

# GST – A Game Changer

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**Abstract**— GST implementation is a milestone in Indian tax system. It transforms the country into one unified common market. It will reduce the existing complexity of taxes as it subsumes VAT, Excise duty, service tax and Sales tax. It is a consumption based tax applied on goods and services at the place of its consumption. The proposed model of GST is “Dual GST” comprising Central and State component charging simultaneously on the common base. It also addresses the cascading effect of tax on cost of goods and services. Other countries experience in GST has proven to be an efficient tax collection system. The implementation of GST generates more revenue as it broadens the tax base and erodes the tax evasion. This Paper highlights the GST implications on tax structure, incidence and compliance.

**Keywords**— GST; Tax Structure; Tax Incidence; Tax Compliance.

## 1. Introduction

GST system was first introduced in France in the year 1954 and now nearly 150 countries are following the system. In India the idea to introduce the GST was mooted in the year 2000 and Government appointed various committees and task force to study the impact of GST. The effort to implement GST was floated in the Union budget 2006-07 by the then Finance Minister. As the 115<sup>th</sup> amendment bill has been lapsed, the 122<sup>nd</sup> amendment bill was introduced in 2014 and the bill has been passed in Lok Sabha on 2015 and Rajya Sabha on 2016. Finally the long awaited reform is expected to roll out on 1<sup>st</sup> July 2017. The proposed model of GST is “Dual GST” comprising Central and State component charging simultaneously on the common base. The administrative responsibility lies with GST council.

GST is a comprehensive indirect tax levied on manufacture, sale and consumption of goods and service. It is a tax on value addition. It will reduce the existing complexity of taxes as it subsumes VAT, Excise duty, service tax and Sales tax paving the way to transparent indirect tax. It is a consumption based tax applied on goods and services at the place of its consumption. In this destination principle the producers and traders need not shoulder the financial burden as they are not responsible to collect taxes on behalf of government rather it is the retail trader’s responsibility to collect tax. The state which consumes more is likely to benefit more than the producing state. As such it paves a way to the state which is

consuming more and remains in the less developed status to tap more revenue and deploy the same for their growth and development. GST besides addressing the tax evasion and corruption it increases the productivity and alleviate poverty and economic distortions.

## 2. Review of Literature

Parkhi Shilpa, study highlighted the challenges which the business system, tax system has to face in new GST regime and concluded that it is the welcome move to India’s fast paced economy

Rajesh R. Desai *et al* investigated various opportunities and challenges lay ahead for the state government in relation to GST in India.

Sanjoy Roy, threw a light on different aspects of GST and contended that flawless GST is a important reform and helps to attain inclusive growth

Khurana *et al* highlighted the impact of GST in the present tax scenario in India and explored the benefits and opportunities’ in India

Sarkar *et al* examined the feature of GST and highlighted the problems that are likely to be faced by central and state governments.

## 3. Objectives of the Study

- To study about the Goods and service act
- To examine about the GST implications on tax structure, tax incidence and tax payment

## 4. Impact on Tax Structure

The current indirect tax structure encompasses 25 types of taxes at central, state and local level. The centre collects excise duty, central sales tax and custom duty whereas state collects VAT, Octroi, entertainment tax and purchase tax. This complexity in structure created hurdles across all industries and it is removed by GST as it subsumes many of these taxes. Moreover the goods are taxed at different rates in different states and this difference is eradicated in GST as it is a single rate applicable uniformly to all goods and services.

Yet another major problem in the current tax structure is cascading effect and inability to set off between VAT and CST which ultimately increases the price and makes our product less competitive both in the domestic and international market. GST addresses this issue by allowing input tax credit and enhances the product competitiveness.

The GST council fixed four-tier structure for goods which ranges from 0% to 28% with two standard rates of 12% and 18%. This new structure lowers the logistics cost, brings unorganised operators into its ambit, reduces the overall tax burden of the final consumers. It is the common man friendly structure as more than 50% of necessary items are Zero rated and only 5% is charged on essential items and 28% rate is on demerit goods.

## 5. Impact on Tax Incidence

*Telecom:* In the current indirect tax regime the tax rate applicable on telecom services is 15% and it is expected that tax rate under GST shall rise to around 18%-20%. This causes increases in the mobile call charges and internet service charges.

*E-commerce:* Under the current indirect tax regime non uniform structure for VAT across the state lead VAT arbitrage which will come to an end in GST regime. Moreover, credit of service tax and credit of VAT are not allowed to traders but cross credit utilization is allowed in GST which reduce the cost of supplies.

*Automobile:* It is expected that there shall be a decrease in the tax rates for automobile sector, as the same may come down from 25% - 40% to 18% - 20% impacting the price of the final products.

*Real estate:* Presently, this sector is generally subjected to indirect taxes of stamp duty, VAT and service tax. Under GST regime, the stamp duty shall continue, but VAT and service tax shall be subsumed in GST. Thus it reduces the tax burden and valuation challenges.

*Banking:* The bank services hope to become costlier under GST regime as the tax rates are expected to increase from 14.5% to 18-20%. If all of the services like interest on loan, trading on securities comes under the purview of the GST then, the financially weaker section and the consumers' investment pattern will get affected. Instead of charging tax on transactions the tax may be imposed on the fee they charge and moreover certain crucial activities like loan operations can be exempted from GST.

*Consumer goods:* The tax rate for consumer goods is 25%-27% under the indirect tax regime and it is likely to come down to 18% - 20%. This reduction combined with elimination of multiplicity of taxes and availability of cross utilisation of credit will have a positive impact on the prices of certain goods.

## 6. Impact on Tax Compliance

Under the present taxation system multiple taxes are paid on the same product but in GST regime taxation procedure is simplified and aligned with robust IT system creating an assessee -friendly tax administration system. This encourages the tax compliance as it facilitates transparency. Further, the in- built input tax credit

mechanism in GST provides a timely refund to traders which will incentivize tax compliance. Similar rates across the country and common base encourage tax compliance resulting in better revenue for the country.

*Telecom Sector:* From compliance perspective under the GST regime, the telecom sector will be required to undertake State wise registration instead of centralised registration which increases the cost of compliance.

*E-commerce :* GST is proposed to bring in a tax collection at source proviso for e-commerce operators with regard to goods sold through their portal which shall significantly increase the compliance burden on the industry.

*Automobile:* For automobile multiple taxes which are applicable such as excise duty, VAT/ CST, entry tax, octroi, GST reduces compliance burden as it subsumes all these taxes.

*Banking:* The major impact area for the sector shall be from a compliance perspective, where there is a likelihood of significant increase from centralised compliances to multiple state decentralised compliances.

## 7. Impact on Tax Payment

In GST regime for the intra- state supply, taxes to be paid are central GST and State GST. For inter – state supply taxes to be paid is integrated GST. Generally it is the supplier of goods and services is responsible to pay tax at the time of either receiving payment, issuance of invoice or at the time of completion of supply. The GST can be paid through debit of credit ledger of the tax payer or in cash by debit in cash ledger maintained in common portal. The tax payer should make it on monthly basis.

## 8. Impact on credit Utilization

In GST regime purchasing dealer can avail the input tax credit in respect of GST paid by supplying dealer on fulfilling certain conditions such as goods must received by taxable person, tax should have been paid to the credit of government ,returns should have been filled and the timeline for availing credit is one year from the date of issue of invoice.

Cross credit utilization of credit between goods and service would be allowed in CGST and SGST. Cross utilization of CGST and SGST would be allowed in inter – state supply of goods and services under the IGST model.

## 9. Conclusion

Other countries experience in GST has proven to be an efficient tax collection system. Of course, the transition from multiple tax regime to unified tax regime will cause some teething problems like sharing of the revenue between centre and the state, lack of availability of

uninterrupted internet access in the remote places, the period within which the traders will get refund of tax as it is a crucial factor in their working capital management. These problems can be tackled if consensus exists among the states and the various stakeholders to implement the system. GST has the potential to boost GDP, broaden tax base and attract foreign investment and pave way to promote “Make in India” ultimately creating ample of job opportunities. Hence GST is a significant game changer for India’s economic growth.

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