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THE IMPACT OF GST (GOODS AND SERVICES TAX) IN INDIA

Article Particulars

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Abstract

The Goods and Services Tax (GST) is one of the biggest economic and taxation reforms undertaken in India. The GST aims to streamline the taxation structure in the country and replace a gamut of indirect taxes with a singular GST to simplify the taxation procedure. The system will phase out all indirect taxes and only GST will be applied as an indirect tax. It will apply on both Goods and Services. Taxes like excise duty, VAT, service tax, luxury tax etc will go with GST's implementation. GST is essentially a consumption tax and is levied at the final consumption point. The principle used in GST taxation is Destination Principle. It is levied on the value addition and provides set offs. As a result, it avoids the cascading effect or tax on tax which increases the tax burden on the end consumer. It is collected on goods and services at each point of sale in the supply line. The GST that a merchant pays to procure goods or services can be set off later against the tax applicable on supply of goods and services. This paper is an analysis of what the impact of GST (Goods and Services Tax) will be on Indian Tax Scenario.

Keywords: *GST, VAT, service tax, luxury tax, Constitutional Amendment Bill, Special Additional Duty*

Introduction

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.

GST is expected to be a destination-based tax that should replace the current Central taxes and duties such as Excise Duty, Service Tax, Counter Vailing Duty (CVD), Special Additional Duty of Customs (SAD), central charges and cesses and local state taxes, i.e., Value Added Tax (VAT), Central Sales Tax (CST), Octroi, Entry Tax, Purchase Tax, Luxury Tax, Taxes on lottery, betting and gambling, state cesses and surcharges and Entertainment tax (other than the tax levied by the local bodies). It will be a dual levy with State/Union territory GST and Central GST. Moreover, inter–state supplies would attract an Integrated GST, which would be the sum total of CGST and SGST/UTGST. Petroleum products, i.e., petroleum crude, high speed diesel, motor spirit, aviation turbine fuel, natural gas will be brought under the ambit of GST from such date as may be notified by the Government on recommendation of the Council. Alcohol for human consumption has been kept outside the purview of GST.

Therefore, manufactures, wholesalers and retail merchants can avail tax credit mechanism under GST regime. They would pay the applicable GST but it can be reclaimed by the tax credit mechanism. It will be charged at the point of sale according to its destination tax/point-of-sale tax nature. A person who supplies goods and services would be liable to charge GST from the consumer. After a lot of deliberation, our GST council has finalised the rates for all the goods and major service categories under various tax slabs, and the GST is expected to fill the loopholes in the current system and boost the Indian economy. This is being done by unifying the indirect taxes for all states throughout India.

The tax rate under GST are set at 0%, 5%, 12%, 18% and 28% for various goods and services, and almost 50% of goods & services comes under 18% tax rate. But how is our life going to change post GST? Let's see how GST on some day-to-day good and services will have an impact on an end user's pocket.

Objectives of GST

One of the main objectives of GST would be to eliminate the cascading impact of taxes on production and distribution cost of goods and services. The exclusion of cascading effects i.e. tax on tax will significantly improve the competitiveness of original goods and services which leads to beneficial impact to the GDP growth. It is felt that the GST would serve a superior reason to achieve the objective of streamlining indirect tax regime in India which can remove cascading effects in supply chain till the level of final consumers only when all such above mentioned indirect taxes are completely included in GST. It is understood that alcohol, tobacco and petroleum products will not be enclosed by GST as alcohol and tobacco are considered as Sin Goods, and governments do not like to allow free trade on these property.

Footwear & Apparels/Garments

Footwear costing more than INR 500 will have a GST rate of 18% from an earlier rate of 14.41 rate but rates for the footwear below INR 500 has been reduced to 5%. So, you need to shell out more for buying a footwear above INR 500/-. And with respect to the ready-made garments, the rates have been reduced to 12% from an existing 18.16% which will make them cheaper.

Cab and Taxi rides

Now, taking an Ola or an Uber will be cheaper because the tax rate has come down to 5% from an earlier 6% for a cab booking made online.

Airline tickets

Under the GST, tax rate for economy class for flight tickets is set at 5% but the tax for business class tickets will have a higher tax rate of 12%.

Train Fare

There will not be much of an impact. The effective tax rate has increased from 4.5% to 5% in GST. But, passengers who travel for business trips can claim Input Tax Credit on their rail ticket which can help them to reduce expenses. People travelling by local trains or in the sleeper class will not be affected, but first-class and AC travellers will have to pay more.

Movie Tickets

Movies tickets costing below INR 100 will be charged a GST rate of 18% but prices above INR 100 will have a higher tax rate of 28%.

Life Insurance Premium

The Premium Amounts on policies will rise, with an immediate impact can be seen on your term and endowment policy premiums as the rates have been increased under GST across life, health and general insurance.

Mutual funds Returns

GST impact on your returns from mutual funds investments will largely be marginal as the GST will be charged on the TER i.e. Total Expense Ratio of a mutual fund. The TER is commonly called as expense ratio of a mutual fund company, and the same is set to go up by 3%. The return what you get as an investor will be reduced to that extent unless the respective mutual fund company i.e. AMC absorbs it but that anyhow will be a marginal difference.

Jewellery

The gold investment will become slightly expensive because there will be 3% GST on gold & 5% on the making charges. The earlier tax rate on gold was around 2% in most of the states and the GST is increased from the existing rate to around 2% to 3%.

Buying a Property

Under construction properties will be cheaper than read-to-move-in properties. The GST rate for an under-construction property is 18% but the effective rate on this kind of property will be around 12% due to input tax credits the builder will avail of.

Education & Medical Facilities

Education and Medical sectors have been kept outside the GST ambit and both the primary education & healthcare is exempt from GST. It means a consumer will not pay any tax for the money you spent on these services. But due to increase in the rate of taxes for certain goods & services as procured by these organisations, they may pass on the additional tax burden to the consumers.

Hotel Stay

For your hotel stay, If your room tariff is less than Rs 1,000, then there will be no GST, but anything above Rs 5,000 will attract 28% tax.

Buying a Car

Most of the cars in the Indian market will become slightly cheaper, except for the hybrid cars because the GST rate will be 28% tax on all the vehicles irrespective of their make, engine capacity or model. However, over and above this 28%, an additional cess will be levied which can be either 1%, 3% or 15 %, depending on the particular car segment.

Mobile Bills

People will have to pay more on mobile phone bills as GST on telecom services is now 18%, as opposed to the earlier tax rate of 15%. However, telecom companies may absorb this 3% rise due to fierce competition.

Restaurant Bills/EATING OUT

Your restaurant bill would depend on whether you dined at an AC or Non-AC establishments which do not serve alcohol. Now dining at five-star hotels will be charged at 18% GST rate and the Non-AC restaurants will be charged 12% and a 5% GST will be charged from small hotels, dhabas and restaurants who do not cross an annual turnover of INR 50 Lakh.

IPL & other Related Events

Events like IPL i.e. sporting events will have a 28% GST rate which is higher than the earlier 20%.rates. This will increase the price of your tickets. And the GST rate for other events like theatre, circus or Indian classical music shows or a folk dance performance or a drama show will be at 18% GST rate, this is lesser than the earlier tax rate.

DTH and Cable Services

The money you pay towards your DTH (Direct-To-Home) connections or to your cable operator will reduce a bit as the rate is fixed at 18%, which is lower than the earlier taxes which were comprising of entertainment tax in the range of 10% to 30%, apart from the service tax of 15%.

Amusements Parks

The ticket price for amusement parks and theme parks will increase as the earlier service tax of 15% will become 28% under the GST.

Here's is a list of some items which are completely exempt from the GST regime

- The unprocessed cereals, rice & wheat etc.
- The unprocessed milk, vegetables (fresh), fish, meat, etc.
- Unbranded Atta, Besan or Maida.
- Kid's colouring book/drawing books.
- Sindoor/Bindis, bangles, etc.

Exempt	5%	12%	18%	28%	28% + Cess
Food grains Cereals Milk Jaggery Common Salt	Worn clothing Fly ash Fishing net and fishing hooks Sulphur recovered in refining of crude	Condensed milk Printing ink Specified parts of sewing machine Furniture wholly made of bamboo or cane Diabetic food	Escalators Fork lifts, lifting and handling equipment Electrical apparatus for radio and television broadcasting Chocolates Rubber tubes and miscellaneous articles of rubber Slabs of marbles and granite Detergents	Pan masala Cigars	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 • Hotel/ Lodges with tariff between INR 1000 and 7500	• Betting • Gambling • Hotel/ Lodges with tariff above INR 7500

Only rates of select goods and services have been mentioned here

- 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%

Business Impact

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

1. Wider tax base, necessary for lowering the tax rates and eliminating classification disputes
2. Elimination of multiplicity of taxes and their cascading effects
3. Rationalization of tax structure and simplification of compliance procedures
4. Harmonization of center and State tax administrations, which would reduce duplication and compliance costs
5. 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] Service tax Additional Customs Duty (CVD) Special Additional Duty of Customs (SAD) 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 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)

Benefits of GST

1. GST provide comprehensive and wider coverage of input credit setoff, you can use service tax credit for the payment of tax on sale of goods etc.
2. CST will be removed and need not pay. At present there is no input tax credit available for CST.
3. Many indirect taxes in state and central level included by GST, You need to pay a single GST instead of all.
4. Uniformity of tax rates across the states,

5. Ensure better compliance due to aggregate tax rate reduces.
6. By reducing the tax burden the competitiveness of Indian products in international market is expected to increase and there by development of the nation..
7. Prices of goods are expected to reduce in the long run as the benefits of less tax burden would be passed on to the consumer.

Conclusion

Implementation of GST will be a significant step towards a comprehensive indirect tax reform in India GST is leviable on all supply of goods and provision of services as well combination thereof. All sectors of economy whether the industry, business including Govt. departments and service sector shall have to bear impact of GST. All sections of economy viz., big, medium, small scale units, intermediaries, importers, exporters, traders, professionals and consumers shall be directly affected by GST. As petroleum is one of the products that involve various goods and services from stages such as exploration, production, refining etc, the input tax credit from this could be utilized under the GST. This would lead to substantial price advantage for petroleum products which is critical since it impacts everyday life. Thus inclusion of petroleum products under the GST Bill will be a welcoming change for the developing economy of our Country

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