ijar
ISSN NO. 2320-5407

Journal Homepage: - www.journalijar.com

INTERNATIONAL JOURNAL OF ADVANCED RESEARCH (IJAR)

Article DOI:10.21474/IJAR01/4586
DOI URL: http://dx.doi.org/10.21474/IJAR01/4586

RESEARCH ARTICLE

REVIEWING THE DYNAMIC ROLL-OUT OF GOODS AND SERVICES TAX (GST) AND ITS IMPLICATIONS ON VARIOUS STAKEHOLDERS.

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Manuscript Info

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Manuscript History

Received: 24 April 2017
Final Accepted: 26 May 2017
Published: June 2017

Key words:-
GST, Indirect tax, GDP, Inflation, Stakeholders

Abstract

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In the backdrop of rise in growth prospects and government policies inducing a stable climate for doing business in the country, the Indian economy has been riding high among developing nations in the global context. The dynamic introduction of Goods and Services Tax (GST) and its successful roll-out from July onwards will propel the economy in a profound way and impact various stakeholders. The implications of GST on the economy will change the way businesses operate. The new indirect tax regime subsumes the erstwhile indirect tax on excise, service and sales, thus revolutionizing a uniform indirect tax rate throughout the nation. GST will greatly influence the functioning of different sectors in India.

This paper attempts to review the dynamic roll-out of GST and its implications on various stakeholders in the economy. In this light, the pros and cons of GST on the growth prospects of manufacturers, traders and consumers at large etc., has been reviewed and conclusion is drawn.

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Introduction:-

Taxation plays a vital role in revenue generation to the government. The two sources of tax namely direct and indirect tax differ based on the incidence and impact of tax falling on a person. Over the recent decades, major reforms in indirect tax system have been undertaken to change the complex structure of indirect tax in India. For instance, the central excise duty was replaced by Modified Value Added Tax (MODVAT) for certain commodities in 1986. Later, Value-Added Tax (VAT) was introduced in 1999. In 2011, GST reform was initiated by introduction of Constitution Amendment Bill on GST which is postulated as one of the dynamic reform in tax policies in the recent times. The concept of GST propagated as "One country, One tax" resolves the cascading effect of tax on the ultimate consumers. It will do away with all the hassles of multi indirect taxes levied by central and state governments. Excise, service and sales tax levied by central and state governments have been subsumed under the ambit of GST. It is the uniform tax levied across the nation on the supply of goods and services. GST will widen the tax base and bring everyone under the ambit of taxation. As India prepares for the roll-out of GST from July, 2017, it is worth pondering into its pros and cons to various businesses and stakeholders.

Objectives of the Study:-

- To explore the nuances of GST, assess its pros and cons.

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- To assess the implications of GST on various stakeholders of the economy.

An Overview of GST:-

The GST is a comprehensive indirect tax. Unlike, the present indirect system which levies tax on manufacture of goods and services, GST levies tax on supply of goods and services. It is a consumption based tax, where the incidence of tax falls on the consumer. It is essentially a Value Added Tax (VAT) whereby the credit of tax paid at each stage of the supply chain is set off at the next stage of addition in value. In India, the structure of GST is dual in nature with both Central and State levy on supply of goods and services, namely CGST and SGST. CGST and SGST is levied on intra-state supply of goods and services while IGST is levied on inter-state supply of goods and services. In the proposed dual Goods and Service tax (GST) system, the Central GST and the State GST would be independent of each other which implies that input tax credit available under the CGST could not used for SGST. Central and State Taxes which are subsumed under the GST are presented below.

Table 1:- List of Prevailing Central and State Taxes – Subsumed under GST

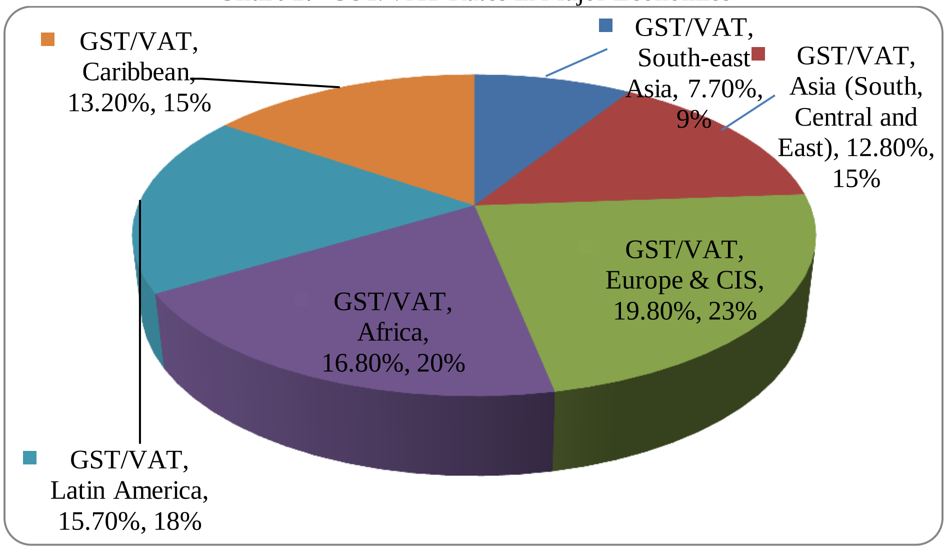
Central Tax	State Tax
Central Excise Duty	State VAT
Duties of Excise (Medicinal and Toilet Preparations)	Central Sales Tax
Additional Duties of Excise (Goods of Special Importance)	Luxury Tax
Additional Duties of Excise (Textiles and Textile Products)	Entry Tax (all forms)
Additional Duties of Customs (commonly known as CVD)	Entertainment and Amusement Tax (except when levied by the local bodies)
Special Additional Duty of Customs (SAD)	Taxes on advertisements
Service Tax	Purchase Tax
Central Surcharges and Cesses	Taxes on lotteries, betting and gambling
	State Surcharges and Cesses

Source: http://pib.nic.in/newsite/PrintRelease.aspx?relid=161273

Over 150 countries have implemented GST during the past decades. France was the first country to pioneer GST in their taxation system. India has followed the Canadian dual GST system. Few countries which had earlier implemented GST were wary about its success considering the inflationary spur in prices of goods and services. For instance, after implementing GST in 1994, Singapore saw rising levels of inflation. Nevertheless, Malaysian administrators were able to tackle the inflationary risk by preparing sector specific guidance on tax treatment for each sector. The success of GST lies in the hands of administrators who have to analyze the adaptability of businesses to GST in a short time frame. Indian policy makers could take cues from developed nations as to how to tackle the after-math of GST implementation and counter the contingencies in the future.

The dual structure of GST is likely to provide profound benefits when compared to the existing multiple indirect taxes. It is expected that the prices of goods and services will reduce in the near future as the incidence of tax rate in dual GST is much less compared to the existing mire of indirect tax rates. It would also foster greater efficiencies in supply chain, reducing the cost of supply of goods and services. Dual GST is implemented in federal countries like Brazil, Canada. Over the past decades, various countries have adopted VAT/GST rates which are levied on taxable value of goods and services supplied at different stages of supply chain. The GST rates prevalent in few major economies are presented below.

Chart 1:- GST/VAT Rates in Major Economies



Source: http://www.financialexpress.com/opinion/gst-rate-the-global-picture/348207/

The chart above portrays the varying rates of GST in different regions. It could be inferred that GST/VAT rates in South-Asian countries are comparatively lower than European, Latin American nations. Higher rates will impact the prices of goods supplied and greatly undermine the global comparative advantage of producers in a country. In case of China, the exporters are provided export credit and input subsidies which offsets the high VAT rate there. Countries like Malaysia have witnessed quite a wary situation in combating the revolt against high GST rate impacting consumers. In order to achieve competitiveness in global markets, determination of an effective GST rate involves strategic decision making as it affects all the spheres and overall economic growth.

In India, the GST slab rates have been fixed around zero tax, 5%, 12%, 18% and 28%. Government has categorized a total of 1211 items under the varying slab rates. Liquor, Petrol, diesel, natural gas, crude oil and electricity are exempted from GST. Gold and rough diamonds does not fall under the ambit of slab rates, which will be taxed at 3% and 0.25% respectively. Those workers in textiles and, gems and jewellery, working from home will be charged a 5% GST rate. Whereas, on outsourcing, these works will be charged an 18% standard rate. As the cascading effect on taxes gets reduced, the exporters will be benefited. As per the reports of National Council of Applied Economic Research, India's GDP will rise by 0.9 to 1.7% in the coming years. Sectors like Automobiles, Consumer durables, Logistics and Warehousing will have higher growth prospects. Few others like Real estate and Telecom could be plunging down as an outcome of rise in inflation levels. The table below portrays the classification of goods and services under the various slab rates.

Zero Tax	• Jute, fresh meat, fish, chicken, eggs, milk, butter milk, curd, natural honey, vegetables, fruits, flour, besan, bread, prasad, salt, newspapers, bangles, handloom,cereal grains hulled, palmyra jaggery, kajal, children's' picture, drawing or colouring books, human hair etc.
5%	• Footwear below Rs.500, Apparel below Rs.1000, packaged food items, coffee, tea, spices, kerosene,coal, medicines, nuts, dry fruits, frozen vegetables, bio gas, agarbatti, postage or revenue stamps etc., Railways, air transport, small restaurants
12%	• Apparel above Rs.1000, frozen meat products, butter, cheese, ghee, dry fruits in packaged form, animal fat sausage, fruit juices, ayurvedic medicines, tooth powder, agarbatti, umbrella, sewing machine, cellphones, ketchup & sauces, all diagnostic kits, exercise books and note books, spoons, forks, ladles, skimmers, cake servers, fish knives, tongs, spectacles, corrective, playing cards, chess board, carom board and other board games etc.
18%	• Footwear above Rs.500, cornflakes, pastries and cakes, preserved vegetables, instant food mixes, mineral water, tissues, envelopes, steel products, printed circuits, camera, speakers and monitors, aluminium foil, weighing machinery [other than electric or electronic weighing machinery], printers [other than multifunction printers], electrical transformer, CCTV, optical fiber, Bamboo furniture etc. attract 18% GST. Movie tickets below Rs.100, AC hotels, IT, branded garments and financial services
28%	• Bidis, chewing gum, molasses, chocolate not containing cocoa, waffles and wafers, pan masala, aerated water, paint, deodorants, shaving creams, after shave, hair shampoo, dye, sunscreen, wallpaper, ceramic tiles, water heater, dishwasher, weighing machine, washing machine, ATM, vending machines, vacuum cleaner, shavers, hair clippers, automobiles, motorcycles, aircraft for personal use

Chart 2:- Classification of Items under GST Slab Rates – A Quick Glance

Pros and Cons of GST:-

The implementation of GST has both benefits in a larger scale and detrimental effects on few stakeholders in the economy. A brief analysis of the pros and cons of GST is presented below.

Dynamic Facet of GST	Hassles in GST
Holistic Business outcome	Monopoly - power vested with Centre
Unified tax across the country	Quite a downside for certain states
Economical prosperity	Spur in inflation level
Widening of Tax base	Complicated – Dual Tax
Reducing the mire of indirect taxes	Revenue loss to the states
Benefits the society – reduction in price of essentials	Rise in rates of certain services
Efficiency in supply chain – competitive market	Burden on taxpayers
Reduce corruption	Lack of measures to tackle inflation
Improved inter-state trade	Multiple state registrations
Progress in tax compliance	Increased tax burden for SME's
Efficiency in Manufacturing of goods and services – reduction in production cost	Surge in operating cost
India will be placed in a better position globally	Complexity in business software comprehension
Reduction in administrative cost for Government	Hectic compliance procedures

Documenting the Outcome of GST on Various Stakeholders:-

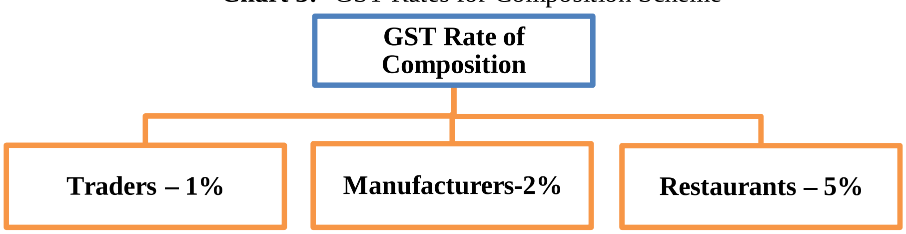
Central and State Governments:-

The implementation of Dual GST at centre and the state levels will be a major milestone in widening the tax base for revenue generation. In addition, tax compliance will get better in the GST system as an outcome of digitalization of tax payment that leads to a common registration at the national level facilitating integration with the income tax records. GST will have a collective impact on all the stakeholders like various industry groups, traders, agriculture, consumers as well as central and state governments. GST is predicted to improve the growth prospects of the country and in this light, the contribution of manufacturing and service sector towards GDP will improve drastically. For instance, the service sector has always been surging high at a faster pace than the manufacturing sector. As per the recent reports of Ministry of Statistics and Programme implementation, at 2011-12 prices, the Gross Value Added (GVA) growth rates of Agriculture, Allied Industry and Services sector have been reported to be 4.37%, 5.77%, and 7.87% respectively in the year 2016-2017. At current prices, the growth rates of the aforesaid sectors are 9.64%, 8.32% and 11.87% respectively. Moreover, the exemption of essential food articles from the ambit of GST, inclusion of informal sector and rise in tax rates on luxury goods will yield progressive results, generating more revenue to the government and enhancing their spending capacity. Also, it will revitalize the stability of the state resources as a result of widening tax base. The Indirect tax contribution to the total tax revenue is estimated to be 44.95% which is significant enough and the roll out of GST will contribute towards improving the tax compliance and potential revenue collection**.**

Manufacturers, Traders and Service Providers:-
As per the recent reports of Central Statistical Office (CSO), Growth of manufacturing is expected to plunge to 7.4% from 9.3%. With the roll-out of GST, Organizations will have to re-align and cull out strategies to reduce the cost of production, improve the value chain, logistics etc. to stay relevant and utilize the opportunities at stake to the maximum extent. The cascading effect of taxes will be lesser after implementation of GST regime which will be a catalyst towards reducing the processing, production, and logistics cost. Reduced cost will facilitate competitive pricing of goods which could be capitalized by the manufacturing and allied sectors. It will also foster a conducive environment for doing business in India, contributing towards generation of employment opportunities.

The new GST regime will eliminate the unproductive transit time exhausted by trucks requiring cumbersome paperwork and regulatory procedures accounting for more than 50% of the total transit time. This will in turn improve the efficiency of Indian manufacturing sector, making them more competitive in the future. It will also enable smooth supply of goods integrating the markets in the country. GST will provide greater relief to small traders, manufacturers and service providers whose annual turnover is below Rs.20 lakhs exempting them from paying GST. Also, composition scheme could be availed by those with annual turnover up to Rs.75 lakhs. In that case, the tax rates apply as illustrated below.

Chart 3:- GST Rates for Composition Scheme



Source: http://taxguru.in/goods-and-services-tax

Only restaurants could avail composition scheme under service sector. The traders who opt for composition scheme are required to file only one quarterly return furnishing details about total turnover. The tax compliance burden has been reduced with easier registration through online.

Whilst these benefits, the need of the hour lies in the efforts of businesses to make the necessary changes for tax compliance under GST. Likewise, the proposed Rs. 1 million thresholds for exemption leaves small and medium enterprises wary about their future providing less scope for them to sustain and compete with large enterprises.

Consumers at large:-
The tax burden of the consumers will be comparatively lesser after the implementation of GST. It is not far-fetched to state that the cascading effect of taxes under the current system of indirect taxes will be reduced as the prices of goods and services gets economical. Under GST regime, suppliers of goods could avail seamless credit, the benefit of which gets passed on to the consumers ultimately. The transparent tax structure in GST will prove beneficial as consumers get to know the elements of tax paid. The erstwhile dual levy of both service and VAT at the same time has been ironed out under GST.

GST will pronounce more transparency in real estate dealings. The process of real estate transactions will get less complicated where both buyers and developers would be benefited. On the upside, the cost of under-construction properties may come down as an outcome of 12% GST with full input tax credit compared to the service tax of 15% levied earlier. On the whole, the availability of input tax credit on raw materials for construction will lower the overall project cost. These would prove to be positive towards housing demand when developers pass on the benefits to the ultimate buyers.

Additional cess would be levied on certain goods and services like Tobacco, Aerated water, Motor cars which will increase their cost of purchase. On the downside, the costs of certain services are likely to increase by 3% dampening the demand for these in the longer run.

Scope for Further Research:-

- A comparative study on Single and Dual GST structure.
- Implication of GST on economic indicators like inflation, GDP, Foreign exchange etc.
- SWOT analysis of GST on various sectors, impact on FDI.

Conclusion:-

The implementation of GST will strengthen the position of India on a higher scale globally. The roll-out of GST will promote efficiency and transparency in the supply chain operations, promoting trade and commerce. In the global context, India will become a common market facilitating the export of products and services on a large scale. Moreover, automation in processing tax returns through “GST-Network” (GSTN) will prove productive enough, improving tax compliance and reduction of money laundering through illegal activities. Investors will be benefited to a larger extent as their capital will be productively used by companies in the longer run. GST will also contribute towards the growth of various industries like Consumer Durables, Automobile, Logistics and Warehousing etc. Few sectors like Real Estate, Telecom could be affected as an outcome of GST spurring inflation. Nevertheless, both the Centre and States would be benefited generating higher returns in the coming years. The need of the hour is proactive role of the Government to educate the various stakeholders about the nuances of GST and create awareness about its pros and cons for its successful implementation contributing towards enhanced growth prospects of the nation.

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