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SHORT TERM AND LONG TERM EFFECT OF GST

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Abstract

Goods and Services Tax popularly known as GST is an Indirect tax. Goods and Services Tax (GST) is most ambitious and biggest tax reform plan, which aims to stitch together a common market by dismantling fiscal barriers between states. It is a single national uniform tax levied across India on all goods and services. In GST, all the indirect taxes will be subsumed under a single regime. This researchpaperhighlightsinternational scenario, theShort Term and Long Term Effect of GSTintheIndianTaxSystem.

Keywords: GST in India, models of GST, Direct tax, Indirect tax

Introduction

Goods and Services Tax is a comprehensive, multi- stage, destination-based tax that will be levied on every value addition. Goods and Service Tax (GST) implemented in India to bring in the 'one nation one tax' system, but its effect on various industries will be slightly different. The first level of differentiation will come in depending on whether the industry deals with manufacturing, distributing and retailing or is providing a service.

The **Goods and Services Tax** (GST) is a value-added tax levied on most goods and services sold for domestic consumption. The GST is paid by consumers, but it is remitted to the government by the businesses selling the goods and services.

GST is most ambitious and biggest tax reform plan, which aims to stitch together a common market by dismantling fiscal barriers between states. It is a single national uniform tax levied across India on all goods and services. In GST, all the indirect taxes will be subsumed under a single regime. The GST taxation laws will put an end to multiple taxes which are levied on different products, starting from the source of manufacturing to reaching the end consumer. GST works on the fundamental Principle of “One Country One Tax”.

Brief Timeline of GST

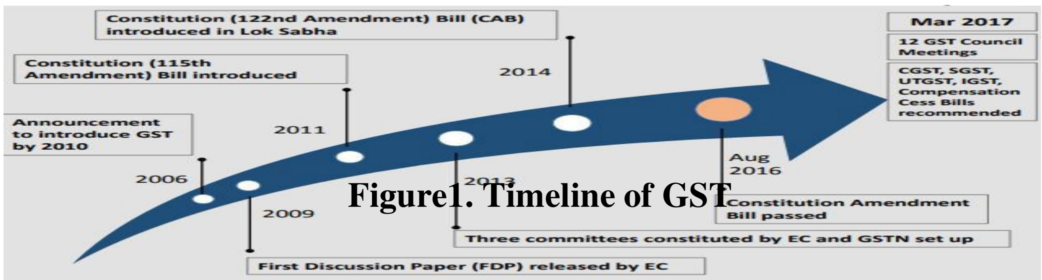


Figure1. Timeline of GST

Figure number 1 explain journey of GST right from its announcement to its approval in LokSabha and Rajya Sabha and its final implementation.

Objective of Study

The study has following objectives:

1. To cognize the concept of GST
2. To understand the model of GST
3. To overview international Scenario of GST.
4. To Study Positive and Negative Impact of GST
5. To Study Short Term and Long Term Effect of GST

Existing Indirect Tax Structure in India

A. **Central Taxes**	1. Central Excise duty 2. Additional duties of excise 3. Excise duty levied under Medicinal and Toiletries Preparation Act 4. Additional duties of customs (CVD & SAD) 5. Service Tax 6. Surcharges &Cesses

B. State Taxes	1. State VAT / Sales Tax 2. Central Sales Tax 3. Purchase Tax 4. Entertainment Tax (other than those leviedby local bodies) 5. Luxury Tax 6. Entry Tax (All forms) 7. Taxes on lottery, betting & gambling 8. Surcharges &Cesses

Figure2. Existing Indirect Tax Structure in India

Introduction of GST will replace all above mentioned Central and State Taxes.

ModelsofGST

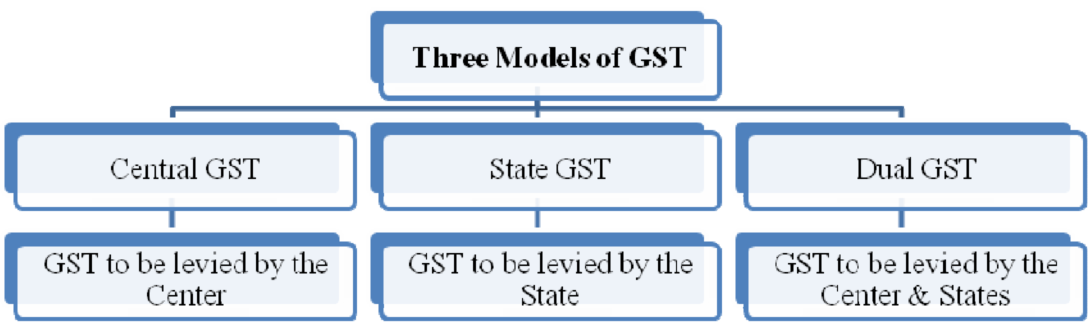


Figure 3.ModelsofGST

1. For Intra State Transactions: In case of Intra State transactions, Seller collects both CGST & SGST from the buyer and CGST needs to be deposited with Central Govt. and SGST with State Govt.
2. For Inter State Transactions: Integrated Goods and Service Tax (IGST) shall be levied on Inter State transactions of goods and services which are based on destination principle. Tax gets transferred to Importing state. Moreover it is proposed to levy an additional tax on supply of goods, not exceeding one percent, in the course of inter-state trade or commerce, to be collected by the Central Government for a period of two years, and assign to the States where the supply originates. Exports and Supplies to SEZ units will be zero rated.

3. Under this total amount of GST for any goods or service will be distributed in both State and Central exchequers.

Example of GST Calculation

Let us assume that the GST is set at 5% Suppose that the manufacturing cost of a Product A is 100 and assuming a GST of 5% the total amount is Rs. 105 The next step of taxation would be when the Product is sold to consumers, let's say at a price of 150. So the GST will charge another 5% on just the difference of Rs. 150 and Rs. 105 i.e. only 5% on Rs. 45 which is equal to Rs. 2.25. So the final price is Rs. 150 + Rs. 2.25. Unlike the case of petrol pricing there is no tax on a tax now. This eliminates the cascading effect of taxes which is very prevalent in our economy and has been simplified to an elemental level in the example. Since the GST will be applied at every step of value creation it will be very difficult for black money owners to participate anywhere in the value chain with the GST without accounting for all other transactions.

Tax Slabs of GST

Source: Times of India **Figure4. Tax Slabs of GST**

We can see from figure 4 that originally goods and services were classified under five different Tax Slabs. Some products were exempted from GST or we can say were placed under O% tax slab and Maximum Slab was 28%. However, quite frequently some goods were shifted from one tax slabs.

International Scenario

In the 1954, France became the first country to adopt the GST. More than 150 countries have introduced GST/National VAT in some form. It has been a part of the tax system in Europe for the past 50 years and is the preferred form of the indirect tax in the Asia-Pacific region. There are different models of GST currently in force, each with its own peculiarities. While country such as Singapore virtually taxes everything at a single rate, some countries have more than one rate (a zero rate, certain exemptions and higher and lower rates). Brazil and Canada follow a dual system where both Union and State Governments levy GST. In some countries it is recoverable only on goods used in the production process and specified service. GST in China is applicable only to goods and the provision of repairs, replacement and processing services. The standard GST rates in most of the countries ranges between 15-20%. Challenges: In addition to the passage of the Bill, it is also imperative to have a robust country-wide IT network and infrastructure to make the implementation seamless. The IT network work is still in progress. The most important issue on which consensus eludes states and the Centre is regarding the states. States also fear that they will suffer heavy revenue losses. There are certain state specific issues. For example, Maharashtra, earns more than 13,000 crore annually from octroi. Gujarat, on the other hand, earns about 5,000 crore from the CST. Agrarian states such as Punjab and Haryana earn more than 2,000 crore from purchase tax. Each of these states fears that they will lose these revenues once these levies get subsumed under GST.

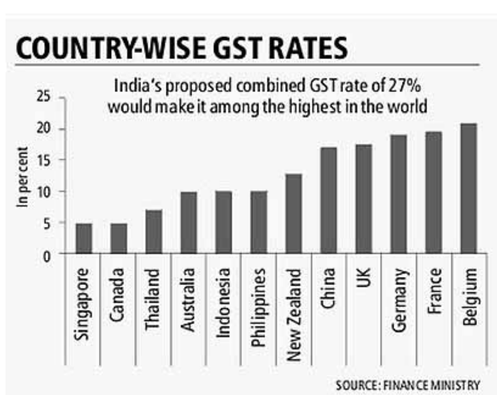
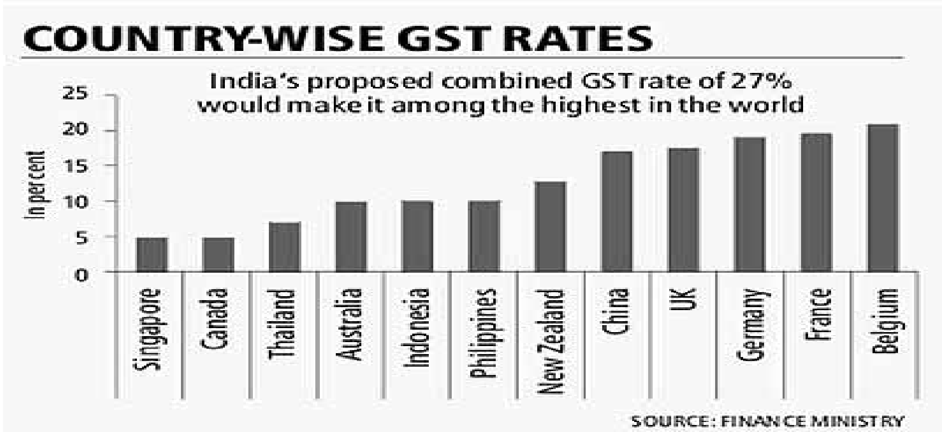


Figure 5 Country-wise GST Rates



GST will Improve Ease of Starting a Business in India

While starting a new business in India, businesses currently have to get VAT registration from the State's Sales Tax department. Since, each State has different procedures and fees for VAT registration, it is hard for businesses operating in multiple States to obtain and maintain compliance with VAT regulations. With the implementation of GST in India, the procedure for GST registration would be centralized and standardized similar to service tax registration. Under GST regime, business would no longer have to obtain multiple VAT registration – as a single GST registration would be applicable across India. The procedure for obtaining GST registration would also be standardized, thereby improving the ease of starting a new business in India.

Integration of Multiple Taxes in GST Currently goods and products are taxed under the VAT regime implemented by State Government and services are taxed under the service tax regimen implemented by the Central Government. As VAT is implemented by State Governments, each of the State has different VAT rates, VAT regulations and VAT procedures – leading to complications. Further, in addition to VAT and Service Tax, there are various other tax regulations that businesses must comply with like Central Sales Tax (CST), Additional Customs Duty, Purchase Tax, Luxury Tax, etc.,

Positive Impact of GST

All most every industry body are "fully prepared" for implementation of the new indirect tax regime, while commending the government's efforts towards its roll out. The nation wide GST will overhaul India's convoluted indirect taxation system and unify the over $2 trill on economy with 1.3 billion people into a single market.

The medium-term impact of GST on macro economic india calories pecked to be extremely positive. Inflation will be reduced as cascading of taxes will be eliminated. Assoc ham president Sandeep Jajodia said India would move many notches up the global ease of doing ladder by this single, but the most important tax reform inthe country.

Negative Impact of GST

India has adopted dual GST in seta do finational GST. It has made the entire structure of GST fairly complicated in India. The centre will have to coordinate with 29 state sand 7 union territories to implement such tax regime. Such regimes likely to create economic as well as political issues. The states are likely to lose the say in determine grate since GST is implemented. The sharing of revenues between the states and the centre is still a matter of contention with no consensus arrived regarding revenue neutral rate. Pre GST service tax of 15%, which would increase to 18-20% in post GST. Hence, although prices of goods and products can come down, service industry will bear the brunt of higher taxes. Air travel, hotels would become more expensive. Currently, economy class tickets are taxed 6% and non-economy class tickets are charged 9%. Once GST is implemented, it would increase to 18%, there by leading to direct increase of 9-12% tax onthe tickets. Unless the airlines absorb this increase, the additional tax has to be paid by the consumer.

Short Term Effect

(a) Internationally it is seen as attempt to rationalise tax structure by providing for

(i) Levy of tax by Central and State Government on same transaction

(ii) Providing seamless credit

(iii) Uniformity of tax rate

(iv) Do away with obtaining of various forms

(b) Disruption in production in month of May & June 2017 – Problem created due to provision of Transitional Credit.

(c) Frequent changes in rate has led to substantial problem to retailer

(d) Issues relating to functioning of postal

(e) Increase in working capital due to non-availability of refund

Long Term Effect

(a) Reduction in parallel economy – more measures are required

(b) Increase in GDP as all transactions will now get recorded in books. This will include barter transaction

(c) Reduction in corruption – due to maximum compliance through electronic means

(d) Removal of border check post – will increase turnaround of transporter

(e) Tax structure is rationalised

Conclusion

The government is trying to smoothen the road to GST. There are approximately 140 countries where GST has already been implemented. Some of the popular countries being Australia, Canada, Germany, Japan, and Pakistan, to name a few. It is important to take a leaf from global economies that have implemented GST before us, and who overcame the teething troubles to experience the advantages of having a unified tax system and easy input credits. Even in a country like Singapore, it took four years for GST to get stabilized. Implementation of GST impacts a nation both ways, positively and negatively. Ignoring negative aspects, positive aspects can be taken into consideration, in order to improve the economy of the country. Goods and Services Tax (GST) has made doing business easier for traders by expanding the market place and reducing tax compliance burden. In order to measure the Impact the GST we need to wait for some more time and the Government needs to communicate moreand more about the systems .It could be a good way to reduce the black money and good effort by the Government of India after the Demonetization of the money in 2016.

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