GST: It's Impact on Common Man in India

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Abstract
After Independence, Goods and Service Tax (GST) would be a very significant and giant indirect tax structure reforms in the country. It is designed to support and enhance the economic growth of the country. It is a comprehensive tax that will integrate all indirect taxes of states and central governments and the unified economy into a seamless national market. Because of its transparent and self-policing character, it would be easier to administer. According to me, it is expected to iron out wrinkles of the existing indirect tax system and play a vital role in a country's growth. By amalgamating a large number of Central and State indirect taxes, it would mitigate cascading effect or double taxation in a major way and pave the way for a common national market. So, from a common man or consumer point of view, the biggest advantage would be in terms of a reduction in the overall tax burden on goods, which was estimated to be around 25%-30% before the implementation of GST. This paper highlights the concept of GST and its impact on the common man.

Keywords: GST, Indirect Tax, Common man, Sector, Expenses, and Impact

Introduction

In India, the majority of the population is of the middle class and lower middle class, where people either belong to the service category or they depend on agriculture for their livelihood. The major issue of these categories of people is: "Roti, Kapda, and Makaan." Therefore, the most important question arises is how the implementation of GST will impact them. Naturally, there are lots of questions in the mind of a common man with the new Goods and Service Tax (GST) regime. Is there anything new for them or it's like an old material in a new package? Will it increase the prices of goods and services for them? Is there any tax relaxation in new tax provisions?

For the common people or the general public, the actual impact of any economy is when the prices of their necessity get affected. For them, when prices become low for the day to day goods and services that are consumed, the economy is good. On the other hand, when inflation is higher, then the public gets unsatisfied with the changes done by the government. Therefore, for the implementation of any Government policy, it is important that the satisfaction in public should be there as without the policy will not succeed in the same way in which the government planned.

It is said that the Goods and Service Tax (GST) is the biggest tax reform in India which aims at more compliance, increase the revenue of government, simplifying the tax system by creating a single blanket tax system by merging central and local level and create a common ground for all manufacturers, wholesalers, service providers, and traders. After a lot of deliberation, the GST council has finalized the rates for all the goods and major service categories under various tax slabs, and it is expected to fill the inadequacy in the existing system and boost the Indian economy.

The new GST regime is expected to make necessities cheaper and the luxurious items expensive with the objective of unifying the indirect taxes for all states throughout India. The tax rate under the new GST regime is fixed as follows: 0%, 5%, 12%, 18%, and 28% for various goods and services, and almost half of goods & services come under an 18% tax rate. So, it seems to have a mixed impact on the common man's pocket.

Literature Review

In India, the history of indirect taxation can be corroborated from the reign of the Mauryan dynasty with Kautilya's Arthashastra. During that period, taxes were collected in the form of agricultural products. Such collections were generally made for the development of a state or some specific purposes. Taxes were also collected to meet the contingency like famine, flood, war, etc. which was known as 'Lagaan.'

Again, with time, the structure and complexity of the tax system have been developed. During the British Rule, the raw materials were exported mostly from India, and the same raw materials were, later on, come back as finished products and consumables. In those days, the British rulers used to discourage to manufacture any finished products in India to have major profit by way of value addition. As a result, the Indian market was flooded with British products. Comparatively, India made products were very much lesser than those of the imported British products. Then the British thought of imposing taxes on India made products.

From the beginning of the 20th century, the modern history of Indirect taxes begins with Excise duty, which was imposed on salt, sugar, motor spirit, etc. After that, there was a gradual increase in the base of excise duty. In 1944, the Central Excise Act was formulated, and till 1969, there was gradual change year by year.

In early 1960, the Bhoothalingam Committee had recommended the introduction of general excise duty in India with a levy of 10 percent duty on all goods produced in India. But, the recommendation was not accepted by the government.

Sales tax was first introduced in Mumbai (which was then known as Bombay) with the imposition of a duty on sales of tobacco within certain very limited urban and suburban areas by the Bombay Tobacco (Amendment) Act, 1938 with effect from 24th March, 1938.

After that, many indirect taxes were added to the taxation system at both the state and the central level, and we had around 20 indirect taxes in India before the implementation of Goods and Services Tax (GST).

Dr R Vasanthagopal (April, 2011) assessed the possible positive impacts of GST on the various development areas like agriculture, manufacturing industry, MSME, housing, poverty reduction, employment, price level, EXIM trade, GDP, government revenue, etc. and this aspect is the subject matter of this paper. Highlighting various positive impact of the mentioned area, he conclude that GST would be a big leap in the indirect taxation system and also would give a new impetus to India's economic change provided a neutral and rational design of the GST, balancing the conflicting interests of various stakeholders, full political commitment for a fundamental tax reform with a constitutional amendment.

Dr Barnamali Nath (19th February, 2017) studied the concept of GST and its timelines of introduction in India to know its benefits and impact on the Indian Economy. From his study, he drew that GST will reduce the cascading effect of the current indirect taxation system that will provide relief to the producers and consumers by subsuming several indirect taxes. He added that with the implementation of GST, manufacturer, wholesaler and retailer could be easily recovered input taxes in the form of tax credits. The same implementation will also lead to commercial benefit, more employment opportunities, and would essentially lead to economic development that will improve the GDP of the country. She finally concluded that proper awareness programs, workshops, training, and seminars on GST must be conducted in all states by their respective State governments.

Ritu Bala (July 11, 2017) in her article, "An Overview of the Goods and Services Tax," covers provisions of GST having a crucial impact on the industry and provides an insightful perspective regarding the same. While GST is yet to come into effect, it will evolve post implementation. Further, though clarity on various critical issues affecting the industry is still unanswered, the benefit to the economy cannot surely be undermined.

Objectives of the Study

The main objective of this paper is to ascertain the impact of tax reforms with the implementation of Goods and Service Tax (GST) on 1st July, 2017, in India. Specifically, an attempt is also made to analyze the actual impact on common areas where general public deals regularly.

Methodology of the Study

The present paper is based on secondary data. The secondary data were collected from books, journals, periodicals, Government and Non-Government reports, articles, internet, etc.

Limitations of the Study

The main limitations of the study are:

1. The collection of primary data has not been undertaken in this study due to time constrain.
2. The present paper highlighted the impact of GST on the common man.
3. This study is an attempt to deal with the mathematical aspects to calculate its impact on the common man wallet.
4. The study is beyond the time series.

Impact Analysis of GST on Common Man Pocket on the Basis of Expenditure

With the implementation of Goods and Services Tax (GST) from July 1, 2017, it connects all the sectors of the Indian economy to enhance economic growth by creating a single unified tax. The making of GST was met with both ignominy and excitement. There is a mixed reaction among the people in the country, and the debate is still on about the impact of the four-tier tax system in India.

Goods and Service Tax is a destination-based tax on consumption of Goods and Services and levied at all stages right from manufacture to final consumption with credit of taxes paid at previous stages available as set off. Before the implementation of GST, duty was levied on the principle of origin-based taxation. So, now GST is applicable to "Supply" of goods and services as against tax levied on the manufacture of goods or the sale of goods or provision of services.

For the purpose of imposing GST tax in India, the goods and services are categorized into seven. Initially, the GST Council suggested a four-tiered GST rate: 5%, 12%, 18%, and 28%. The 5% rate was imposed on essentials items. The rates of 12% and 18% are the standard rates. Most of the goods and services are taxed at either of these two rates. And the 28% rate is on luxury items. Now, the GST rates for goods including gold are fixed under the seven slabs as follows: 0%, 0.25%, 3%, 5%, 12%, 18% and 28%. In the case of exports, goods are taxed at zero rates, and on rough precious and semi-precious stones, 0.25% is imposed. Gold will have a unique rate of 3%. In the case of services, now it is taxed at 18%. Thus, looking at different tax slabs and based on the patterns of lifestyle, GST will impact the budget of everyone differently.

Below are some examples taken to analyze the overall impact of Goods and Services Tax (GST) on the common man based on expenditure:

Household Expenses: Under the new GST regime, food items like milk, bread, pulses, flour, fruits and vegetables, tea, coffee have been kept outside the ambit of GST. Products like packaged food, soaps, tooth paste, hair oils, shampoos, electronic items like TV, coolers, etc. are likely to become cheaper. Whereas, in services like salon, dry cleaning, etc. people need to pay more in the post-GST regime. However, with effect from Nov 10, 2017, some items like Condensed milk, Refined sugar and sugar cube, Pasta, Curry paste, Mayonnaise, and salad dressings, mixed condiments and mixed seasoning, Diabetic food, etc. became cheaper as it brought under 12% from 18% bracket *(As per recommendation of 23rd GST Council meeting on Nov 10, 2017).* Again, with effect from Jan 18, 2018, some items like Sugar boiled confectionery, Drinking water packed in 20 liters bottles, etc. also get cheaper with the shift of rate from 18% to 12% slab.

Education cost: With the implementation of GST, the education cost becomes more expensive. Many thought that GST wouldn't hit students hard, but it proves wrong. Education is one of the most important sectors for any country as it promotes better understanding, future vision, creative thinking, and how to enhance the productivity of a country. Under GST, no taxes will be levied on services provided by the educational institutions from pre-schools to higher secondary levels and remain the same as existing regulation. On the other hand, in today's competitive world, students need the right platform and future prospective education, which has led to the coming of training institutes for the students. As institutions and Universities are kept outside the ambit of GST, they are expected to levy 18% tax as against 14% tax in the earlier regime. So, it would be a matter of disappointment for the student preparing for government exams, IITs, banking, and other professional courses. With the rollout of the new tax system, the education cost at the private institutions, which is grabbing the nation at a fast pace, is likely to get expensive by 3 to 5 percent. Mathematically, it can be explained as follows:

Assuming a student who was paying Rs 2 lakh in a year for a course in a top college in India and Rs 6,000 as the tax will have to pay Rs 30,000 in tax now. The new GST on training or coaching institutes increased to 18% as against 15%. So, a student paying Rs 2 lakh and Rs 30,000 as the tax will pay Rs 6,000 more in the new tax regime.

Restaurant Bills/Eating out: Under the new GST regime, the restaurant bill or eating out have to be decided based on two broad categories, i.e., whether we dined at an air-conditioned restaurant or Non air-conditioned restaurant which do not serve alcohol. At establishments without turnover below Rs 75 lakhs, 5% (composition scheme) without ITC will be levied. In the case of Non-AC restaurants not serving alcohol and Non-AC restaurants serving alcohol, 12% and 18% with ITC is applicable. Again, any AC restaurants or AC restaurants inside 5-stars Hotels will charge 18% GST. The new tax structure is likely to have a positive impact on small restaurants and food delivery businesses because the reduced tax rate on such business would also propel customers to spend more. To have a better understanding, let us explain with an example. Suppose we buy a sweet at the counter or outside the shop; it attracts a 5% GST rate only. But the rate may vary from 5% to 18% on the same sweet depending upon the facilities we avail. If one wants to have the same sweet sitting in an AC restaurant, an 18% GST rate is applicable. Thus, one needs to pay 6% in excess if he/she decides to enjoy the same sweet in AC restaurant.

Apparels and Footwear: Under GST, the price of garments and made up articles get cheaper. The price of garments and made up articles below the range of Rs 1,000 per piece will attract a 5% GST rate, whereas the price of garments and made up articles above the range of Rs1, 000 per piece will attract 12% GST rate.

As per the data of the Directorate General of Commercial Intelligence and Statistics, the export of textiles and apparel, including handicrafts, has increased by 0.2% from USD 40.1 billion in 2014-15 to USD 40.4 billion in 2018-19. (Posted On 11 JUL 2019 6:17 PM by PIB Delhi)

Whereas, regarding footwear costing below, the range of Rs 1,000 per pair will attract a 5% GST rate. *In an interview with CNBC-TV18 on July 24, 2018, Adesh Gupta, chief executive officer, Liberty shoes, said that 20 percent of the revenue of the company is coming from footwear priced between Rs 500 and Rs 1,000.* Thus, we can see the positive impact of the common man point of view as they will pay a lesser GST rate of 5% from the pre-GST rate of 18%.

Mobile Bills: The new tax system has increased the burden of mobile phone users. Currently, both the post-paid and pre-paid user have to pay more bills because of an increase in tax rate by 3%. Under the pre-GST regime, if the post-paid usage is Rs 600, the total bill will be Rs 690. But, under the post-GST regime, if the post-paid usage is Rs 600, the total bill will be Rs 708. So, one is paying Rs 18 more what he was paying under the pre-GST regime. Again, in the case of pre-paid users, the effective rate of talk time will go down. Before GST, if a person charges his mobile phone with Rs 200 pre-paid voucher, he will avail talk time worth Rs 170. But, in the post-GST regime, he will avail talk time worth Rs 164. So, his talk time will marginally dip down by Rs 6.

Train Fare: GST does not have much impact on the railway transport of passengers. There is a hike of 0.5% of the price of tickets and the cost of transport. But such a hike will not have much impact or may not even be noticeable depending on the actual price of the ticket. Passengers traveling on second/ sleeper and metro train are kept outside the ambit of GST. But passengers traveling by first class and AC travelers will have to pay more. Again, passengers can claim Input Tax Credit on their railway ticket if he/she travels for a business trip and thus help him/her to reduce expenses.

Regarding railway catering service on railway stations (static) and trains (mobile), GST is charged at a uniform rate of 5%, including the supplies of foods and drinks made on stations, platforms, and trains. But no input tax credit (ITC) can be availed on it.

Movie Tickets: If one buys a movie ticket below, Rs 100 will have to pay GST at 18%, but prices above Rs 100 will have a higher tax rate of 28%.

Airline tickets: Under the new GST regime, the tax rate for economic class flight tickets have been reduced by 1%, i.e., from 6% to 5%. However, it will attract the tax rate of 12% for the business class resulting in an increase of 3% from 9% to 12%. As a result, domestic airways are clearly going to see a boost in post GST with reduced air prices. Therefore, budget travelers will be happier now and have a good reason to cheer and plan for the holidays.

Medical Facilities: The GST kept the medical sector unaffected. In other words, hospital service known as health care service is exempted under GST.

Car prices: With the roll out of GST, many companies have revised the prices of the car models. The introduction of the GST price of some cars indeed gets cheaper while the prices of some other car get costlier. Now, 28% of GST will be imposed on the purchase of the car with an additional cess between 1% and 15%. Diesel engine cars with less than 1,500 cc will attract 3% cess, small cars with petrol engines less than 1200 cc will attract 1% cess. While purchasers of Big cars and SUVs with length over 4 meters need to shell more from their pockets as GST of 28% along with 15% cess will be levied. However, 12% of GST will be imposed on electric vehicles.

Real Estate: Before the implementation of GST, a customer buying a property was liable to pay multiple taxes, namely VAT, stamp duty charges, registration charges, and service tax, which featured different rates and also varies from one state to another. But the implementation of GST simplifies the taxation on Real Estate in India. In real estate, the GST rate can range from 5% to 18%, depending upon some key factors. Again, the GST Council has slashed the existing rate till 31st March, 2019 and imposed a new rate which came into effect from 1st April, 2019. Under the new rate on real estate property: firstly, the rate on residential property (affordable housing segment) is brought down to1% without ITC from 8% with ITC; secondly, the rate on residential property (non-affordable housing segment) is brought down to 5% without ITC from existing 12% with ITC, and lastly, the rate on commercial properties remain unchanged at 12% with ITC.

Thus, the GST cut on residential properties is expected to provide benefits to the real estate as it made the tax structure simpler and leading to greater compliance to builders. Again, the problems of ITC not getting passed to buyers are eliminated, and thus the buyers are protected.

Rented Property: Goods and Services Tax has brought good news for those staying in a rented house as no service tax is levied on residential properties. However, if the properties put on rent for shops, offices, and industrial purposes would impose 18% GST. Thus, there is a rise in rent on commercial properties.

Banking and Insurance sector: The introduction of GST increased the service tax of the banking sector by 3%. This increased tax liability will pass to the client of banking companies. Again, services among the branches are taxable under GST, but they can avail ITC.

On the other hand, in the case of Insurance companies, the same hike of 3% is made. It would result in an increase in premium for all policy holders. Now, a person having life, health, and car insurance will find an increase of 3% on their insurance expenses. Suppose a family spends Rs 25,000 p.a on insurance premium excluding service tax. Now, their insurance expenses will increase by 3%, i.e., Rs 750 p.a.

Jewelry: Before the implementation of GST, the tax rate on Gold was around 2% in most of the states. But in the post-GST regime, there is a 1% hike in tax rate, i.e., from 2% to 3%. Therefore, investment in gold will become slightly expensive as one needs to pay 3% GST on gold and 5% on the making charges.

Holidays: In the pre-GST regime, the tax rate ranged from 19% to 25% depending on hotel tariffs in a state. Suppose a customer stayed in a hotel that had a tariff of Rs 8,500 a night. The gross indirect tax (which includes service tax and luxury tax) imposed on him varied from Rs 1615 and Rs 2125.

Under GST, different tax rate is imposed on different tariff slabs. The lower-tier hotels below the range of Rs 1000 are kept outside the ambit of GST. Room tariff between Rs 1000 and Rs 2,500 would have GST @ 12%, and ITC is allowed, and room tariff between Rs 2500 and Rs 7,500 would have GST of 18%, and ITC is allowed. However, higher-tier hotels above Rs 7,500 are going to be more expensive as 28% would be applicable, but ITC can be availed.

DTH and cable services: Under the pre-GST regime, Broadcaster was paying 21% tax, i.e., 15% under service tax and 6% under VAT). With the Introduction of GST, taxation on DTH and cable services come down to 18% making an advantageous situation to DTH and Cable operators.

IPL and other related events: Before the implementation of GST, sporting events like the Indian Premier League (IPL) had charged a tax rate of 20% on tickets, but in post-GST regime, the tax has been increased to 28%. Whereas, 18% GST will be imposed on the ticket for other events like theatre, circus, or Indian classical music shows or a folk dance performance or a drama show.

Findings

The Indirect Tax structure before the implementation of GST in India was very complex. The Central and State governments used to levy multiple taxes on Goods and Services. For watching a movie, we used to pay 'Entertainment Tax'; for the purchase of goods and services, we need to pay 'Value Added Tax(VAT)', and there were other taxes like excise duty, customs duty, octroi, toll tax, etc.

But aftermath holds tax with the introduction of GST would relief the common man as there is reduction in prices for FMCG products such as food items, tooth paste, tea, coffee, edible oil, spices, shampoo, pharmaceutical items, etc. Also, small cars, booking air tickets in economic class, DTH services become cheaper.

On the other hand, there is a hike in prices for luxury cars, gold, textiles, aerated beverages, etc. In term of cost, service becomes more expensive at the onset of GST. The increased cost of services means an additional add on cost to our monthly expenses.

Thus, whenever any new reform or law is imposed in a country, it surely leaves its impact on the common man. So, as there is no exception to the common man, they had to get ready for the implications.

Conclusions

The implementation of Goods and Services Tax (GST) is a long term strategic plan incorporated by the Government to ease the indirect taxation in India. Therefore, it would be too early to comment on the overall impact of GST. But it is hoped to bring positive impact shortly. The introduction of different GST rates in all the States also plays a crucial role in deciding the actual impact of GST on the common man. A well-designed Government policy on the tax system can bring a qualitative change in the country. For this purpose, a massive IT Software has been developed for the successful implementation of GST to bring things online. Revenue officials are also being trained to turn GST into a reality. But, the actual performance and results can be visualized in the upcoming years.

Thus, GST would be the biggest tax reform that would cover many taxes in a single blanket tax system. It is designed to implement a consumption-based system in the place of production-based systems. There is no doubt that GST would benefit everyone in the economy, but common people will be benefited after the benefit being taken by the business houses from the outbreak of the GST. This new tax regime has many expectations for the welfare of the economy.

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