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PROS AND CONS OF GOODS AND SERVICE TAX (GST) ON INDIAN COMMERCE AND TRADE-A REVIEW

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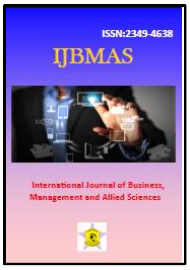


ABSTRACT

The Goods and Services Tax (GST) is a unified, destination-based tax that was implemented in India from July 1, 2017 to effectively replace all the existing indirect taxes, including service tax and vat. The GST has directly affected the businesses involved in the selling/buying of goods and services, as well as consumers, in the country.

Whereas the prices of some goods/services have gone down, some other facilities have become costlier in the post-GST regime. There are some predefined tax rates for various commodities under GST and some basic items like food, milk, etc., have been kept tax-free, while petroleum products have not yet been included under the cover of GST. The impacts of GST are being noticed as we move forward into this new tax era. This paper brings out about the overview of the concepts of GST and its impact and implications on the various Industries in the Indian Economy. Through this paper we can be in a position to understand about the concepts, objectives, impact and the implications of the Goods and Service Tax in India. The broad objectives of our study refer to analysing the impact of introducing comprehensive goods and services tax (GST) on economic growth and international trade; changes in rewards to the factors of production; and output, prices, capital, employment, efficiency and international trade at the sectoral level. Analysis in this study indicates that implementation of a comprehensive GST in India is expected to lead to efficient allocation of factors of production thus leading to gains in GDP and exports. The following review will be on the counter side of the new tax structure, which will be highlighting the other side of it. There are some sectors especially in commerce and trade, which will have adverse effect after the implementation of GST bill. There are certain expected disadvantages of the new tax reform, and how it's going to impact the Indian economy.

Introduction

In the summer of 2016, the Indian Congress approved the Goods and Services Tax (GST) legislation to simplify the current multilayered federal, state, and local indirect tax structure. The GST bill will unify at least ten types of indirect taxes into one tax to be collected at the state and federal levels. Under the existing structure, at each point of sale, additional taxes are applied to the after-tax value of each good and service. The main purpose for the GST is to eliminate this compounding effect by taxing the final tax rate, where goods will fall into one of four rate categories of 5, 12, 18, and 28 percent. The GST is currently expected to be rolled out in mid-2017. Presently, India's tax system comprises a multitude of indirect taxes, applied at the central (federal) and state levels. Out of state and central taxes, the GST will subsume. It also summarizes the current central tax rates in the first panel and the current range of rates of state taxes in the second.

The differential multiple tax regime across sectors of production leads to distortions in allocation of resources thus introducing inefficiencies in the sectors of domestic production. With regard to India's exports, this leads to lack of international competitiveness of the sectors which would have been relatively efficient under distortion- free indirect tax regime. Add to this, the lack of full offsets of taxes loaded on to the fob export prices. The export competitiveness gets negatively impacted even further. Efficient allocation of productive resources and providing full tax offsets is expected to result in gains for GDP, returns to the factors of production and exports of the economy.

The cumulative impact of such un-rebated taxes has been estimated as between 3 per cent to 12 per cent of the fob export value depending on the product and its state of origin (Ministry of Commerce and Industry, Government of India, 2009). These figures include 1 per cent to 9 per cent as electricity duty, CST and sales tax on petroleum products and the remainder on account of mandi tax, entry tax, octroi, municipal taxes and cesses (NCAER 2005). Since all taxes, central as well as state, would be subsumed in GST exports are expected to become tax-free thus enhancing competitiveness of Indian exporters. In fact, all local duties and cesses should also get full offset through the instrument of GST.

Limitations of the Study

1. The study is completely based on the secondary sources (based on published articles, data available on websites
2. No Quantitative data were collected
3. The Study is not based on the research

Review of literature

Monika Sehrawat and Dhanda [1] have studied about the various features and the challenges associated with Goods and Service Tax well known as GST. They have found out that the legal procedures in implementing, consent from all the states, proper literacy on the concept of GST are the challenges associated with the implementation of GST.

Akanksha Kurana and Sharma [2] have made a research work about the impact of GST on Indian economy. They have found out that the GST will improve the input tax credit to the manufacturers which would result in reduced cost of goods. They have suggested that the government must provide awareness about the concepts of GST to the public.

Garg [3] and Kumar [4] have said that the GST has positive impact on the present scenario of Indian economy. The Indirect Taxes Committee of Institute of Chartered Accountants of India (ICAI) has said that the Goods and Service Tax have positive impact on Indian Tax System [5].

Ehtisham Ahmed and Satya Poddar (2013) studied, "Goods and Service Tax Reforms and Intergovernmental Consideration in India" and found that GST introduction will provide simplier and transparent tax system with increase in output and productivity of economy in India. But the benefits of GST are critically dependent on rational design of GST [6].

Positive Impacts (Pros/Advantages) of GST Implementation

- GST is expected to build a more transparent and corruption-free tax system in India.
- It is easy to start a business in the post-GST regime and tax regulations are easier than before.
- Composition mechanism is there to reduce the tax burden from small businesses and startups.
- Input credit (ITC) mechanism ensures an uninterrupted flow of cash for businesses and reduced price of goods/services for the end consumers.

- The merging of all the indirect taxes makes it easier to process the tax payment for the government as well as for the taxpayers.
- Tax harmonization
- More simplified movement of goods and/or services between states and within the country.
- GST is calculated on the total amount, irrespective of the type of sales and services.
- GST has eliminated the cascading effect of taxes by introducing a unified tax system.
- Since it is a destination based tax, the tax will only be paid by the consumer upon delivery of goods/services.
- The implementation of Goods & Services tax puts India in the line of international tax standards, making it easier for Indian businesses to sell in the global market.
- Inflation is expected to stay under control after the implementation of GST.
- GST is expected to reduce the price of production, operational and others costs that will benefit the end consumers.
- The cost of collecting the tax is reduced thus resulting in a higher revenue for the government.
- GST has the mechanism of integrated tax that makes sure that the tax burden is split impartially between manufacturing goods and services.
- The complexity of tax compliance is reduced as all the returns are being filed and taxes are being paid through a single platform.
- Since all the records and data are now available on a single platform, it has become easier for the tax authorities to identify and deal with tax evasions.
- One major benefit of GST is that the government is now receiving more taxpayer registrations than ever before.

Defined treatment for E-commerce operators

Earlier to GST regime, supplying goods through e-commerce sector was not defined. It had variable VAT laws. Let us look at this example:

- Online websites (like Flipkart and Amazon) delivering to Uttar Pradesh had to file a VAT declaration and mention the registration number of the delivery truck. Tax authorities could sometimes seize goods if the documents were not produced.
- Again, these e-commerce brands were treated as facilitators or mediators by states like Kerala, Rajasthan, and West Bengal which did not require them to register for VAT.
- All these differential treatments and confusing compliances have been removed under GST. For the first time, GST has clearly mapped out the provisions applicable to the e-commerce sector and since these are applicable all over India, there should be no complication regarding the inter-state movement of goods anymore.

Negative impacts (Cons/Disadvantages) of GST in India

- As for the disadvantages, GST has a few. The implementation of GST in India has created troubles for some sectors by increasing the cost of manufacturing and/or supply or by reducing the value of the product. For example, the value of some second-hand items and refurbished items diminished due to the increased cost of processing or supply.

Let's take a brief look at the disadvantages of GST, as reported so far.

- GST compliance and tax filing has increased the implementation cost for businesses, as they are required to invest in computers, accounting (GST) software and/or trained GST experts (CAs and accounting experts).
- The process of GST compliance is also proving daunting as most businesses are not yet fully aware of the rules, provisions and processes of the new tax system, including the process of return filing, GST registration, returns filing schedule, invoicing and billing, etc.
- The overall cost of doing business is going to increase, at least in the first few months of GST.

- The implementation of GST in the middle of the financial year is creating a lot of confusion among business, as to whether to follow the old tax rules or new ones or both.
- Many businesses, especially small businesses and startups, do not usually have the money or tech resources to get compliant with the digital GST system. A cloud-based (online) GST software like the Gen GST could be a perfect solution to this problem.
- The tax relaxation limit for small manufacturing businesses, which was 1.50 crores earlier, is now Rs. 20 lakh under the GST system. This has effectively increased the tax burden for such businesses.
- No clarification about tax holidays has further increased operation costs for textile, pharma and other manufacturing industries.
- The chaos among businesses has ended up creating a disruption in the industry.
- Consumers are not very hopeful about GST benefits and implementation and therefore, they are reluctant to adapt to the new system.
- The tax rate has been increased for many products, thus increasing their costs.
- Although there is a provision of input credit in GST, some businesses are not willing to pass on its benefits to their consumers.
- The cost of refurbishing has increased due to increased tax, thus increasing the price of refurbished products.
- Businesses are required to have separate registrations for multiple business entities in different states. It will increase the burden of tax compliance.
- GST has reduced the tax revenue of some states as they are now required to share revenues with the central government.
- The tax will be paid by the end consumer, which makes it a non-consumer-friendly tax system.

SMEs will have a higher tax burden

Smaller businesses, especially in the manufacturing sector will face difficulties under GST. Earlier, only businesses whose turnover exceeded Rs 1.5 crore had to pay excise duty. But now any business whose turnover exceeds Rs 20 lakh will have to pay GST.

However, SMEs with a turnover upto Rs 75 lakh can opt for the composition scheme and pay only 1% tax on turnover in lieu of GST and enjoy lesser compliances. The catch though is these businesses will then not be able to claim any input tax credit. The decision to choose between higher taxes or the composition scheme (and thereby no ITC) will be a tough one for many SMEs.

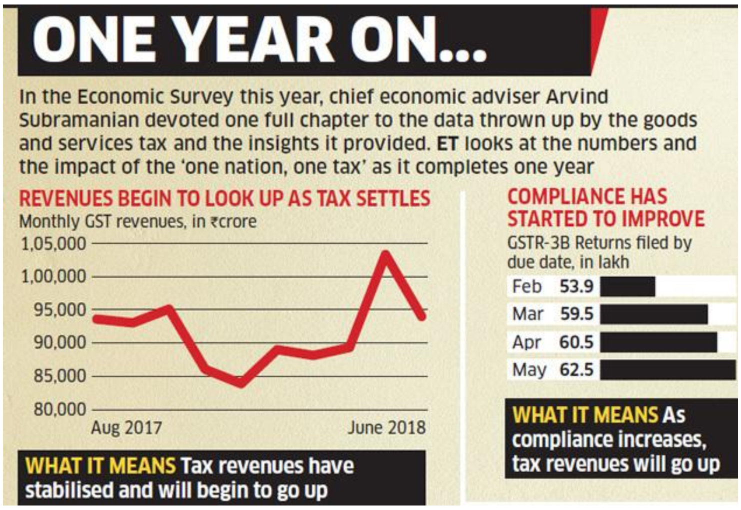
Disconnect from Foreign Trade Policy:

Foreign Trade Policy (FTP) is a beneficial piece of legislation that provide incentives to various export and import transactions thereby encouraging foreign trade. Earlier such incentives were also available on Excise duty, service tax, CVD, SAD paid, however it seen that similar incentives are not continued with IGST. Further, many schemes and benefits as available to EOU's, deemed exports, advance license etc. are not fully linked to the GST regime leading to delinking of FTP with GST. Since, precious foreign currency brought in the country by the exporters govern the country's standing in the international market, any such pruning in the foreign trade policy can only have adverse effect on the economy as a whole.

One year of GST: The successes and failures

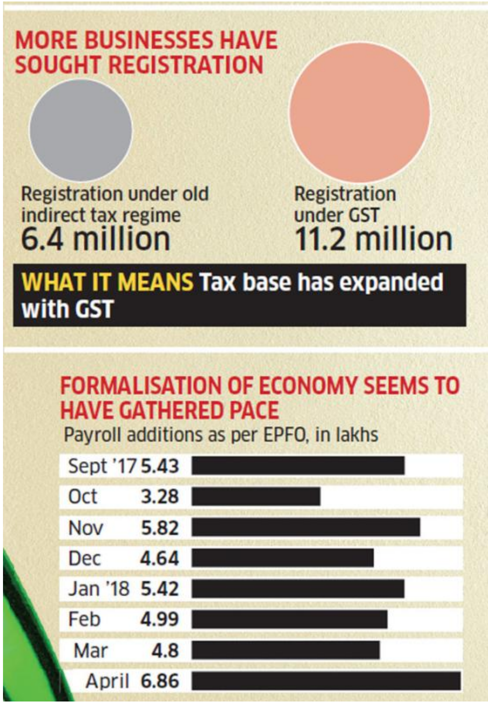
One year into the goods and services tax (GST) regime, early-day jitters have given way to general acceptance that this may not be the most perfect single tax system, but it's working. There are many issues that remain to be addressed, but the fact that some of the knotty ones have been resolved gives rise to confidence that even these will be sorted out. Here's how the past year panned out.

As many as 17 taxes and multiple cesses were subsumed into GST, aligning India with global regimes. Central taxes such as excise duty, services tax, countervailing duty and state taxes — including value added tax, Oct roi and purchase tax — were all rolled into one. The new regime provided for free flow of tax credits and did away with cascading due to tax on tax, boosting company financials and resulting in reduced prices for consumers



Source:https://economictimes.indiatimes.com/news/economy/policy/one-year-of-gst-the-successes-failures-and-whats-next-on-the-agenda/articleshow/64787124.cms)

Multiple registration requirements have complicated things for industry, which was expecting simplicity. In many cases, registration is required in all states. Companies fear that multiple audits and assessments due to multiple registrations could make life more difficult for them going forward.



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Refunds problem for exports: The refund mechanism for exporters, including data matching law, besides procedures governing them, have irked the sector, particularly smaller entities that saw their working capital requirements rise. Though several efforts have been made to address the issue, it may require more intervention.

Source:https://economictimes.indiatimes.com/news/economy/policy/one-year-of-gst-the-successes-failures-and-whats-next-on-the-agenda/articleshow/64787124.cms)

The GST law came up with the concept of zero-rating for exports with or without payment of integrated tax. To avail the facility for exports without payment of tax, taxpayers were required to obtain a letter of undertaking (LUT) / bond manually. However, confusion prevailed over supporting documentation required to be submitted in different tax jurisdictions, which made obtaining LUT / bond, a tedious and cumbersome process.

CONCLUSION

The GST is very crucial tax reform since independence of India, so it must be better handled with utmost care and analysed well before implementing it. And, the government both central and state has to conduct awareness programmes and various literacy programmes about GST to its various stakeholders. Change is definitely never easy. The government is trying to smoothen the road to GST. 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. It is expected that the malicious activity of tax theft will go away under Goods and Service Tax regime in order to benefit both governments as well as the consumer. In reality, that extra revenue that the government is expecting to generate won't come from the consumers‟ pocket but from the reduction of tax theft. The GST is good advantages in India and draw backs are also presented. There are various challenges in the way of Goods & Service Tax, but its advantages are more than its disadvantages. It will also give India a world class and a smart tax system. Having discussed various advantages and disadvantages of GST, we need to acknowledge the government's efforts in bringing GST and the seriousness that is being shown in simplifying the same. At this juncture, we need to realize that everything has its pros and cons and taxation system is no exception to it but those businesses which prepared and planned the transitional phase of GST well have been able to reap the benefits of advantages and trimmed down the dis-advantages to the minimum. As the saying goes 'Success comes to those who acts first'.

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