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SWOC ANALYSIS OF GOODS AND SERVICES TAX (GST): IMPLEMENTATION IN INDIA

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Abstract:

Goods and Services Tax (GST) is a type of indirect tax and it is one of biggest reform in Indian tax structure. The Goods and Service Tax Bill or GST Bill, officially known as The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014. 16 years wait is almost finished when Rajya Sabha and Lokh Sabha passed 'The Goods and Service Tax Bill' in the month of August, 2017. Good and Service tax is also known as 'National Value Added Tax'. India is a developing country; the main source for income is coming through tax levied on the individual on the purchase of goods or services, now the question is goods and service tax is favorable or unfavorable to Indian society and economy? A country's development is highly depends with taxation structure and collection of money from tax as revenue. Fiscal policy will play big role in deciding tax system. Reform in tax system reduces level of inflation and boost up the level of development. Most of the Developed and Developing Asian countries already implemented Goods and Service Tax system and noted benefits of implementation. As per foreign country sources this tax system is already friendly in nature to Workers and Public. In India already all states are accepted this tax bill. In India Goods and service tax impact on Sectors/Companies like Banks, Consumer staples, Consumer Discretionary, Media and entertainment, Telecom, Auto and Auto ancillary, metals, cement, Pharma, Real Estate etc. Some sectors may face negative impact due to rice in tax price. Likewise, some sector will face positive impact fall in tax price.GST is one indirect tax for the complete nation, which will make India one unified common market. The paper having objective that presenting the importance of Goods and services tax in the Indian Economy, its impact and the future prospect for product and service industry in India. The collected is secondary based from the various publications, books and websites.

Index Terms: Goods and services Tax, Implication of GST, SWOC Analysis of GST, Socio-Economic Effects & Calculation of GST

1. Introduction:

The Government needs money for the performance of a variety of functions. Funds required to finance its activities are raised from various sources. The income of the government through all sources is called public income. A welfare government is therefore justified in raising large revenue from its people. It is an essential fiscal treasure for achieving social justice and economic equality. Taxation constitutes the most important source of revenue for the government. Tax revenue refers to the funds raised by the government from all kinds of taxes. Taxes have been classified on the basis of form, Direct Taxes and Indirect Taxes. A direct tax is that whose burden is borne by the person on whom it is levied. An indirect tax paid by one individual, but the burden of which is borne by another individual is referred as indirect tax. Tax system plays an important role in National Growth. For the development of economy, indirect tax plays a very important role and its effects on both production and consumption. In India also various indirect taxes are source of Income. At present Indian government decided to modernize and streamline its indirect taxation pattern. There are several indirect taxes are their which already succeeded in several countries by implementation. In the indirect taxes Goods and Services Tax is popular. In India VAT (Value Added Tax) is presently popular indirect tax. Our Nation having well developed tax structure with clearly demarcated authority between Central government, State government and local bodies. In recent years, central government is trying to reform the tax system. In this reform Goods and Services Tax implementation plan will be a biggest revolution under indirect tax system. Goods and Service Tax bill is known as The Constitution (One hundred and Twenty – second amendments) Bill, 2014. This bill is enacted by Rajya Sabha on 03/08/2016 and in Lok Sabha 08/08/2016. This national value added tax to be implemented in India from 01/04/3017. Goods and Service Tax is applicable throughout the country will be effected on Production, Sales and Consumption of goods and services. This tax will replace most of indirect taxes levied by central and state governments. For the first time France introduced this indirect tax in 1954. Its nearly took 62 years to enact GST in India. This paper contains what is Goods and Service Tax? Implication, Strength, Weakness, Opportunities and Challenges of Goods and service Tax.

2. Objectives of the Study:

- ✓ To identify what is Goods and Service Tax?
- ✓ To find what are Specialties of Goods and Services Tax?
- ✓ To study Dream of GST and Development in India
- ✓ To analyze the Need for GST
- ✓ To search Advocacy of GST
- ✓ To know what are strengths, weakness, opportunities and challenges

3. What is Goods and Service Tax?

GST stands for "Goods and Services Tax", and is betoken to be a champaign indirect tax effects on manufacture, sale and usage of goods with services at the national level. It will modify all present indirect taxes levied on goods and services by the both Indian Central and State governments. Governments need to manage daily expenses and to start public development programs. For this purpose government collects huge fund by charging different indirect taxes. Tax income is a biggest source of income for any developing country. Money collected from tax is utilized to fulfill the public needs.

Normally Economic Activity means production of goods and services and distributing it to desired customer. Large number of goods and services required to satisfy human basic needs. Here Manufacturer converts human needs into goods and services, Consumer will be satisfied by utilizing goods and services. But Central and state governments interferes trade between manufacturer and customer by imposing tax on goods and services. This tax will effect on products demand and supply. Presently, Central and State government both are levying tax on goods and services with different heads. But Goods and Service Tax is the only tax which brings uniform in Indirect tax. Goods and Service Tax is a single tax on supply of goods and services, right from the manufacture to the consumer. Credits of input taxes paid at each stage will be obtained in the following stage of value addition, which makes Goods and Service Tax essentially a tax only on value additionally included at each stage. The final consumer will thus bear only the Goods and Service Tax charged by the last distributer in the supply chain, with set-off benefits at all the previous stages.

4. What are Specialties of Goods and Services Tax?

India is one federation system. In here Central and state governments both having a special rights to impose tax. Indian constitution permitted this right to both the governments. This permission is became obstacle for implementation on Goods and Services Tax. Reason, state government imposes tax on different goods and services with their propensity. On that reason price of a particular product will be different in different states. This situation leads to disinvestment by domestic and foreign investors. Presently, more than 10 taxes are imposed by the both central and state government. Tax rates in between states are different. This will lead confusion regarding fixing price for a particular product. Reason, Entrepreneur needs to analyze different tax rates of different states before fixing the price and distributing any particular product. After analyzing tax system it's difficult to remember also. If Goods and Services Tax is implemented all current indirect taxes imposed by central and state government will be abolished. Now Entrepreneur, were no need take deep calculation regarding prices of their products. Reason, Goods and Services Tax brings uniformed tax in central and state level, which means no different tax in different states, so entrepreneur no need to remember different taxes while fixing the price. In consumer point of view, after Goods and Service Tax most of products prices will come down. Assume that, At present some products tax rat up to 30%. If Goods and Service Tax is implemented this tax rate will come down.

5. Dream of GST and Development in India:

In 2000, Atal Bihari Vajpayee started thinking on the GST. He made a committee headed by the finance minister of West Bengal, Asim Dasgupta, to draw the GST model and put in place the back-end technology and logistics for its implementation. Dasgupta stayed as the chairman of the committee until 2011. In 2004, Vijay L. Kelkar, advisor to the finance ministry, said that present tax system headed large number of drawbacks. It suggests a good GST. In February 2005,in his budget speech for financial year 2005-06, the finance minister Palaniappan Chidambaram said about its better goods and services tax, surround and hold within both the centre and the states. In February 2006 Chidambaram assured the date of implementation of GST on April 1, 2010. In November 2006, Parthasarthy Shome, adviser to finance minister Chidambaram, stated regarding various reform measures to implement GST. In February 2007, the union budget for 2007-08 confirmed April 1, 2010 as a exact date for implementation of the GST. In February 2008, while reading out the union budget for 2008-09, the finance minister Chidambaram said on progress in preparing a roadmap to introduce the Goods and Services Tax. In July 2009, India's fresh finance minister, Pranab Mukherjee, stated the basic structure for the GST. November 2009, the committee under Asim Dasgupta released first discussion paper on the GST. February 2010, the government started a mission-mode project for the computerized system of commercial taxes in states. This becomes foundation for GST. So, the GST implementation is postponed to another year. March 2011, Congress government made a constitution amendment bill in the Lok Sabha to implement GST. Bill was examined by standing committee, Lok Sabha and Rajyasabha. In June 2012, the standing committee begins discussion on GST bill. November 2012, Finance minister Chidambaram made meetings with state finance ministersto solve all issues. February 2013, In the budget speech, Chidambaram assured within several months GST bill's all issues will be solved. August 2013, The standing committee submits its report to parliament. 'Bill was not perfectly drafted' is result of report. October 2013, The Narendra Modi-ruled state of Gujarat opposes the bill. May 2014, Narendra Modi's government came into power. Seven months later, India's new finance minister, Arun Jaitley, introduces the bill in the parliament. In February 2015, In his budget speech, Jaitley announces that the government definitely implementing the GST by April 1, 2016. Due to oppose by opposition party now implement date postponed to April 1, 2017. In August 2016, both Rajyasabha and Loksabha passed the GST bill. Still today, not all state governments accepted GST tax system. GST committee is trying to convince all unaccepted state governments.

6. Needs of GST:

Due to lack of modernized domestic indirect tax structure India's economic growth has been fallen and there is stagnation in Indian exports. The strenuous tax structure disappoints economy of scale and efficiency in the supply chain which has unfavorable impact on economic growth. As the present world economic condition, there is a situation need to replace the present tax structure by logical Goods and Service Tax covering all affairs on goods and services. By the co-ordination of goods and services taxation India will get a premium class tax system and tax collections will also show growth. Allusion of a GST to migrate the existing multiple tax structures of Centre and State taxes are not only necessary course of action but imperative in the emerging economic environment. Increasingly, services are used or consumed in production and distribution of goods and vice versa. Separate taxation of goods and services often requires dividing of transaction values into value of goods and services for taxation, which leads to greater complication, management and compliances costs. Integration of various taxes into a GST system would make it possible to give full credit for inputs taxes collected. GST, being a intent - based consumption tax based on VAT principle, would also highly help in removing economic distorting and will help in growth of a common national market. The indirect tax ameliorates has to address the aspect to realize full economic potential of India, the aspects are, Multiplicity of taxes, Lack of co-ordination, Bias in incidence of taxes, Complexity and corruption, Lack of built-in elasticity and Administrative inefficiency and corruption.

7. Advocacy of GST:

VAT is already successful tax structure; there are still certain drawbacks in the structure of VAT, both at the Centre and at the State level.

Advocacy at the Central Level: Presently, excise duty paid on the raw material consumed is being permitted as input credit only. For other taxes and duties charged for post-manufacturing expenses, there is no strategy for input credit under the Central Excise Duty Act. Payment of Service tax for credit is being permitted manufacturer/ service provider to a limited vastitude. In order to give the credit of service tax paid in respect of services consumed, it is needed that there should be a Champaign system under which both the goods and services are covered. At now, the service tax is put on restricted items only. So other large number of services could not be taxed. It is to minimised the effect of cascading of taxes, which means tax imposed on taxes.

Advocacy at the State Level: A major problem under the State VAT is that the State is levying VAT on the excise duty paid to the Central Government, which goes in opposition to the principle of not imposing tax on taxes. In the present State level VAT scheme, Cenvat permitted on the goods remains comprised in the value of goods to be taxed which is a cascading effect on account of Cenvat element. Many of the States are still going with various types of indirect taxes, such as luxury tax, entertainment tax, etc. As tax is being levied on goods transfer between inter-states, there is no provision for taking input credit on CST leading to additional burden on the dealers.

8. Goods and Services Tax – Features:

- ✓ Goods and service tax will be imposed to all transactions of goods and service.
- ✓ Payment accounts of Central and State governments are separate in GST tax.
- ✓ The terms for collecting and using of Central GST and the State GST credit would be arranged.
- ✓ Cross using of ITC between the Central GST and the State GST would not be permitted other than the case of supply of goods within inter-State.

- ✓ The Centre and the States would have concurrent enclosure for the total value chain and for each and every taxpayer on the basis of chiefs for goods and services set down as rule for the States and the Centre.
- ✓ The taxpayer would need to submit usual format for timely returns, to both the Central and to the worried State GST authorities.
- ✓ Each taxpayer would be portioned and given a PAN-linked taxpayer number of identification with a total of 13/15 digits.

9. Chargeability of Tax under GST:

GST will be replaces present Excise Duty and other taxes. There will be two equal Statutes one at the Centre and other comes under the respective State GST Act which governing the tax liability of the same transaction. All the transaction items of goods and services are proposed to be covered and exemptions will be allowed to several selected items. After implementation of GST, all the traders should pay both the types of taxes Central Goods and Services Tax and State Goods and Service Tax.

10. Taxable Person:

GST will impose on all types of persons carrying on business activities; they are manufacturer, job-worker, trader, importer, exporter, all types of service providers, etc. If a company is maintaining four branches in four different states, under each jurisdiction of state governments all the four branches will be taken as a taxable person. All the dealers or business firms will have to pay both the types of taxes on all type of transactions. A dealer or distributer must get registered under CGST as it will make him entitle to claim Input Tax Credit of Centre Goods and Service Tax thereby attracting buyers under B2B transactions. In Foreign Trade importers have to register under both Centre GST and State GST as well.

11. Model of GST:

The dual GST model put forwarded by the Empowered Committee and recognized by the Centre will have dual system for levying the tax. GST shall have two vehicles i.e.

- ✓ Central GST
- ✓ State GST

12. Subsuming of Existing Taxes:

Free flow of tax credit by sub-sumation should result in intra and inter-State levels so that unwanted taxes, levies and fees are not be included under GST.

Subsumed under CGST	Subsumed under SGST
Excise Duty-Medicinal and Toiletries Preparation Act	Entertainment tax (unless it is levied by the local bodies).
Central Excise Duty	VAT / Sales tax
Additional Excise Duties	Taxes on lottery, betting and gambling.
Service Tax	Luxury tax
Additional CVD	State Cesses and Surcharges (supply of goods and services)
Special Additional Duty of Customs - 4% (SAD)	Entry tax not in lieu of Octroi
Surcharges	
Ceses	

13. Taxes that May or May Not Be Included:

There are several other indirect taxes that may or may not be included under the GST system as there is no general agreement among States and Centre & States –

- ✓ Vehicle Tax
- ✓ Electricity Duty

- ✓ Purchase tax
- ✓ Stamp Duty
- ✓ Other Entry taxes and Octroi

14. Rate of Tax:

There will be a two-rate structure under GST in that one for lower rate for all necessary goods and goods of basic significance and a standard rate for items in general. There will also be a special rate for precious metals and a list of exempted items. Second one for precious metals with special tax rate. The GST tax rate expected under CGST and SGTS are 8%, 12%, 18% and 26% as per the features of items. It is clearly states that the Government is considering fixing the revenue neutral rate of GST at a rate between 18% to 26%.

How GST shall be calculated?

Basic: Say GST is 10%

GST Involves 3 Steps:

Stage 1: Production Stage

Let's assume that a producer of shirts buys raw materials like cloth, thread, buttons and other equipment that is required to stitch the shirts. This raw material costs the producer Rs. 100 includes a 10% tax of Rs. 10. Once the shirt is made, the manufacturer has added his own value to the input material. As a part of this example, if one were to assume that the value added is Rs. 50, than total cost of the shirt is now Rs. 150 (Rs. 100 +Rs. 50). With a 10% tax rate, the tax on this shirt would be Rs. 15. However, since the manufacturer has already paid Rs. 10 as tax while purchasing raw material, under GST the tax applicable will now be only Rs. 5(Rs.15-Rs.10).

Stage 2: Wholesaler Stage

Now, the wholesaler would buy the shirts at Rs. 150 and he keeps some margin on it to make profit. Assuming that the margin is kept at Rs. 50, the cost of the shirt now becomes Rs. 200. Applying the same 10% principle, the tax would amount to Rs. 20. But out of this Rs. 20, Rs. 15 is already charged from stage one. So the effective tax applicable for the wholesaler would be Rs. 5(Rs. 20 – Rs. 15).

Stage 3: Retailer Stage

Now that retailer has purchased the shirts at Rs. 200, again he would like to keep some margin as a profit. Say Retailer decides margin as Rs. 30. The total cost now becomes Rs.230. Using the 10% rule; the tax would be Rs. 23. However, with Rs. 20 already charged for in earlier stages. The tax applicable would be Rs. 3(Rs. 23 – Rs. 20)

15. Overall GST Calculated:

To sum up, the total GST for entire chain, from producer to retailer is Rs. 23 (10+5+5+3).

The suppliers of inputs would be able to claim no tax credit; given the fact that they have not purchased any item.

GST Impact on Sectors/Companies in a Nutshell:

Assumed GST rate is 18%

Sectors/Companies	Current Tax	After GST	Impact
Banks	15%	18%	Negative
Consumer Staples	22%	18%	Positive
Consumer Discretionary	15%	18%	Negative
Media and Entertainment	22%	18%	Positive
Telecom	15%	18%	Marginal Dip
Auto and Auto ancillary	27%	18%	Positive
Metals	18%	18%	No Significant Impact
Cement	27%	18%	Positive

Pharma	15%	18%	Negative
Real Estate	15%	16%	No Significant Impact

Petrol and Diesel have not been brought under GST and rightly so. India is importing petrol and diesel. The import bill still runs into crores of dollars and these two are fossil fuels, bound to be exhausted sometime in future. Already price of natural rubber has reached bottom, adversely affecting the cultivators.

16. SWOC Analysis of GST:

Strength of GST:

- ✓ Tax system gets simpler by replacing 17 indirect taxes
- ✓ Revenue of Central and State government get boosted.
- ✓ Tax exempt goods number will declaim
- ✓ Common market situation will be created in-between different states.
- ✓ Rise in the capital goods investment due to drop in cost of capital goods.
- ✓ Less developed states will be lifted by creating national market and wide opportunities.
- ✓ Manufactured goods could become cheaper for customers.
- ✓ GDP growth will show upper trend.
- ✓ E-Commerce business will boost up by abolishing state restriction and levies.

Weakness of GST:

- ✓ GST Taxation principle will change from 'origin-based' to 'destination based'.
- ✓ GST will not satisfy the specific needs of a state.
- ✓ The GST Council will face huge problems to solve any disputes among the States.
- ✓ The GST will be not applicable for tax on electricity, petroleum products, stamp duty on immovable property, and alcoholic liquors.
- ✓ If price of Goods and Services falls due to GST that lead to increase in purchase power this will cause for inflation.

Opportunities of GST:

- ✓ GST will wind up cascading effects it will be a great contribution to Business and Commerce
- ✓ Multiplicity of taxation is Removed
- ✓ Single point tax favorable for entrepreneur to concentrate on business rather than different taxes
- ✓ GST will reduce consumer average tax burden
- ✓ One of biggest reform in Indian tax structure
- ✓ GST will escalate Revenue of Central government and State government. This revenue will be utilizable for more public development scheme.

Challenges of GST:

- ✓ Deciding Tax Threshold limit is biggest challenge in GST. Reason First Impact is best impact.
- ✓ GST will become leader of all indirect taxes. So deciding CGST and SGST rate is also one challenge
- ✓ Challenge in respect of number of enactments of statutes. Presently two types CGST and SGST.
- ✓ Decision regarding necessity of fund from GST
- ✓ Challenges to solve GST disputes between different states.
- ✓ Management of GST tax system and Infrastructure.

17. Conclusion:

Goods and service tax will be a biggest reform in Indian Tax structure. GST shown different type of benefits in different countries but in India VAT is already beneficiary for both state and central government so GST will also become beneficiary to both circles. It is hard to say whether GST is purely positive for all participants. As per an over view after implementing GST prices of several goods will come down. But when prices of goods comes down people will buy more, this may cause for inflation. It took nearly 15 years to enact a bill due to political and other regional issues. Still many state governments are not happy with new tax structure. As per Expectation several goods and purchases to become cheaper with the exception of liquor, tobacco and fuel. While many industries are expected to be benefited, the entertainment industry may be a big winner as it will significantly bring down the 27 per cent entertainment tax. GDP will be expected to escalate after introduction of GST. However, with the passage of the GST Bill, the government will have to put up a mad scramble to put together all the mechanisms and state approvals in place to implement the GST by its rollout date of April 1, 2017.

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