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THE GOODS AND SERVICES TAX AND ITS LIKELY IMPACT ON INDIAN BUSINESSES

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ABSTRACT

The world has recognized India's cultural and civilizational heritage, potential, and exceptional example of technological development and sees long-term value in becoming a part of India's growth story. India's economy is still relatively significant compared to the global economy and capital is highly mobile. India has emerged as one of the most attractive destinations for large-scale manufacturing business.

Taxes are essential to the success functioning of any economy. They are the main source of federal, state and local government revenues used to fund public welfare schemes, health care, education, public transport, unemployment benefits and pensions, among others. While the size of the tax cost imposed on businesses has implications for their ability to invest and grow, the efficiency of the tax administration system is also critical for businesses. Corporate taxation, it's not actually the company that pays it, but it is the concept of tax incidence. In Budget 2006-07, Minister of Finance of the UPA II proposed implementation of Goods and Services Tax (GST) and the Indian government wants to roll out the new indirect tax regime from July 1 2017. GST consists of Central GST (C – GST), State GST (S – GST), Integrated GST (I – GST) and Union Territory GST (UT – GST) laws.

The GST will enable levy and collection of tax on intra-state supply of goods and services or both by the central government, which provides for the levy and collection of tax on inter-state supply.

The objective of the new tax regime was to establish such a system that when goods and services flow across company, taxes are levied at a uniform rate and a single window. This research paper throws light on the impact of GST to Indian businesses and would attempt to look at the motivations to customers, manufacturers, exporters, businesses and Industry. This current study aims to discuss the main theme of GST and Present and future consequences of GST on the finances of the Central Government and the State Government.

KEY WORDS: GST, Indirect taxes and Tax reform

1 INTRODUCTION

Businesses operating in India are required to make around 33 tax payments a year, (TMF (2017) the taxing lines as per Article 246 of the Indian Constitution 1949, distributes legislative powers to Centre and States on manufacturing of goods and supply of services like Customs duties, Central Excise duty, Service tax, Corporate tax, Vat, Dividend tax, Property tax, Fuel tax, Vehicles tax, Entry tax, Octroi and others.

There is no better thing as good and simpler governing rules of tax. The existing taxation system leading to double taxation resulted in a complex and been to subject of extensive litigation.The current tax regime is an origin based taxation system, as opposed to the destination based system prevalent in the world over, leading to significant disparities in revenue distribution to various states.

The Indian Government generates a largest source of income from its population by offering a well-structured tax system which is deployed to invest in technology and education, and to provide goods and services of the Indian people. The biggest categories of public expenditure are: Central plan, interest payment on loans, defense, subsidies, non-plan expenditures and non-plan grants including major preventive health programs such as National Health Mission, for various purposes, salaries and pensions, rural development, education and projects for the development of the nation.

The Indian economy continues to grow at a positive rate and has achieved a strong position on the global map with its robust financial systems and mature capital markets. India has emerged as one of the most attractive destinations for large-scale manufacturing business. India's strong voice oncommercial climate provides great avenues for investments in various sectors identified under “Make in India” plan.

In India, GST is the major reform in indirect tax structure and offered to have a twofold structure — a Central GST levied and collected by the Centre and a state GST is administered by States. The proposed GST is expected to convert the country into a unified market, replacing most indirect taxes and subsuing all those into a single tax regime. With the implementation of the GST, the entire indirect tax system in India (excise, state-level VAT, service tax) is expected to evolve. It shall create uniformity and a multiplier effect in taxes across states, increasing efficiency and compliance and also boost Indian Government’s big push towards ease of doing business.

In this context, the researcher takes an initiative to explore the goods and services tax and its likely impact on Indian businesses.

1.1 REVIEW OF LITERATURE

The economic reforms initiated in 1991 introduced far-reaching measures, which changed the working and machinery of the economy. Import licensing was abolished relatively early for capital goods and intermediates which became freely importable in 1993, simultaneously with the switch to a flexible exchange rate regime (MOE (2017).

More than 160 countries have introduced GST in some or other form. It has been a part of European tax landscape for over 50 years. There are over 40 models of GST currently in force, each with its own distinct peculiarities. World over, GST rates are typically between 16 per cent and 20 per cent. In India, it is likely to be the same (Mehak Sharma 2016). All around the world, GST has the same concept. In some countries, VAT is the substitute for GST, but conceptually it is a destination based tax on consumption of goods and services. Similar to Indian context, it is Brazil and Canada that has the concept of dual GST (VivekPachisia (2016).

The Government of India is committed to replace all the indirect taxes levied on goods and services by the Centre and States and implement GST by July 1, 2017. GST will be a game changing reform for the Indian economy, it is anticipated that the tax base will be comprehensive. It will impact the tax structure, tax incidence, tax computation, tax payment, compliance, credit utilization and reporting, pricing of products and services, supply chain optimization, IT, accounting, and tax compliance systems, leading to a complete overhaul of the current indirect tax system (HarishankerSubramaniam (2017).

The review concludes that the Indian taxation challenge is much more complex in terms of implementation and regulation but it has moved beyond moderation and shall predict that GST would be an excellent start and Government can do that would bolster investor confidence.

1.2 STATEMENT OF THE PROBLEM

In line with the goal of nation building, the Government of India initiated 'Make in India' project. It would enable India to become a global manufacturing hub; it needs to bring foreign investment to do business here. One of the key challenges to a smooth business is the uncertain and unpredictable indirect tax regime. The current tax regime is an origin based taxation system, as opposed to the destination based system prevalent the world over, leading to significant disparities in revenue distribution to various states. Herein, the current study, the GST and its impact on Indian businesses is undertaken in order to compare the benefits to Government, policy makers and others from Indian perspective.

1.3 RESEARCH METHODOLOGY

The research design of the current study is descriptive in nature and adopts haphazard sampling technique.

Based on choice rather than random selection, as per the Organization for Economic Co-operation and Development (OECD) guidelines (OECD (2001), the generally accepted principles of tax policy applicable to consumption taxes are selected for the study. In order to list out the GST rates, the descriptive statistics method is used. The present study aims at listing the expected economic benefits to tax payers and interested parties. Hence, the secondary data pertaining to the study is fathered from study papers, private reports, leading journals and a number of news items.

1.4 OBJECTIVES OF THE STUDY

This research paper throws light on the impact of GST to Indian businesses and would attempt to look at the motivations to customers, manufacturers, exporters, businesses and Industry. This current study aims to discuss the main theme of GST and Present and future consequences of GST on the finances of the Central Government and the State Government.

The specific objectives of the study undertaken are listed below:

a. To study the main theme of GST and its pros and cons in Indian scenario

b. To understand the benefits of GST 2017 to Indian businesses

c. To offer suggestions to Government, policy makers, opinion makers and others on GST in order to use this for the introduction of a similar tax measure in the future

1.5 LIMITATIONS OF THE STUDY

There are limitations that need to be acknowledged and addressed regarding the present study. The first limitation concerns the 'rate war' nature of this study.

The study is limited to GST in Indian perspective. Hence, the result arrived from the study may or may not be applied to other countries.

The study is restricted to propose GST bill structure with respect to Central GST, State GST (S – GST), Integrated GST and Union Territory GST (UT – GST) laws.

Lack of clarity of some paradigms has led to its elimination, despite its assumed importance.

2 THE GOODS AND SERVICES TAX: SETTING REALISTIC GOALS & EXPECTATIONS

As per the current scheme of Constitution of India, 1949, only Central government has been empowered to levy duties on manufacturing of goods and taxes on supply of services. The Indian taxation landscape has been characterized by ambiguous legislation posing interpretational challenges. Dr. Vijay L. Kelkar Committee (Economic Survey (2004-2005) proposed a tax measure on An All-India goods and services tax (GST) regarded in 2004 by the Task Force on Implementation of the Fiscal Responsibility and Budget Management Act, 2003. The Kelkar Committee recommended that a tax reform on dual GST on the basis of a 'grand bargain' with States, subject to certain principles that will help foster a national common market.

In Budget 2006-07, Minister of Finance proposed implementation of Goods and Services Tax (GST) and the Indian government wants to roll out the new indirect tax regime from July 1 2017.

GST refers to goods & Services tax, which is a comprehensive tax levy on manufacture, sale and consumption of goods and services on national level. GST consists of Central GST (C – GST), State GST (S – GST), Integrated GST (I – GST) and Union Territory GST (UT – GST) laws. The objective of the new tax regime was to establish such a system that when goods and services flow across company, taxes are levied at a uniform rate and a single window. The GST will enable levy and collection of tax on intra-state supply of goods and services or both by the central government, which provides for the levy and collection of tax on inter-state supply.

2.1 PROS AND CONS OF GST IN INDIAN SCENARIO

GST is a single window form of Value Added Tax and it evades current multiple taxation regime that would subsume all the indirect taxes like Central Excise duty, Service tax and additional customs duties at the Central level, while at the state level it will replace VAT, Entry tax, local body tax, Octroi, Lottery tax and electricity duty except basic customs duty, across the states in India. It would be administered by both Central and State Governments. The GST rates remain same in all states and states cannot fix their own rates. Generally, the indirect taxes that are collected by state governments where the goods originate. Therefore, the collected GST will be shared by states with center and in return Centre will share the Service tax with the states.

Table 1.1Various Indirect taxes levied by the Central and State Governments before GST 2017

S.No	Tax	Levy by	Nature	Can be set –off against	Covered by GST
1	Central Excise	Centre	Manufacture	1,2	Yes
2	Service Tax	Centre	Providing Cervices	1,2	Yes
3	Customs	Centre	Import	–	No
4	CVD under Customs	Centre	Additional Import duty (compensating Excise / Countervailing Duty)	1,2	Yes
5	SAD under Customs	Centre	Additional Import duty (compensating sales tax / Special Additional Duty)	1,2	Yes
6	CST	Centre	Inter-State sales	-	Yes
7	VAT	State	Sales within a state	7	Yes

The existing taxation regime is marred by significant pros and cons:

FOR BUSINESS AND INDUSTRY

GST is one indirect tax for the whole nation; India is now bigger unified common market than European Union. GST compliance will make all tax payer services easy and transparent. It will ensure that GST rates and structures are common across the country. This would make doing business in the country tax neutral, irrespective of the choice of place of doing business. GST will replace 17 indirect tax levies and compliance costs will fall (ET Bureau (2016). The GST regime would motivate manufacturing to be competitive by ensuring the removal of cascading tax and it may reduce the veiled costs and ultimately motivate competitiveness of Indian goods and services in the international trade and industry.

FOR CENTRAL AND STATE GOVERNMENTS

The implementation of GST is based on national interest, a consensus-building reform affecting all factors of production and economy. GST is expected to decrease the cost of collection of tax revenues of the Government, and will therefore, lead to higher revenue efficiency. More and more state governments felt that the GST is a grand bargain with the states and it would help in uniform development of the nation and help their revenue. Inter-state procurement could prove viable and a flawless GST would trigger an increase in the government revenue and a surge in the Indian economy (Monika (2014). Since GST is a consumption based tax, the developing states get a lift and it shall create opportunities for others.

At the Central level, the following taxes are being subsumed into GST:

a. Central Excise Duty,

b. Additional Excise Duty,

c. Service Tax,

d. Additional Customs Duty commonly known as Countervailing Duty, and

e. Special Additional Duty of Customs.

At the State level, the following taxes are being subsumed into GST:

a. Subsuming of State Value Added Tax/Sales Tax,

b. Entertainment Tax (other than the tax levied by the local bodies), Central Sales Tax (levied by the Centre and collected by the States),

c.Octroi and Entry tax,

d. Purchase Tax,

e. Luxury tax, and

f. Taxes on lottery, betting and gambling.

FOR THE CONSUMER

The GST may benefit to the ultimate consumer in long run that the burden may be reduced. Services such as phone bill, internet packs, buying phone and jewelry, retail sales, restaurants and some parts of agricultural commodities shall get expensive as states have services under their net if they fix higher rates. At the same time buying like car, garments etc., may be economical and on ecommerce there can be a lower logistical cost and faster delivery.

The GST may will make common man's life better. Education, healthcare, pilgrimages, skill development and journalistic activities will continue to be out of the service tax net under GST. Electricity has also been kept out of the GST ambit. GST will not be charged on completed apartments and rental income received by a landlord. The other key benefits of GST implementation include, reduced logistics cost, supply chain efficiency, reduction in costs for tax & regulatory compliance, better penetration of markets and export effectiveness.

3 SUGGESTIONS

The current exemption of service taxes should continue on all national mission based projects like Housing for All by 2022 Mission should continue under GST regime. GST compliances will make the life of small traders challenging, a favorable tax rates would benefit the whole sale and the growth of the organized retail industry. The cascading impact on prices would continue as several products are out of GST base. Moreover, it will make impact not only on GST collections as well as on income tax collections. Multiple state wise registrations for service providers may bring a complex compliances, it is suggested that to have a single registration across the country. The bilateral frauds may not be detected under GST framework which challenges the tax collections. Appropriate measures such as training of employees, compliance under GST, customer education, and tracking of inventory credit are needed to ensure smooth transition to the GST regime. The government shall provide professional help to firms to prepare for GST impact on their bread and butter at free of cost.

The Indian experience with GST implementing shall provide the lawmakers a number of valuable lessons including political consequences, familiarity with national practices and institutions for efficient operation of the revenue structure.

4 CONCLUSION

The **Goods and Services Tax (GST)**, the biggest reform in India's indirect tax structure. Goods and Services Tax (GST) is an indirect tax which was introduced in India on 1 July 2017 and was applicable throughout India which replaced multiple cascading taxes levied by the central and state governments. It shall be a greater formalization of the economy and value migration from the unorganized to the organized sector. There is no free flow of goods and services in the country. World over, GST rates are typically between 16 per cent and 20 per cent (CBEC Sumit (2011).

The Goods and Services Tax (GST) has been one of the key things that have caught the attention of the market given its implications on earnings of companies. The government has kept a large number of items under 18% tax slabs. The government categorized 1211 items under various tax slabs. In India, it is on five broad slabs: 0 (the exempted category), 5%, 12%, 18%, and 28%. If the GST is properly implemented in its own form it will benefit the economy. A successful implementation of GST is significantly dependent on IT capability at the taxpayer level. Efforts will be required to change existing IT systems for GST enablement which could be complex, challenging and lengthy task for the IT department.

The passion of GST is its unique credit share and it will be known well once commodity-wise tax rates are fixed by the Central government. The new GST regime, may be the best possible and will be a great forward for India.

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