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GST-Advantages and prospects

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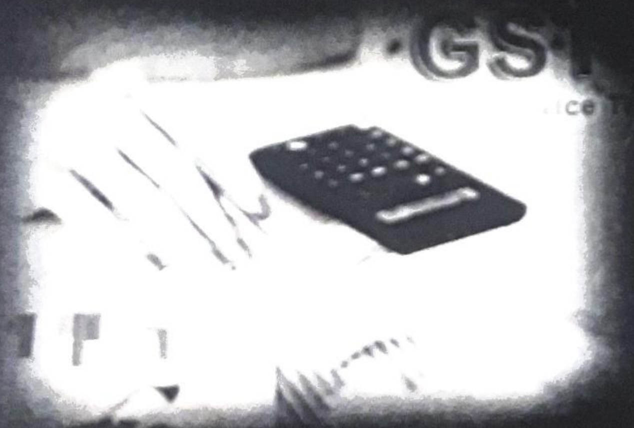

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GST Advantages and Disadvantages

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Abstract

GST also known as the Goods and Services Tax is defined as the giant indirect tax structure designed to support enhances the economic growth of a country. The Good and services tax (GST) is the biggest and substantial indirect tax reform since 1947. Goods and Services Tax (GST) is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level. One of the biggest taxation reforms in India. It is indeed a further significant improvement towards a comprehensive indirect tax reforms in the country. It gives India a world class tax system and improves tax collections. GST is expected to create a business friendly environment, as price levels and inflation rates would come down overtime and a uniform tax rate is applied. It improves government's fiscal condition as the tax collection system would become more transparent, making tax evasion difficult. An attempt is made in this paper to study the concept of goods and service tax and its impact on consumer expenditure in India. The tax rates under GST are set at 0%, 5%, 12%, 18% and 28% for various goods and services. The study also aims to know the Comparative cost before and after the Goods and Service Tax reforms in India.

Key Words: GST, CGST, SGST, Advantage and Disadvantage

Introduction:

GST is one indirect tax for the whole

nation, which will make India one unified Commonmarket. GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages.

GST was Ist introduced by France in 1954 and now it is followed by more than 150 countries. Most of the countries followed unified GST while some countries like Brazil, Canada follow a dual GST system where tax is imposed by central and state both. In Indian idea of GST was mooted by "Vajpayee Govt.in 2000 and constitution amendment for same waspassed by the "LokSabha" on 6th May,2015. The constitution amendment bill for Goods and Services Tax (GST) has been approved by the President of India (RajyaSabha on 3rd August 2016 and LokSabha on 8th August, 2016). The Government on India is committed to replace on the indirect taxes levied on goods and services by centre and states and implementGST by 1st April, 2017. Since India is now 3rd largest economy soGST is most significant tax reform since Independence. It will increase revenues and growth stimulateinvestment and make investment doing business in Indiaeasier. GST bill have a far reaching impact on all almost all the aspects in the business organization in the country for example pricing of products and services, supply chain optimization, IT, accounting and tax compliance system. That's why GST bill has been described as a reform measure of unparalleled importance in independent India.

Dual GST

Dual GST means, the proposed model will have two part called

1. CGST – Central goods and service tax for levied by central Govt.

2. SGST – State goods and service tax levied by state Govt.

There would have multiple statute one CGST statute and SGST statute for every state.

Background of GST: In India, GST was conceived in 2004 by the Task Force on implementation of the Fiscal Responsibility and Budget Management Act (Kelkar Committee) while analyzing prevailing indirect tax system both at Central and State level. The Kelkar Committee observed that atax reform of nationwide dual GST which would comprehensively tax the consumption of almost allgoods and services in the economy would be able to achieve 'a common market, widen the tax base,improve the revenue productivity of domestic indirect taxes and enhance welfare through efficientresource allocation'. But the First discussion Paper on Goods and Services Tax in India was presentedby the Empowered Committee of State Finance Ministers in November 2009.In 2011, the Constitution (115th Amendment) Bill, 2011 was introduced in Parliament to enable thelevy of GST. However, the Bill lapsed with the dissolution of the 15th LokSabha. Subsequently, in December 2014, the Constitution (122nd Amendment) Bill, 2014 was introduced in LokSabha. TheBill was passed by LokSabha in May 2015 and referred to a Select Committee of RajyaSabha forexamination. GST Bill Passed in RajyaSabha on 3rd August 2016 .

Objectives of GST:

- One Country - One Tax
- Consumption based tax instead of Manufacturing
- Uniform registration, payment and Input Credit
- Toeliminate the cascading effect of Indirect taxes on single transaction
- Subsume all indirect taxes at Centre and State Level under
- Reduce tax evasion and corruption
- Increase productivity

Increase Tax to GDP Ratio and revenue surplus

- Increase Compliance

Objectives of the Study

1. Study the Good and Service Taxes in India

2. Study the Goods and Services Tax advantage and disadvantage in India.

Research Methodology

The study focuses on secondary data collected from various books, national and international journals, government reports, and publications from various websites which focused on various aspects of Goods and Service Tax in India and its effects on consumer expenditures.

Advantages of GST

1. GST is a transparent tax and also reduce number of indirect taxes.

2. GST will not be a cost to registered retailers therefore there will be no hidden taxes and the cost of doing business will be lower.

3. Benefit people as prices will come down which in turn will help companies as consumption will increase.

4. There is no doubt that in production and distribution of goods, services are increasingly used or consumed and vice versa.

5. Separate taxes for goods and services, which is the present taxation system, requires division of transaction values into value of goods and services for taxation, leading to greater complications, administration, including compliances costs.

6. In the GST system, when al the taxes are integrated, it would make possible the taxation burden to be split equitably between manufacturing and services.

7. GST will be levied only at the final destination of consumption based on VAT principle and not at various points (from manufacturing to retail outlets). This will help in removing economic distortions and bring about development of a common national market.

8. GST will also help to build a transparent and corruption free tax administration.

Disadvantages of GST

However, like everything else, all is not smooth sailing for GST and there are some obvious disadvantages of GST for businesses and end consumers which we will discuss in detail here.

Higher Tax Burden for Manufacturing SMEs

Small businesses in the manufacturing sector will bear most of the brunt of GST implementation. Under the existing excise laws, only manufacturing business with a turnover more than Rs. 1.50 crores have to pay excise duty. However, under GST the turnover limit has been reduced to Rs. 20 lakh thus increasing the tax burden for many manufacturing SMEs.

Increase in Operating Costs

Most small businesses do not employ professionals and prefer to pay taxes and file returns on their own to save costs. For GST though, as it is a completely new tax system, they will require professional assistance. While this will benefit the professionals, the small businesses will have to bear the additional costs of hiring experts.

Also, businesses will need to train their employees in GST compliance increasing their overhead expenses.

Change in Business Software

Most businesses use accounting software or ERPs for filing tax returns which have excise, VAT and service tax already incorporated in them. The change to GST will require them to change their ERPs, too, leading to increased costs of purchasing new software and training employees.

GST Will be Implemented During the Middle of the Year

The tentative GST implementation date is 1st July 2017. So, for the fiscal yea, 2017-18 business will follow the old tax structure for the first 3 months, and GST for the rest of the time. It is impossible to cross over from one tax structure to the other in just a day, and hence businesses will end up running both tax systems in parallel, resulting in more confusion and compliance issues.

Increase in Taxes will Increase Prices

Currently, some sectors like the textile industry are exempted from taxes or pay low tax. GST has only 4 proposed tax rates of 5%,12%,18%, 28%. Thus, for many sectors the tax burden will increase which in turn will increase the price of the final goods.

Petroleum Products Are Not Part of GST Yet

Petroleum products are being kept outside the scope of GST as of now. States will levy their own taxes on this sector. Tax credit for inputs will therefore not be available to related industries like the plastic industry which are heavily dependent on petroleum products. Petrol and diesel are required to run factory machinery and unavailability of input tax credit on petroleum products will most probably push up the final price of all manufactured goods.Recently the Finance Minister ArunJaitley said that GST will apply on petroleum only after all the states, through the GST Council, are agreed on it. So, an inclusion of petrol in GST is expected but there is no deadline on the horizon yet.

Registration in Multiple States

GST requires businesses to register in all the states they are operating in. This will increase the burden of compliances.

Problems Faced by E-commerce

Nowadays, many SMEs operate through their own online shopping websites or through third party websites to sell to different parts of India. Under GST, they will be required to register for all the states. Not only that, they will not be eligible for composition scheme and will be required to pay taxes like any large organisation. E-commerce facilitators are now required to collect TCS under GST which will lead to increased complications and compliances.

Composition Scheme is Not Available for Many Businesses

Composition scheme is available for only businesses selling goods. It is not available to service providers or for online sellers. This sets SMEs at par with largeorganisationss in an unfair move.

No Anti-Inflationary Measures

Every country that follows GST experienced a hike in inflation when they first introduced it. They countered the inflation by keeping tabs on prices and initiating anti-profiteering measures at the retail level to protect consumers from price swindling.While there have been similar discussions in the GST council, India still does not have concrete anti-inflationary measures to curb the inflation that is an inevitable outcome of GST.

Conclusion

Change is definitelynever easy. It is important to take a leaf from global economies that implemented GST and overcame the teething troubles to experience the advantages of having a unified tax system, easy input credits, and reduced compliances.Once GST is implemented, most of the current challenges of this move will be a story of the past. India will become a single market where goods can move freely and there will lesser compliances to deal with for businesses.

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