** As costs are likely to drop significantly, two-wheeler manufacturing companies like Hero-Motors, Eicher and Bajaj Auto as well as companies manufacturing small cars like Maruti, Hyundai and Tata-Motors will be the big beneficiaries.

SECTORS STAND TO LOSE

- **Mobile Phones:** With the implementation of GST, the mobile phones are going to become costlier and the buyers are expected to pay more for their phones.
- **Branded Jewellery:** Companies like Titan are already suffering due to high cost of gold imports and these companies are going to be affected more as the branded jewelleries are going to become more expensive.
- **Utilities:** With sale of electricity being kept out of GST, companies using coal-based power and renewable energy are likely to see an increase in costs.
- **Luxury Cars:** Luxury cars are going to become costlier and this would lead to the pressure of the existing low sales.
- **Restaurants:** Implementation of GST will hit the salaried class at the maximum as eating out is going to cost more.
- **Pharmaceutical:** Patients will have to pay more than existing prices for their medicines as most of the pharma companies are likely to see an increase in indirect taxes with consumers and this is likely to see protests in forth-coming days.
- **Oil and Gas:** If dual indirect taxes are not removed, then the products like High Speed Diesel, Aviation Turbine Fuel, Crude Oil and other petroleum will see a rise in costs as these products are excluded from GST.

CHALLENGES FOR IMPLEMENTING GST SYSTEM

- To implement the bill there has to be lot of changes at administration level, Information Technology integration has to happen, sound IT infrastructure is needed, the state governments has to be compensated for the loss of revenues *(if any)* and many more.
- GST, being a consumption-based tax, states with higher consumption of goods and services will have better revenues. So, the co-operation from state governments would be one of the key factors for the successful implementation of GST.
- Since it is a consumption based tax, in case of services the place where service is provided needs to be determined.
- A strict check on exploiting activities will have to be done, so that the final consumer can enjoy the real benefits of GST.
- Although, a large number of officers are being trained and a systematic IT software is being developed for the successful implementation of GST, it will take some time for the people including the manufacturers, the wholesalers, the retailers or the final consumers to understand the whole process and apply it correctly.

CONCLUSION

India is all set to introduce Goods and services tax after crossing the various hurdles in its way. GST is a long-term strategy planned by the Government and its positive impact shall be seen in the long run only. Also, this can happen if GST is introduced at a nominal rate to reduce the overall tax burden of the final consumers. Let us hope GST will leave a positive impact and will help to boost-up the Indian economy and will convert India into a unified national market with simplified tax regime. A rising Indian economy will anyways help in the financial growth of the common man! Let us hope this 'One Nation - One Tax' proves to be a game changer in a positive way and proves to be beneficial not only to the common man but to the country as a whole. There are various challenges in way of GST implementation as discussed above in paper. They need more analytical research to resolve the fighting interest of various stake-holders and accomplish the commitment for a fundamental reform of tax structure in India.

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