

## IMPACT OF GST ON INDIAN ECONOMY: OPPORTUNITIES AND CHALLENGES

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### ABSTRACT

*GST stands for Goods and services Tax, it is one of the tax that reflects the tax structure that is being developed to enhance the economic and structural growth of the country. The implication of GST was done in a view to simplify the complex tax structure in the sector of manufacturing, sales of goods and various services. The GST bill was prepared, in 2014, as per the 122<sup>nd</sup> amendment with a view to facilitate the tax structure of the country, but due to certain political and summated reasons, it remained pending for three long years.*

**KEYWORDS:** GST, Economic & Structural Growth, Tax Structure, Tax System, Inputs & Outputs.

### Introduction

As a matter of fact, as far as GST is concerned it is a indirect type of tax, which is expected to bring about simplified tax system in the country.<sup>(1)</sup> It was not as easy task to implement the system or GST in practice the main issue was to dissolve central taxes and state taxes in a single tax, i.e. GST. Once implemented, this tax system of GST will facilitate the domestic business as well as international investors doing business in India. As a matter of fact the consumer is liable to pay the tax at the other end of the line but it doesn't means in any sense that the manufacturers and channel partners will be abided from the same. all the inputs and outputs will charged with an equitable system of taxes. Before the implementation of GST there were a number of taxes which were being levied, like excise duty, service tax, VAT and other state and central level taxes. GST will concise this complex structure of taxes and unify it.<sup>(2)</sup>

### Reforms Under GST

- As the previous system of taxation, where the same good is being charged with different taxes in the different states, GST will be charged differently at different levels of central and state as well but the format of the same will be different. Here the tax charged at the level of central government will be called as Central Goods and Services Tax (CGST) and the tax collected by the state government will be called as state Goods and Services Tax (SGST) depending on the type and kind of transactions.
- Again IGST will be used as a tool to transfer the tax credits between the states and is liable to be charged on all interstate supplies.
- Taxes which will be subsumed at central level are, central excise duty, excise duty on medical preparation, service taxes, Additional custom duty, additional custom duty, other types of surcharges on goods and services.
- Taxes which will be subsumed at state level are, VAT, Central sale tax, Entertainment tax, Octroi and entry tax, Purchase tax, Luxury tax, Taxes on lottery, State surcharges in so far as they relate to supply of goods and services.

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- Consumption of liquor at individual level will be brought under GST, other than this petroleum and petroleum products will be brought under GST. Taxes on tobacco products, which were earlier levied at central level will now come under GST.

#### **The Methodology of GST**

- **Level I: At the Manufacturer:** Let's assume a manufacturer of apparel buys raw materials like thread, buttons, tailoring equipment which cost him Rs 1000, a sum that includes a tax of Rs 100. With the available raw material, the manufacturer manufactures apparel. The manufacturer adds value to the materials in the process of making the apparel. Let us assume the value added by him to be Rs. 300. Then the gross value of the shirt becomes Rs 1300, (Rs 1000 + 300). At a rate of 10%, the tax on output will then be Rs 130. But under GST, he can set off this tax Rs 130 against the tax, as he has already paid on raw material and inputs Rs 100. Therefore, the effective GST incidence on the manufacturer is only Rs.300.
- **Level II: At the Channel Partners:** As the goods pass from one channel partner to the other, like from manufacturer to wholesaler, who is basically a service provider. The wholesaler buys it for Rs.1300 and adds on value which is the margin of for assumption say Rs.200. Then the gross value of the goods the wholesaler sells would then become a total of Rs 1500 (Rs1300 + 200). A 10% tax on this amount will become Rs 150. But again, under GST, one can set off the tax on his output Rs 150 against the tax on his purchased good from the manufacturer Rs 130. The effective GST incidence on the wholesaler is only Rs.200 (1500 – 1300).
- **Level III: At the Level of Consumer** Finally a retailer buys goods from the wholesaler. He adds a margin of Rs.100 to his purchase of Rs.1500. Therefore the gross value of the goods that he sells goes up to Rs.1600 (Rs.1500 + 100). At this stage the tax a 10% will be Rs.160. By setting off this tax (Rs.160) against the tax on his purchase from the wholesaler (Rs 150), the retailer brings down the effective GST incidence on himself to Rs.100 (1600 –1500). Now the complete chain of the channel partners, i.e. from the manufacturer to the retailer will accumulate to Rs 100+30+20+10 = Rs 160 which will be paid by the customer of the final product.

#### **Impact of GST on Ecommerce**

Since the year 2009, the need was felt for the abolition of confusing tax system at various level of central and state, and a number of classifications under them. The situation was even more typical in case of online retailing, the reason behind was the growth of the business and even the customers. As a matter of fact, in case of online business, new dimensions are being added every now and then and the state and center are levying new taxes and duties every time. After the implementation of GST the tax structure of online business has changed a lot, and a number of issues have been sorted out.<sup>(3)</sup>

#### **Parties covered under GST**

*Operator of Ecommerce Platform:* Here the term operator refers to the person or agency that is the owner of the business, and manages all the related activities of business as such. These activity include the logistics, supply management and related services. Here the term operator also refers to a person who manages the respective platform and also caters the customers as per the services to be offered by a particular brand. Here brand means, the brand owned by the operator or the other brands the operator is dealing with. Under the law of GST the operator and owner of the business are considered as one party and covered under the law of GST accordingly.

*Aggregator:* Then again 'Aggregator' is the term related to the operator of ecommerce platform who is responsible for managing and maintaining the respective electronic platform. An Aggregator is responsible for providing services to the customers at a given level. As a matter of fact operator and aggregator can be differentiated on the grounds of service they are providing i.e. the aggregator is suppose to provide the service under his own brand and the operator might be dealing with more than one brand. On the other hand, an aggregator is required to collect the taxes at the source and meet the respective compliances. More clear differentiation of an Aggregator and Operator is given below:

Aggregator refers to a person or agency who is the owner of the respective electronic platform and is required to manage it. He is also responsible for inviting the prospective customers and provides them the requisite service; this is supposed to be done under a given brand name or the name of trade. Here the use of a device or group of devices are required which may be used to contact the respective customers.<sup>(4)</sup>

Operator may be considered as the owner of the respective electronic platform and on the basis of the same he is providing services and supplying goods and services to the respective customers. Even the flow of information to the respective customers can be the important task of the operator. Now it is important here to mention that, prior to the implementation of GST, the taxation system of the country presumes both the agencies i.e. Aggregator and Operator as the same and use to charge them accordingly, but in case of GST they both are clearly defined and required to pay taxes accordingly. Some of the examples of Aggregator can be mentioned as Ola cabs, Oyo rooms both of these are working as a connector between the customer and service provider, they also holds the responsibility of monetary transactions. On the other hand some of the examples of Operator can be mentioned as Flipkart, Ebay, Amazon, etc. these are holding all the related activities of business as such, starting from the sale of goods to collection of payments. It can be said that the business portfolio of an operator is wider than that of an aggregator.

#### **Parties not Covered under GST**

There are a number of online retailers in India that are heading all the activities of business on their own level, and not taking the help of any other brand or agency may not be recognized as Operators and even the taxation system will be different for such agencies.

#### **Current Scenario of Ecommerce in India**

The industry of Ecommerce is not very old in the Indian scenario, started as a brainchild in early years of 90s has made a tremendous growth in the last ten years and still sky is the limit for such retailers. The revenue of the online retailing is increasing every now and then, and a large amount of business is adding to the same every year. This may also be the result of floatation of information and knowledge about online banking and use of mobile phones for various online transactions.

The growth of the industry can be explained with the following points:

- According to Wikipedia there were 354 million internet users in India in 2016 and that number is set to grow to 500 million by the end of 2017. Having access to the internet automatically exposes the average Indian to e-commerce and online retail and that in itself translates in to growth for the e-commerce sector. According to Wikipedia growth in the penetration of e-commerce is unlike anything seen before in any other country with 6 million Indians opting to use e-commerce to meet their consumer needs for the first time joining the fray every month. This growth can only be commended.<sup>(5)</sup>
- In 2009 the market value of e-commerce in India was worth about 3.9 billion and that figure grew to 12.6 billion in 2013.
- According to figures from Google India, there were 35 million people in India shopping online and that figure is bound to rise to 100 million by the end of 2016.
- Electronics and Apparel are definitely the winners that contribute to a large chunk of this growth trajectory in terms of sales
- The Internet and Mobile Association of India conducted a study that predicts that the e-commerce industry is estimated to reach 211,005 crore rupees by the end of 2016.
- Estimations for future growth continue to be encouraging even after 2016 with the e-commerce industry set to generate an estimated figure of about \$100 billion with \$35 billion of the total amount being generated by the fashion industry online.
- Growth in the sales of apparel is set to spike four times the current estimate by 2020.<sup>(6)</sup>

The growth of the industry can be considered as a good news for the economy of the country and the Tax Department as well, but as a matter of fact it may not be good enough for the indirect tax system. Prior to GST a number of indirect taxes have been imposed on the industry which was considered as an obstacle for the growth of the industry, but under the regime of GST things are expected to be improved.

#### **Scenario of Ecommerce Prior to GST**

Before July, 2016 the format of business was same as in case of Ecommerce, i.e. online retailers are working with the model of 'stock-and-sell' model to 'market place' model. As far as taxes are concerned, the industry was facing the complex system of taxes including Value Added Tax, CST, Excise Duties, and even different service taxes. Even there were a number of indirect taxes that were imposed on this industry at different level of operations. And this stands true for all kind of new business models and services offered.<sup>(7)</sup>

The categorization of taxes was even difficult for the online retailers, i.e. it was, at times, difficult to segregate their business activities as goods and services, as a matter of fact different amount of taxes are imposed on both of these. This was confusing situation that a particular business activity will be charged under VAT or CST or both or the company has to pay the service tax. Any of the online retailer is required to take the support of services like network, software, etc which are presumed under the head of service tax and both the respective agencies of VAT and CST might claim their authority over the taxes and a never ending dispute may occur.<sup>(8)</sup>

For the online retailers the movement of their goods from one state to another was again a cumbersome activity, legitimate amounts of duties and taxes were imposed on the same, like the permits for roads, Way bills and other from. Even in the starting of 2016 a local registration was also required for the same. This was by the virtue of state taxation system of VAT and CST which presumed tax collection at the state entry and transaction at inter state level. Before the implementation of GST in India, the state of confusion was there for even the allied activities of online business like no clarity of taxation on E wallets, system of cash on delivery, delivery systems followed by the retailers, and many other related activities. As a matter of fact, the implementation of goods and service tax in India is expected to change the face of online business as many of the indirect taxes will be abolished and taxes at source will be encouraged.

#### **Scenario of Ecommerce Post GST Implementation**

- **Service Tax:** After the implementation of GST in India, the ecommerce companies are in a state to use the cross utilization of credits in case of services taxes on the implied services of logistics, warehousing, and related activities. Earlier it was not allowed for the online retailers, where the companies were not able to claim this credit against VAT which were paid earlier and used for making the output services available. As a matter of fact this was the part of service tax which remained in the state of confusion for both the parties i.e. tax may be taken at the output source or at the input source. The implementation of GST has eradicated this confusion for once and for all, the model of GST entailed these credits for all the supply chains, even the requisite taxes were taken off for different value chains for both the goods and services. This system of GST was presumed to neutralize the effect of prior system of taxation and help the suppliers to reduce the costs at their level and even the respective benefit would reach the customer in one or the other manner, which in turn will increase the profits of the company.<sup>(9)</sup>

- **Prices:** Prior to the implementation of GST in India, the tax rates in the country were very vivid, like different state taxes are charged on the same commodity by different states, and this was matter of high dispute for a long period of time. The implementation of GST brought about uniformity in this system of taxation which was expected to reduce the amount of dispute and also the amount of tax itself. This will boost the business of online retailers. GST in this case is uniform at both the central and state level. On the other hand the implementation of GST will increase the level of documentation and paper work for the online retailers.

As far as the output rate of taxes is concerned, it has increased a bit as compared to the earlier level of the same. On the other hand the credit form of these taxes might help the online retailers to make their services more cost efficient. As can be seen in the example of Business to Consumer model where the location of transaction will be considered as the location of service provider and the tax will be charged accordingly, then again in the case of Business to Business model location of transaction will be the location of the recipient of service as such. Under the law of GST the only consideration in this case will be the interstate or intrastate service as because this may include the additional compliance for the online retailers.<sup>(10)</sup> This can be understood by an example, if an online retailer is to be charged with CGST + SGST at the location of the service recipient then the respective retailer has to get registered in all the respective states where the recipients of the service are located.

- **System of Payment:** In the pre GST Era the online retailers are required to pay taxes against a centralized registration, but in case of GST the online retailers have to get register in all the states where the respective service recipients are living or they are having their business operations. This system might increase the level of compliance for the tax payers. The main concerned issue will be the collection of tax at the source, which might bring the seller and retailer head to head. This stands true only for the case of online retailing only because the supplier is paid in advance and the payment is collected from the customer at a later date.

- **Business Expansion**

The business of online retailers is ought to increase in size, this stands for the fact that GST has opened avenues for small and medium sized e-commerce sellers to compete with larger enterprises at a national level. Previously, these sellers were limited to operating within the boundaries of one state

