A Study on GST Implementation and its Impact on Indian Industrial Sectors and Export

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Abstract— GST is a taxation procedure for goods and services transported from one destination to other; it was discussed for years by the Government of India to get implemented and still now a pending case. Taxation and its associated governing laws, in the current scenario, is playing a significant role in the life of business, individual also for the government for the betterment of policies for social good. This paper is designed to provide an overview of the impact of GST when implemented, it features, GST in light of export, suggestion on a strategy to be adopted for implementing GST and it's associated benefits when implemented. The paper is made using exploratory research methodology using secondary data. The study lends information that, GST is beneficial for most of the industrial sector reducing overall cost of commodity to great extent, however GST is not favorable towards agricultural sector, this is due to the fact that, as of now Indian government is not charging any tax on agricultural goods for domestic consumption, wherein, when GST is implemented, tax will be imposed on agricultural products also, this may lead to rising in the price of the agricultural products, which is considered to be basic entity for the survival. Thereon implementing GST paves a path for India's industrial and economic development undoubtedly, whereas, it fullest success can be realized, when government liberalizes tax policies towards few commodities such as agricultural products, which are considered to be a basic entity for survival instinct of people. Thereby, GST implementation and liberalization of tax policies on certain commodities will create a beneficial impact on industry, individual and economy of India.

Keywords—GST in India; Features of GST; Benefits of GST; Impact of GST; GST with respect to export.

1. Introduction

1.1 History of Taxation

The word tax was derived from Latin 'taxare', which means - to estimate. A tax is not a voluntary contribution instead it is enforced payment by legislative authority on public residing under them. The first taxation system can be traced out in Ancient Egypt during 3000BC – 2800BC. The taxation practices followed early times can be clearly seen even in the religious book such as bible and Quran. To illustrate with an example in Bible – Genesis "But when the crop comes in, gives a fifth of it to Pharaoh. The other four-fifths, you may keep as seed for the fields and as food for yourselves and your Girish Garg, households and your children" (www.eduplace.com, 2015). In India, the tradition of taxation was in practice from ancient times, books like 'Arthasathra' and 'Manu Smriti' are the best reference. The history of Islamic ruler states that taxes were implemented and was formally called as Jizya, Jizya was collected prior to Akbar period and also during Aurangzeb rule, who is the last prominent Mughal emperor, whose period of rule was 1618AD to 1707AD (thejihadproject, 2015). It was during British rule; India has witnessed a remarkable change in the taxation system. Although, it was in favor of British government it was more modern and scientific taxation method and system that can be implemented and well managed (Sury, 2006). Setting up a separate administrative system to monitor taxation was first done and practiced by the British government. Both direct taxation and indirect tax were followed by British. Tax India in recent times is levied by both central government and state governments, few minor taxes are also levied by Municipalities and local authorities (Garg, 2014). In recent times tax is formally a segregated into different types as; toll, impost, duty, customs, excise, subsidy, aid, a tribute to the government of the respective country.

2. Objectives of the Study

- To understand the concept of Goods and Services Tax;
- To examine the features of Goods and Services Tax;
- To analyze the impact of GST on various industrial sectors.
- To provide information on Goods and Services Tax with respect to Export.
- To know the benefit of Goods and Services Tax to the economy, business and industry and consumer.
- To analyze the implementation strategy of GST in India.

3. Research Methodology

Exploratory research methodology has been utilized in the preparation of research paper. Secondary data is been

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used and it is sourced from journals, articles, magazines, and media report. Keeping objective as the requirement, the descriptive study is employed in the time needed. The research design was adopted to acquire greater accuracy and in-depth analysis for the purpose of the study.

4. Literature Review

(Garg, Basic Concepts and Features of Good and Service Tax in India, 2014) Studied the basic concept and made an insight on GST significance. Further indirect tax evasion discussed by (Vasanthagopal, 2011) has led to GST value dissipation in comparison to VAT. (Adukia, 2015) Studied the impact and implementation strategy of GST in India. The review by (Morrissey, 2003) states that under, GST the taxation will be equitably divided among manufacturers and the service providers, also a low value of tax will be charged in comparison to existing tax system. It is to be noted that GST is implemented in more than 150 countries around the globe and the value of GST is directly reflecting on the economy of the countries where GST is implemented in a positive way (KUMAR, 2014).

5. GST

GST can be defined as a tax on goods and service, which is exercised when transferred from one location to other or at each point of the sale or provision of services. The accumulated tax so as VAT which is currently followed in India falls on Consumer. Unlike VAT, GST value during final consumption is dreadfully low (Beri, 2014). Under GST, both central and state has the power to levy from goods and service during final consumption. In general, the GST exercised by central is popularly known as the central tax, service tax, surcharge and additional customs duties. In the state level, it is termed as State VAT (Majithia, 2014). GST is a valued added tax on goods and service, wherein tax is exercised at every point of transaction and at the end the retailer will be claiming credit for the tax for which he is paid while buying goods for the purpose of retailing i.e. tax is exercised from the whole seller to retailer to consumer, to exemplify with example suppose the manufacturer buy input for 50Rs. For producing goods, whose value is added to 100Rs, then he is supposed to pay a GST of 5Rs taking a tax credit of 5Rs. Similarly, the wholesaler who on buying the good for 150Rs will pay GST of 5Rs and retailer who sells the product for 170Rs will pay a GST of 2Rs by taking the tax credit which is 15Rs.

5.1 Goods and Services Tax in India

The GST is not entirely a new initiative for India, rectification of existing VAT in the elementary level and fine tuning its shortcoming is GST. Thereby, this is an attempt to improve the existing VAT system for beneficial of Indian economy and the individuals therein (Shadab, 2014). VAT was formulated and put into practice during April 1, 2005, in order to overcome the shortcoming of sales Tax. Every state in India from commencement has switched from multi-point sales tax to Value Added Tax (VAT). As in similar fashion that VAT was introduced to gap the shortcoming of multi-point tax, the essence of GST is to correct the shortcoming VAT. Bringing service under tax net and taxes for input and output is not possible under VAT system. Hence, GST is more comprehensive, transparent and smoother in its functioning. This can be a better than the best solution for a country such as India, to reduce corruption, increase economic welfare and increase the standard of living of the individual.

Finance Minister Mr. P. Chidambaram, during his budget revelation for the year 2007-08 announced the implementation of the Goods and Service Tax (GST). In order to make progress on GST related work, a group of central officers, as well as the state government, was constituted in May 2007. The report was submitted to the committee on November 19, 2007, the report was in theme with GST module. A detailed discussion in relation to report took place during November 28, 2007, in meeting with empowered committee. An important interaction in regards to GST also held between Shri Pranab Mukherjee, the union minister and the empowered committee during October 19, 2009, in which major problems associated with GST, were also discussed. After a while with further discussion, Mr. Pranab Mukherjee announced the deadline for GST implementation as April 1st, 2012, unfortunately, couldn't accomplish (finmin.nic.in, 2015). Ex-Finance minister Mr. P. Chidambaram in his budget speech April 2014 made apologize for the failure to meet the deadline as announced to implement GST.

6. Key features of the Goods and ServicesTax

- The GST is applicable to most of the goods and services, only a few are exempted out of government consideration.
- GST will be credited to central and State government separately, the rates would be appropriately divided based on formulated principles by the government following it, which is based on revenue generated and acceptability.
- The GST is exercised on imported goods and services by the country.
- Though GST is levied by the central and state government, it is treated separately. Even when the credit is taken as Input Tax Credit (ITC) by the Central government, it is an obligation that central should utilize the payment only against Central GST.
- The rules governing utilization of credit for the central GST and state GST will be according to the prescribed

rules of GST with few exemptions.

- The uniform procedure will exist to collect both Central GST and State GST, which would be prescribed by the respective legislative community of Central and State.
- Each taxpayer will be allotted unique PAN card enclosing identification number which is 13 or 15 digits long. The PAN will be linked to GST system, facilitating transparency, data exchange and compliance.
- The taxpayer should file their periodical return separately against Central and State GST authorities.

7. Impact of Goods and Service Tax

7.1 Food Industry

GST, when implemented, will bring serious consequence to the food industry. The GST exercise taxation on agricultural goods including basic food products for human sustainability such as cereals, fish, meat, poultry and dairy products, which is exempted from taxation by the government of India currently. Thereby on the implementation of GST would lead to doubling the tax burden on food commodities and increasing the price of the agricultural products. This effect can only be reduced if and only the basic necessitate products are pinned under exception list.

7.2 Housing and Construction Industry

GST tax is included for construction and housing sector, this is because it is a significant contributor for the national economic.

7.3 FMCG Sector

India's FMCG sector is growing enormously earning $25 billion during 2008 in retail sales in spite of economic recession. When GST implemented, it will pave a new way for more FDI and increase the industry size to many folds in mere years to come.

7.4 Rail Sector

There has been a serious discussion for including rail sector under GST to attain significant tax gain and keep the overall GST rate low. If rail sector comes under GST the transportation of goods has to be tracked using Information Technology to attain GST associated with it.

7.5 Financial Services

GST is not mandatory for financial service also it is not levied in most of the countries following GST. In India, service tax is applicable to financial industry, thereby the probability of India bring financial service under GST umbrella is more also Indian financial service plays a dominant role consisting a large amount of customer within.

7.2 7.6 Information Technology enabled services

The software is considered as the intellectual property and regarded as the service lends to making the operation go easier in the industry utilizing it. Thereby when the software is transferred or transmitted in media or any other form from one seller to buyer than it is subjected to GST. According to FICCI – technopark Report, Implementation of GST will provide uniform and single point taxation, thus reducing the overall cost of the software products.

7.3 7.7 Impact on Small Enterprises

The GST has slab line, those companies whose earning is below the slab line prescribed, is exempted from the tax, whereas companies which meet the requirement and companies earning above the slab line are levied by GST. The major issues are; that State GST can be readily put into practice while Central GST is complex to get implemented in a country like India having the huge business population and industry orientation.

8. Exportation of Goods and Services

Export is exempted from GST. Exporters are allowed to claim the GST bill during export of processed import products, formally known as duty drawback. An exporter is liable to pay customs duty at the time of exportation, however under GST, it will be zero rated. In India GST classification and valuation are governed by customs Act 1967. The beneficial to FDI is that in a case of Export Company, it can appoint an agent from India and export to the required country will be subjected to GST and tax will not be claimed, hence, there exist high scope for export company FDI promotion for economic progress. The agent will be liable under GST because the export will be carried under his name. The beneficial factor in GST is that, if the company delivers goods to the local forwarding agent for the purpose of export to an overseas client, no GST is needed to be charged from the overseas client by the company. In case of machinery fault imported for export production, the export of service is zero rated, whereas if any parts are newly implemented then GST will be levied during import of machinery, if the only service is carried out on existing machine, GST will not be charged. The important documentation to be enclosed for export are Export declaration (K2), Sales invoices, Bill of lading, Shipping note, Insurance note, Payment document, such as documentary credit, debit advice, bank statement, Debit and Credit note, Tally sheet from Port Authority, Short ship/short landed certificate, Other documents related to export.

9. Benefits of GST

For business and industry

- Easy fulfilment of tax duty.
- Reduced spill over in finance.
- Increases competitiveness and industrial development.

For Central and State Governments

- Taxation and its administration made simple
- Better controls on the outflow of money from India.
- Consolidation of the tax base and easy maintenance of book of record.
- High revenue and efficient system for collection of tax.

For the consumer

- Single and transparent tax proportionate to the value of goods and services.
- Reduction in overall prices of most of the commodity.

10. Implementation Strategy

India achieved VAT system to accomplish the goal of economic development. GST, a modified version of existing VAT can make functional. The major setback existing GST for implementation is that it have to be approved by every state existing in India, else the total exertion on GST will be a disaster. A well-formulated one point and one type of taxation for goods and service are required in India, moreover, the formulated taxation has to be exercised by the Central, State and Interstate where lies the complexity. In order to bring uniformity, it is necessary to bring Dual GST system like Dual VAT system followed recently in India. The major beneficial of dual GST is that; Uniform taxation can be practiced, low charges comparable to VAT, better taxable system, better tax return and registration system. To put GST into practice, PAN (Permanent Account Number) should be allotted to every individual citizen of India. The impact of GST on economic growth can be well recognized, provided few goods and service have to be exempted from the GST like agricultural goods, health, education and financial services, this is because it would hit the poor people in India to attain basic amenities higher cost. Export is zero rated under GST, this would direct to economic success such as India as more than 25% GDP lays on export. GST is exercised on the import of goods and services also high rate is charged for the same. The dealer in the importing state has to declare every import made monthly and its return within prescribed time. This brings dealers purchasing within and from outside the state pay same tax. Therefore, this model will be more effective when implemented with pre-payment of taxes.

11. Conclusion

GST will improve tax compliance, widen the tax base, remove existing unhealthy competition among states and restructure the burden in relation to taxation equitably amongst the manufacturing and services; Implementing GST will make sure uniformity of taxes across the states in India, regardless of place of manufacture or distribution in India, which is better option when compared to VAT and in terms of administration; GST would integrate the tax base and capable of allowing seamless flow of input tax credit along the value chain of goods and services, which will lead to reduced cost of overall goods and services existing. GST environment would lead to an improved disclosure of tax transactions, which may have a positive impact on direct tax collections also. The average tax burden on companies will fall which will reduce the costs of Indian goods and services in the international market which in turn boost Indian industrial standard and exports; it will tone down cascading and double taxation and enable compliance through the lowering of the overall tax burden on goods and services. India is a rich country, whose people are poor, Overall, if GST properly implemented with tax exemption for certain goods like agricultural commodities, it will result in increasing revenue at the Centre as the tax collection system becomes more transparent, making tax evasion problem vanish and leading to economic growth, helping Indian people regain the wealth lost within country.

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