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IMPLEMENTATION OF GST IN INDIA: A PATH FOR FUTURE GROWTH

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ABSTRACT

The GST is a Value added Tax (VAT) is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. It will replace all indirect taxes levied on goods and services by the Indian Central and state governments. India's biggest tax reform is now a reality. A comprehensive dual Goods and Services Tax (GST) has replaced the complex multiple indirect tax structure from 1 July, 2017. The concept of GST was visualized for the first time in 1999. On 8 August, 2016, the Constitutional Amendment Bill for roll out of GST was passed by the Parliament, followed by ratification of the bill by more than 15 states and enactment of the bill in early September. In this research paper I will discussed the basic concept of GST rate classification for goods, what GST brings with it? I also highlighted EY advantages, business impacts, destination principles, key imperatives for companies and finally I concluded the main effects of GST on Basic things.

***KEYWORDS**: VAT, GST, EY Advantages, Rate Classification for Goods, Indirect Tax, Growth.*

Introduction

The Lok Sabha has finally Passed the Goods and Services Tax Bill and it is expected to have a significant impact on every industry and every consumer. Apart from filling the loopholes of the current system, it is also aimed at boosting the Indian economy. This will be done by simplifying and unifying the indirect taxes for all states throughout India. India's biggest tax reform is now a reality. A comprehensive dual Goods and Services Tax (GST) has replaced the complex multiple indirect tax structure from 1 July 2017. The concept of GST was visualized for the first time in 1999. On 8 August 2016, the Constitutional Amendment Bill for roll out of GST was passed by the Parliament, followed by ratification of the bill by more than 15 states and enactment of the bill in early September. The GST Council consisting of representatives from the Central as well as state Government, met on eighteen occasions in last ten months and cleared:

- GST laws,
- GST Rules,
- Tax rate structure including Compensation Cess,
- Classification of goods and services into different rate slabs,
- Exemptions,
- Thresholds,
- Tax administration

On 12 April 2017, the Central Government enacted four GST Bills:

- Central GST (CGST)
- Integrated GST (IGST)
- Union Territory GST (UTGST)
- Bill to Compensate States

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In a short span of time, all the states (including Jammu and Kashmir) approved their State GST (SGST) laws. Union territories with legislature, i.e., Delhi & Pondicherry, have adopted SGST Act and the balance 5 Union territories without legislatures have adopted UTGST Act. The government has also notified GST rules, tax rates on goods and services, exemption list and categories of services on which reverse charge is applicable. The second phase of enrolment process for migrating existing taxpayers to the proposed tax regime through GST common portal has already commenced from 1 June, 2017. GST Network, an IT backbone of GST, has also carried out the test run of its Portal. GSTN has released offline utility for GSTR-1.

- **Rate Classification for Goods**

Exempt	5%	12%	18%	28%	28% + Cess
Food grains Cereals Milk Jaggery Common Salt	Coal Sugar Tea & Coffee Drugs & Medicine Edible Oil	Fruit Juices Vegetable Juices Beverages containing milk Jams	Kitchenware Hair Oil, Soap Toothpaste Glass fibre	Air conditioner Refrigerators	Small cars (1% / 3% cess) Luxury cars (15% cess)

Rate Classification for Services

Exempt	5%	12%-18%	28%
• Education • Healthcare • Residential accommodation • Hotel/ Lodges with tariff below INR 1000	• Goods transport • Rail tickets (other than sleeper class) • Economy class air tickets • Cab aggregators • Selling space for advertisements in print media	• Works contract • Business Class air travel • Telecom services • Financial services • Restaurant services • Hotel/ Lodges with tariff between INR 1000 and 7500	• Cinema tickets • Betting • Gambling • Hotel/ Lodges with tariff above INR 7500

Only rates of select goods and services have been mentioned here:

- GST rate on pearls, precious or semi-precious stones, diamonds (other than rough diamonds), precious metals (like gold and silver), imitation jewellery, coins-3%.
- GST rate on rough diamonds–0.25%.

Return filing procedure for the first two months of GST implementation is relaxed. Tax would be payable for the first two months based on a simple return Form GSTR–3B containing a summary of outward and inward supplies. This form is required to be submitted before the 20th of the succeeding month. However, invoice details in regular GSTR-1 would also have to be filed for the month of July and August, 2017, as per the timelines given below:

Return for Month	GSTR – 1		GSTR–2 (auto populated from GSTR-1)		GSTR – 3B
	Due date	Extended date	Due date	Extended date	
July 2017	10 August	1-5 September	11-15 August	6-10 September	20 August
August 2017	10 September	16-20 September	11-15 September	21-25 September	20 September

What GST brings with it?

GST is a destination-based tax that replaces the earlier Central taxes and duties such as Excise Duty, Service Tax, Counter Veiling Duty (CVD), Special Additional Duty of Customs (SAD), central charges and cesses and local state taxes, i.e., Value Added Tax (VAT), Central Sales Tax (CST), Octroi, Entry Tax, Purchase Tax, Luxury Tax, state cesses and surcharges and Entertainment tax (other than the tax levied by the local bodies). It is a dual levy with State/Union territory GST and Central GST. Moreover, inter–state supplies would attract an Integrated GST, which would be the sum total of CGST and SGST/UTGST. Petroleum products, i.e., petroleum crude, high speed diesel, motor spirit, aviation turbine fuel, natural gas will be brought under the ambit of GST from such date as may be notified by the Government on recommendation of the Council. Alcohol for human consumption has been kept outside the purview of GST. A well-designed GST in India is expected to simplify and rationalize the current indirect tax regime, eliminate tax cascading and put the Indian economy on high-growth trajectory. The GST levy may potentially impact both manufacturing and services sector for the entire value chain of operations, namely procurement, manufacturing, distribution, warehousing, sales, and pricing.

EY Advantages

Policy Advocacy-EY has been closely involved with the GST initiative through its Policy Advisory Group-it comprises a specialized team of experienced professionals, including former government officials who advise businesses as well as governments on diverse policy issues. The Group has diverse VAT and GST experience through extensive interactions with both the Centre and the State Governments in India and overseas engagements in various jurisdictions. EY Policy Advisory Group helps businesses anticipate policy changes, assess their impact on their operations, and engage in a constructive dialog with relevant authorities for remedial measures to address any concerns.

Business Impacts

GST has been envisaged as a more efficient tax system, neutral in its application and attractive in distribution. The advantages of GST are:

- Wider tax base, necessary for lowering the tax rates and eliminating classification disputes
- Elimination of multiplicity of taxes and their cascading effects
- Rationalization of tax structure and simplification of compliance procedures
- Harmonization of center and State tax administrations, which would reduce duplication and compliance costs
- Automation of compliance procedures to reduce errors and increase efficiency

Destination Principle

The GST structure would follow the destination principle. Accordingly, imports would be subject to GST, while exports would be zero-rated. In the case of inter-State transactions within India, the State tax would apply in the State of destination as opposed to that of origin.

Taxes to be Subsumed

GST would replace most indirect taxes currently in place such as:

Central Taxes	State Taxes
• Central Excise Duty [including additional excise duties, excise duty under the Medicinal and Toilet Preparations (Excise Duties) Act, 1955] • Service tax • Additional Customs Duty (CVD) • Special Additional Duty of Customs (SAD) • Central Sales Tax (levied by the Centre and collected by the States) • Central surcharges and cesses (relating to supply of goods and services)	• Value Added Tax • Octroi and Entry Tax • Purchase Tax • Luxury Tax • Taxes on lottery, betting & gambling • State cesses and surcharges • Entertainment tax (other than the tax levied by the local bodies) • Central Sales Tax (levied by the Centre and collected by the States)

Key Imperatives for Corporate Sector

- With implementation of GST from 1 July, 2017, it is critical for industry:
- to understand the broad contours and framework of the proposed GST law,
- likely impact of the new levy on the business,
- take appropriate steps to undertake necessary changes in business processes,
- assess financial impact,
- frame pricing strategy,
- align internal organization and IT systems and
- Be GST ready.

Impact of GST on

- **Eating Out**

  Dining out will be expensive. Here's an example explaining how:

  - In a restaurant, say a consumer spends Rs.100. Currently you pay an average of 18.5% as service tax and VAT. So apart from the service charge, you usually shell out Rs 118.5.

  - Now, according to GST, it's expected that the rates can be fixed at 18 to 20%.
  - Accordingly at 20% approximate tax rate, your bill will be 120 rupees.

- **Phone Bills**

  Suppose on a bill of Rs 100 on which consumer pays service tax of 15 % and finally pays Rs 115 as total amount to his service provider.

  After GST, if the tax rate is fixed at 18 % then he will have to bear the brunt of Rs 118.

  After implementation of GST, internet packs and call rates are likely to get higher.

- **Jewellery**

  The yellow metal too is all set to become expensive. At this point of time, only 2% tax is paid by the buyers, but sadly though, according to GST at least 6 % is expected to be paid by buyers. This will impact jewellery sales.

- **Online Shopping**

  Don't be surprised if E-commerce companies abruptly stop giving discounts & freebies that they offer.

  For every purchase from its sellers, the e commerce companies will pay a fixed TDS.

  Consequently, the cost for example commerce will increase. This will affect sales as customers will be expected to shell out more money for the same goods.

- **Banking & Insurance**

  Services offered by banks are taxed at 14.5% currently which under GST regime are likely to become costlier at standard rate of 17-18%.

  Several services by bank to a customer are centralized or localized. These complexities add to compliance costs, making it expensive for consumers.

- **Travelling**

  Air tickets to will become expensive post the implementation of the GST.

  Service tax on airline fares ranges between 6%-9%. GST will pump the taxes up further to 15%-17%

What will be Cheaper?

- **Buying a Car**

  The luxury of a car will now seem reachable for the common man.

  Buying a car will be hassle free in different states with same prices everywhere.

  So a Rs.5 lakh car with excise duty of 12.5 % and with VAT roughly totals to Rs 6.25 lakh. Now under the GST, it is expected to get lower up till Rs 35,000. If the rate is fixed at 18%, the price will now be Rs 5.9 lakhs. Automobile industry looks upwards.

- **Televisions**

  Currently a buyer shells out Rs 20,000 for a basic LED TV plus 24.5 % tax making the total cost rise to Rs 24,900.

  As GST will be around 18 to 20 %, the buyer will now approximately pay Rs 23,600.

- **Movie Tickets**

  Entertainment Taxes are likely to reduce by 2-4%.

  Multiplex chains will increase revenues as current high rate of entertainment tax will be uniform in all parts of the country. Lower the ticket price, higher the ticket sales. Even film producers will benefit from this advancement.

- **Processed Foods**

  Companies manufacturing processed food pay various taxes summing up to 24%-25%. With GST, it'll sum up to 17%-19%. Such great savings from the taxes may issue a decrease in prices of products, making it cheaper for end consumers.

- **Cement**

  Tax for cement is 25%. With GST it will become 18%-20%. With logistics cost also decreasing, cement depots will also decrease. Overall cost will also decrease.

Benefits of GST to the Indian Economy

If implemented well, GST can help boost India's economy and help make the process of levying indirect taxes more streamlined. Fast moving consumer goods (FMCG) companies have slashed prices of soaps, passing on the tax benefits they have got from the GST (Goods and Services Tax) regime that kicked off fromjuly1Under the GST ambit, the tax incidence on soaps, hair oils and toothpastes has come down to 18 per cent from the earlier rates of 24-25 percent. Although, FMCG companies so far have mostly absorbed cost spikes due to GST, while passing on the benefits wherever the tax incidence has come down. Some of the other benefits of GST to the Indian economy are listed below:

- **Removing Cascading Tax Effect**

An important benefit of the introduction of GST will be the removal of the cascading tax effect. In simple words, "cascading tax effect" means a tax on tax. Under the current regime, the service tax paid on input services cannot be set off against output VAT. Under GST, the input tax credit can be availed smoothly across the spectrum of goods and services, thus reducing the tax burden on the end user and removing cascading effect. Let's take the following example to understand how removing the cascading effect will reduce taxes.

- **Current Scenario**

A trader buys office supplies for Rs. 20,000 paying 5% as tax. It charges 15% service tax on services of Rs. 50,000. Currently, he has to pay Rs. 50,000*15% = Rs. 7,500 without getting any deduction of Rs. 1,000 VAT already paid on stationery. Under GST (assuming GST= 18%):

GST on service of Rs. 50,000 @18%	9,000
Less: GST on office supplies (20,000*18%)	3,600
Net GST to pay	5,400

This will be especially beneficial to industries that involve both goods and services (like restaurant business) and pay both VAT & Service Tax under the current regime.

- **Higher Threshold for Registration**

Tax	Threshold Limits
Excise	1.5 crores
VAT	5 lakhs in most states
Service Tax	10 lakhs
GST	20 lakhs (10 lakhs for NE states)

As per the current VAT structure, any business with a turnover of more than Rs. 5 lakh (in most states) is liable to pay VAT (different rates in different states). Similarly, for service tax, service providers with turnover less than Rs. 10 lakhs are exempted. Under GST this threshold has been increased to Rs. 20 lakhs thus exempting many small traders and service providers.

- **Composition Scheme for Small Businesses**

GST also has an optional scheme of lower taxes for small businesses with turnover between Rs. 20 to 50 lakhs. It is called the composition scheme. It has now been proposed to be increased to 75 lakhs. This will bring respite from tax burdens to many small businesses.

- **Simpler Online Procedure Under GST**

The entire GST process–starting from registration to filing returns and payment of GST tax – is online. Startups do not have to run around to tax offices to get various registrations under excise, VAT, service tax.

- **Defined Treatment for E-Commerce**

Many Indian businesses provide goods and services through the internet. Earlier, there were no specific provisions for treatment of the e-commerce sector. Currently, states have variable VAT laws for this sector. For example, online websites (like Flipkart and Amazon) delivering to Uttar Pradesh have to file a VAT declaration and the registration number of the delivery truck. Tax authorities can sometimes seize goods when there is a failure to produce documents. Again, these e-com brands are treated as facilitators or mediators by states like Kerala, Rajasthan, and West Bengal which do not require them to register for

VAT. All these differential treatments and confusing compliances will be removed under GST. For the first time, GST clearly maps out the provisions applicable to the e-commerce sector and since these will apply all over India, there should be no complication regarding inter-state movement of goods anymore.

- **Increased Efficiency in Logistics**

The logistics industry in India had to maintain multiple warehouses across states to avoid the current CST and state entry taxes on inter-state movement. Most of the times, these warehouses were forced to operate below their capacity thus increasing their operating costs. When GST goes live, these restrictions on inter-state movement of goods will be lessened and the logistics sector might start consolidating warehouses across the country. As an outcome of GST, warehouse operators and e-commerce players have already shown interest in setting up their warehouses at strategic locations such as Nagpur, which is the zero-mile city of India, instead of every other city on their delivery route. Reduction in unnecessary logistics costs will increase profits for businesses involved in supply of goods through transportation.

- **Regulating the Unorganized Sector**

Certain industries in India like construction and textile are largely unregulated and unorganized. GST has provisions for online compliances and payments, and availing of input credit only when the supplier has accepted the amount, thereby bringing accountability and regulation to these industries.

Conclusion

There is no doubt that GST is aimed at increasing the taxpayer base by bringing SMEs and the unorganized sector under its purview. This will make the Indian market more competitive than before and create a level playing field between large & small enterprises. Further, Indian businesses will be able to better compete with foreign countries such as China, Philippines, and Bangladesh. However, all will not be smooth sailing. A policy change of such a huge nature is sure to be faced with teething troubles. Experts have also identified some of the disadvantages of GST implementation which could be a cause for worry for some industries.

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