Impact of GST in India and Comparisionswith Other Countries

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Abstract

GST is intended to include all the taxes into one tax with seamless ITC and charged on both goods and services. Thus the tax is expected to reduce the concept of 'tax on tax', increase the gross domestic product of the economy and reduce prices. An analysis of what the impact of GST (Goods and Services Tax) will be on Indian Tax Scenario.Then the need arose for the change in tax structure from traditional to GST model. The impact of GST in the present tax scenario in India.

KeyWords:*GST (Goods and Services Tax), Indian Tax Scenario, two-tiered One-Country-One-Tax regime, tax structure, Cascading Effect*

I. INTRODUCTION

There are so many types of taxes that are levied by the Central and State Governments on Goods & Services in India. Indian consumers have to pay indirect tax on goods and services such as Value Added Tax, Service Tax, Excise Duty, Customs Duty, etc.. Each State levies their own tax on the goods coming into their control for sale and consumption, while the Centre levies taxes on the manufacture of the goods. All these direct taxes levied on the traders are passed down to the consumer.

Let us take an example of a dress manufactured in Surat, Gujarat. At the spot of manufacture, an excise duty/Cenvat has to be paid to the Central Government. If the stain for the dress are bought from Madhya Pradesh, then the manufacturer has to pay the state taxes applicable for the stain in Madhya Pradesh while buying it, and also payGujarat's "import duty" on the product. Similarly, if the buttons for the dress are bought from Rajasthan, then another set of taxes is added to the manufacturing cost. At the end of this chain, when the product reaches the market for sale, VAT is added to it. So all the taxes paid for the production of the dress so far get added to the cost of the dress, which rises considerably from its actual manufacturing cost.

Of these, excise duty/CENVAT, customs duty, service tax, central and state sales tax, VAT, octroy, entry tax, road toll, the luxury tax and entertainment tax are applicable to goods and services.

It is burdened with multiple taxation on the same object with no way to redeem the taxes already paid at each stage of production-retailing-consumption. If Cenvat and service tax are paid at the manufacturing level, these can be redeem against future payments, but none of the other taxes paid at any stage can be reclaimed.

In order to eliminate double charging in the current system and increase the number of taxpayers, the government of India introduced GST. GST implemented in India from July 2017.

A. *What is GST?*

GST stands for Goods and Service Tax. Goods and Service Tax is applied on services and goods at a national level with a purpose of achieving overall economic growth. GST is particularly designed to replace the indirect taxes imposed on goods and services by the Centre and States.GST will be an indirect tax at all the stages of production to bring about uniformity in the system. Under this system, the consumer pays the final tax.

B. *How is GST Applied?*

GST consider the country as a single whole organism. The Indian Government is opting for dual system GST.This system will have two components which will be known as.
Central Goods and Service Tax(CGST)
State Goods and Service Tax(SGST)

What a trader will essentially be able to do is claim a refund on the taxes already paid at different stages of value addition. The consumer who buys the product will have to pay only the GST charged by the last dealer in the supply chain, as everyone else would have the opportunity to compensate the taxes paid at the previous stages. If we take the above example, under the GST system, the Cenvat on manufacturing the dress and the taxes paid on stains and buttons can be redeemed at each level, thereby considerably reducing the total taxes paid. The manufacturer or wholesaler or retailer will pay the applicable GST rate, but will claim back through tax credit mechanism. But being the last person in supply the chain, the end consumer has to bear this tax and so, in many respects, GST is like a last-point retail tax. GST is going to be collected at point of sale.

II. LET US UNDERSTAND THE ABOVE SUPPLY CHAIN OF GST WITH AN EXAMPLE

When the wholesaler buys from the manufacturer, he pays a 10% tax on his cost price because the liability has been passed on to him. Then he adds value of Rs. 40 on his cost price of Rs. 100 and this brings up his cost to Rs. 140. Now he has to pay 10% of this price to the government as tax. But he has already paid one tax to the manufacturer. So, this time what he does is, instead of paying Rs (10% of 140=) 14 to the government as tax, he subtracts the amount he has paid already. So, he deducts the Rs. 10 he paid on his purchase from his new liability of Rs. 14, and pays only Rs. 4 to the government. So, the Rs. 10 becomes his input credit.

When he pays Rs. 4 to the government, he can pass on its liability to the retailer. So, the retailer pays Rs. (140+14=) 154 for him to buy the shirt. At the next stage, the retailer adds value of Rs. 30 to his cost price and has to pay a 10% tax on it to the government. When he adds value, his price becomes Rs. 170. Now, if he had to pay 10% tax on it, he would pass on the liability to the customer. But he already has input credit because he has paid Rs.14 to the wholesaler as the latter's tax. So, now he reduces Rs. 14 from his tax liability of Rs. (10% of 170=) 17 and has to pay only Rs. 3 to the government. And therefore, he can now sell the shirt for Rs. (140+30+17) 187 to the customer.

Action	Cost	10% Tax	Actual Liability	Total
Buys Raw Material	100	10	10	110
Manufactures @ 40	140	14	4	154
Adds Value @ 30	170	17	3	187
Total	170		17	187

In the end, every time an individual was able to claim input tax credit, the sale price for him reduced and the cost price for the person buying his product reduced because of a lower tax liability. The final value of the shirt Rs. 187, thus reducing the tax burden on the final customer.

So essentially, Goods & Services Tax is going to have a two-pronged benefit. One, it will reduce the cascading effect of taxes, and second, by allowing input tax credit, it will reduce the burden of taxes and, hopefully, prices.

GST will ensure transparency with regards to the rate of taxation and the total amount that goes to the government as taxes on a product. Currently, a consumer is not aware of the total amount of taxes s/he pays for a product, apart from VAT which is mentioned on the bill.

A. Here's a list of taxes that the GST will likely replace:

- Service Tax
- Cesses and surcharges related to supply of goods or services
- Central Excise Duty
- Excise Duties on medicinal and toilet preparations
- Additional Excise Duties on textiles and textile products
- Additional Excise Duties on goods of special importance
- Additional Customs Duties (CVD)
- Special Additional Duty of Customs (SAD)
  These are the taxes that could be absorbed into the GST regime:

- Central Sales Tax
- State VAT
- Entry Tax
- Purchase Tax
- Entertainment Tax (not levied by local bodies)
- Luxury Tax
- Taxes on advertisements
- State cesses and surcharges
- Taxes on lotteries, betting and gambling

B. Advantages of GST

- It simplifies the tax system and makes it easier to understand as well as cheaper to implement at various levels.
- Tax evasion at various stages will be eliminated as tax offsets can be collected only if taxes have been paid originally. You will also be able to buy raw materials or constituent materials for production only from those who have paid taxes, in order to claim benefits.
- It will be cheaper to buy input goods and services for production from other states.
- The current supply and distribution chain may undergo a change with a change in taxation system that does away with excise and customs duties.
- The consumer will get the end-product at cheaper rates because of elimination of multiple taxes and the tax cascade.
- As of now, petroleum and petroleum products have been kept out of the GST regime until further notice.
- The Sale of newspapers and advertisements are also likely to fall under the GST regime, allowing the government to increase its revenue considerably.
- While there will be central GST and State GST, the tax applicable on goods and services being exported and imported between states in

India would fall under an Integrated GST (GST) system in order to avoid conflict of dominion.

C. Disadvantages of GST

- GST is not good news for all sectors, though. In the current system, many products are exempted from taxation. The GST proposes to have minimal exemption list. Currently, higher taxes are levied on fewer items, but with GST, lower taxes will be levied on almost all items.
- GST is not applicable on liquor for human consumption. So alcohol rates will not get any advantage of GST.
- Stamp duty will not fall under the GST regime and will continue to be imposed by states.

D. The Impact:

It is expected that the creation of the Goods and Service Tax act and its implementation will have a great impact on various aspects of business in India by changing the traditional pattern of pricing the products and services.

The Goods and Service Act will also have a great impact on the tax system in India by reducing the unfavorable effect of tax on the cost of goods and services. GST is expected to change the whole indirect tax system by impacting the tax structure, tax computation, credit utilization and tax frequency. It will also help in supply chain optimization.

The originators of the Goods and Service Tax believe that the implementation of this act would make the tax procedure more transparent, fair and efficient. It will help in creating a single national market by merging several Central and State taxes under a one single tax procedure. No doubt, the implementation of GST will take time, but it is likely to create more employment opportunities and economic inclusion.

III. GST IMPACT ON CENTRAL GOVERNMENT

A. Increased Collection of CGST and IGST:

The collection of taxes-CGST and IGST would increase when more and more assesses register and pay taxes due to simplified tax laws under the GST regime.

B. Loss of CST revenues

The CST which was 2 % accruing to the State of the collection has been subsumed into GST. This revenue would not be available to the States.

C. Refunds under GST

The refunds under Central excise and service tax laws take a long time. However, in GST Regime, refunds are expected to be processed faster with 90% of the total refund amount being available on submission of proper documents.

D. Reduced corruption

When the laws are simplified, then the chances of multiple interpretations would get reduced, leading to reduction in disputes and consequent litigation. Also, the automation of the payments/returns filing and other compliances could mean that the interaction between the assessee and the department officers would come down to aminimum. This would reduce corruption and increase ethics gradually.

E. Compensation for loss of revenues to theStates:

The compensation of loss of tax revenues to the States on account of implementation of GST would be an outgo. In reality, there may be minimal outgo except for the weaker States. All expected to gain due to increased compliance.

F. GST Impact on State Government

*1) **Proliferation of computerization leading to fall in transaction costs:*** Due to increase in computerization due to GSTN, the tax administration would be easier and cost of collection would be less.

*2) **The Destination Principle:*** States, which are net consumers would benefit due to the accrual on destination. The producing States may have a comparative disadvantage.

(i) A unified common national market to boost Foreign Investment and "Make in India" campaign

(ii) Boost to export/manufacturing activity, generation of more employment, leading to reduced poverty and increased GDP growth

(iii) Improving the overall investment climate in the country which will benefit the development of states

iv) Uniform SGST and IGST rates reduce the incentive for tax evasion

(v) Reduction in compliance costs as no requirement of multiple record keeping

3)GST impact on economy

The need for GST has been felt because under the current indirect tax structure:-

1) Tax barriers have fragmented the Indian market,

2) The Cascading effects of taxes on cost have made indigenous manufacture less attractive,

3) Complex multiple taxes have raised the cost of compliance.

Slabs	New GST rates	Current rates	Products
1	5%	Upto 9%	Edible oil, spices, tea, coffee
2	12%	9%-15%	Computers, processed food

3	18%	15%-21%	Soaps, oil, shaving sticks
4	28%	21%	Luxury goods(luxury cars, tobacco, aerated drinks)

Food grains will have a 0% tax to provide relief to consumers.
The Goods and Services Tax (GST) will be levied at multiple rates ranging from 0 per cent to 28 per cent. GST Council finalized a four-tier GST tax structure of 5%, 12%, 18% and 28%, with lower rates for essential items and the highest for luxury and de-merits goods that would also attract an additional cess.
Service Tax will go up from 15% to 18%. The services being taxed at lower rates, owing to the provision of abatement, such as train tickets, will fall in the lower slabs.
In order to control inflation, essential items including food, which presently constitute roughly half of the consumer inflation basket, will be taxed at zero rate.
The lowest rate of 5% would be for common usable items. There would be two standard rates of 12 per cent and 18 per cent, which would fall on the bulk of the goods and services. This includes fast-moving consumer goods.
Highest tax slab will be applicable to items which are currently taxed at 30-31% (excise duty plus VAT).
Ultra luxuries, demerit and sin goods (like tobacco and aerated drinks), will attract a cess for a period of five years on top of the 28 per cent GST.

states. GST is expected to have a favourable outcome for the economy as per my opinion.
Basically we can take 2 segments
OrganisedSegment :- GST impact will be minor and for a very short period
Unorganised Segment:- GST impact will be for short duration
After time on gap market will recover and target GDP growth @ 2 % can be achieved.
Major Favourable outcomes:-
Input Tax Credit: –Removal of tax barriers with seamless credit will make India a common market, leading to economies of scale in production and efficiency in the supply chain.
Cascading Effect: –Removal of cascading effect of taxes embedded the cost of production of goods and services, significantly reducing cost of supply.

As part of GST implementation, service tax is expected to go up [expected 18%] from the current levels of 15 %, but which may not be negative for service companies in airlines, telecom, insurance, etc., because in existing system they are not able to take input on Goods & services (upto a level) but in the proposed GST they will get the benefit of Input credit on many goods & services which are related to furtherance of business.

IV. IMPACT OF GST ON SEGMENT WISE

A. Services Sector Segment

As per existing Tax structure currently service tax is charged @ 15%, whereas as per proposed GST @18 % will be charged on the Supply of Services but in existing tax structure assesses is not able to take the input tax credit benefit of goods & services, whereas in proposed GST system assesses will be able to take credit of supply of both goods & services which will cover differing of additional 3 % GST up to a level. Thus, on many service Tax Sector there is no huge benefit or loss, but any industry sector, which only provide pure services and does not use goods or services so not having input tax credit than to those service sector tax burdens will be increased by 3% like in telecom or insurance sector, there are no many goods or services consumed so this sector could face marginally negative impact from the higher service tax rate of 18 per cent (likely) versus 15 per cent currently.

B. Organised and Unorganized

Important fallout of GST could be shifted from unorganised to organised segment. The unorganised sector will come into the tax net and will lose the benefits arising from non-payment of taxes and levies. Thus, companies which are operating in an organised manner will get the benefit of high unorganised component in terms of increased demand. Companies in sectors like plywood, ceramic tiles, batteries, etc. will stand to benefit.

C. Distribution Channel

Large or Short :- The sectors which have long value chain from basic goods to the final consumption stage by the end user with an operation spread in multiple states [FMCG, pharmacy, consumer durables, etc] should benefit. FMCG companies could generate substantial savings in logistics and distribution costs as the need for multiple sales depots will be eliminated. FMCG companies pay nearly 30%, including excise duty, VAT and entry tax and a lower rate of 18% or 12 % could yield a significant reduction in taxes. But a higher GST rate of 28 per cent for consumer durables and some FMCG products may disappoint the market. Warehouse rationalisation and reduction of overall tax rates, is expected to generate saving.

D. Impact on Automobile Companies

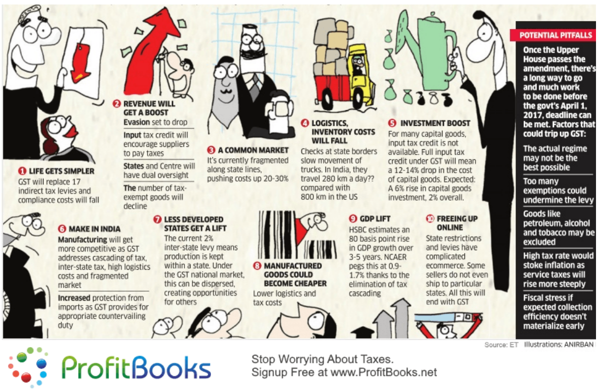
Automobile companies could gain from GST implementation if the GST rate on their products is 18 % [Bike, Hatchback, and Sedan] and they are able to retain the benefits of lower rates. However, the higher rate of 28 % on luxury cars & on SUV would not have a negative impact as there are so many taxes charged as per current system and credit input is not available for all taxes.

E. According to experts, these items could become costlier:

- Cigarette prices likely to go up as the GST rate for tobacco will be higher than current duties
- Commercial vehicles such as trucks will become costlier
- Mobile phone calls may get costlier as service tax will go up
- Textile and branded jewellry may become costlier

F. And these Could Become Cheaper

- Auto: Prices of entry-level cars, two-wheelers, SUVs may fall
- Car batteries likely to get cheaper
- Paint, cement prices likely to fall
- Movie ticket prices likely to fall as entertainment tax will come down
- Electronics items like fans, lighting, water heaters, air coolers, etc. will get cheaper



V. HERE ARE FIVE IMPACTS GST WILL HAVE IN THE NEAR TERM

A. Shaking up Corporate Operations

The new tax regime will force many companies to restructure their operations. Companies will now insist vendors and suppliers to furnish invoices as GST will make it impossible for firms to evade taxes. Big companies stand to benefit as they have a supply chain in order and can redeem taxes paid on inputs. Smaller firms may end up spending more as a compliance cost will rise.

B. Passing on the Benefit of Lower Tax

The benefits of the reduction in the tax rate and input credit shall be passed on by a commensurate reduction in prices—such measures are difficult to implement and would be a retrograde step, similar to price controls, if implemented in haste, Nomura added. Companies may use the savings from tax outgo under the GST regime to improve profit margin to some extent and invest the rest in building new capacities.

C. Inflation May Remain Low.

Most of the services are not accounted in the consumer price CPI inflation basket and, hence the higher GST rates may not get reflected in the retail price movement as measured by the government data.

There are services like health, education, miscellaneous segment, transportation are outside the scope of GST. "Hence, GST implementation of CPI impact will be minimal. We estimate that GST will have a neutral impact on headline CPI,forecasting the average inflation at 4-4.5% during 2017-18.

D. Economic Growth May not Jump Immediately

The immediate impact of GST, it slow growth in the short term as big companies reorganize their businesses and as small firms lose revenue."the tax reform will be beneficial to the economy in the medium to long term.

VI. HOW INDIAN GST MODEL COMPARES WITH GST IN OTHER COUNTRIES

It is a known fact that more than 160 nations have brought up GST and as a matter of fact European tax economy has conceived the GST more than 50 years ago. But in its current form, India's GST is complicated and very different from the global variety. A multi-tier tax rate structure and complex rules make execution of this mammoth indirect tax a herculean task.

Unlike other nations, goods and services in India will be charged at different rates depending on the categories they belong to. For services like hotels, restaurants and transportation, tax rates have been fixed based on room tariff, turnover of business, etc. This, say tax experts, is not in line with the international practice, where a uniform rate is applicable on a service irrespective of the value or status of the business.

In the Asia Pacific geography, there are above 40 models of GST applications which are currently running through the system of various economies in the world which includes a diverse set of rules and regulations.

As again watching over the difference in Indian GST vs Foreign GST, countries like New Zealand and Singapore have been applying the taxes on everything at a single and consistent rate. While Indonesia has a total of five possible accepted rates with zero rates included and also bearing above 30 exemptions within it. After the European and Asia Pacific market, the China has maintained the GST applications over the goods and the conditioned provision of repairs, processing and replacement assisted services, which also means that it is restrictedly collected on goods which are consumed in the manufacturing process as the fixed asset goods and service tax in foreign countries like China is not under recoverable terms.

Going to the far shores, in Australia, the GST is a federal tax, which is collected by the supreme authority and thus divided further among the states without any conflict arising through the process. Now looking to Canada model of GST, the country governs the taxation regime under 3 schemes, i.e. Federal GST, Joint federal and separate federal. Federal tax is generally accepted tax system while joint federal is run on the basis of synchronized behavior of the economy and states and the last one separate federal which only applies to the Quebec as it is deemed as a quasi-independent province.

Talking about the Brazil model of GST, it is much independent and carefree in comparison to other nations and has a dividing rule of taxes between the states and the center. In all cases, GST rates are prefixed between 16 to 20 percent and India has somehow taken the cues from this and jotted down the similar pattern. Finally, the great beginning is about to flash in the Indian economy because the speculated taxpaying community is likely to get a growth of 5 to 6 times than the current figure.

As the accompanying chart shows, barring Canada, the threshold for GST applicability in other countries is higher than in India. A higher threshold was desirable as it would have reduced the tax burden on small businesses.

GST in other Countries compared to GST in India - Cleartax's Analysis

Particulars	**India (proposed)**	**Canada**	**UK**	**Singapore**	**Malaysia**
Name of GST in the country	Goods and ervice tax	Federal Goods and Service Tax & Harmonized	Value Added Tax	Goods and Service tax	Goods and Service tax
Standard Rate	0% (for food staples), 5%, 12%, 18% and 28% (+cess for luxury items)	GST 5% and HST varies from 0% to 15%	20%Reduced rates- 5 %, exempt, zero rated	7% Reduced rates- Zero rated, exempt	6%
Threshold exemption Limit	20 lakhs (10 lakhs for NE states)	Canadian $ 30,000 (ApproxRs. 15.6 lakhs in INR	£ 73,000(ApproxRs. 61.32 lakhs)	Singapore $ 1 million (ApproxRs. 4.8 crore)	MYR 500,000 (ApproxRs. 75 lakhs)
Liability arises on	Accrual basis: Issue of invoice OR Receipt of payment - earlier	Accrual basis: The date of issue of invoice ORthe date of receipt of payment- earlier.	Accrual Basis: Invoice OR Payment OR Supply -earliest Cash basis (T/O upto 1.35 mn): Payment	Accrual Basis: Issue of invoice OR Receipt of payment OR Supply - earliest Cash basis:(T/O upto SGD$1mn): Payment	Accrual Basis: Delivery of goods OR Issue of invoice OR Receipt of payment
Returns and payments	Monthly and 1 annual return	Monthly, quarterly or annually based on turnover	Usually quarterly. Small business option- annual	Usually quarterly Business option- Monthly returns.	Large organsations- Monthly
Reverse charge Mechanism	Apply on goods (new) as well as services (currently under Service tax)	Reverse charge applies to importation of services and intangible properties.	Applicable	Reverse charge applies to supply of services	Reverse charge applies to imported services

Exempt services	Manufacture ofexempted goods or Provision of exempted services (to be notified)	Real estate, Financial Services, Rent (Residence), Charities, Health, Education	Medical, Education, Finance, Insurance,Postal services	Real estate, Financial services, Residential rental	Basic food,Health Transportation, Residential property, Agricultural land

The exemptions list too is limited in other nations, In India's case, most services-related exemptions have been retained for now. The fate of item-wise and area-wise exemptions are yet to be known.
However, the anti-profiteering clause, as it has been unsuccessful in yielding the desired results in countries were tested. The clause requires businesses to pass on the tax reduction to the end consumer by way of a commensurate reduction in prices. It remains to be seen whether its outcome will be any different in India.

Failure or delay in price reduction would have a bearing on inflation. Though the government is confident of GST being non-inflationary, international experience suggests otherwise.

In numerous countries, GST tax was introduced at a lower rate than pre-existing tax rate. Despite that, the GST pushed up inflation for one year in all the five countries in our study (Australia, Canada, Japan, Malaysia and Singapore), after which inflation moderated. In some countries, the pass-through of higher tax costs by firms occurred with a lag, as firms took time to fully assess the cost implications of the new tax structure To conclude, a simpler tax law results in better tax compliance and improved tax collection efficiency. But with a complex GST, India may have many more teething troubles to overcome compared to other countries that have adopted this tax.

VII. CONCLUSION

The idea behind having one consolidated indirect tax currently existing is to benefit the Indian economy in a number of ways:

- It will help the country's businesses gain a level playing field
- It will put us on par with foreign nations who have a more structured tax system
- It will also translate into gains for the end consumer who not have to pay cascading taxes any more
- There will now be a single tax on goods and services

In addition to the above,

The Goods and Services Tax Law aims at streamlining the indirect taxation regime. As mentioned above, GST include all indirect taxes levied on goods and service, including State and Central level taxes. The GST mechanism is an advancement on the VAT system, the idea being that a unified GST Law will create a seamless nationwide market It is also expected that Goods and Services Tax will improve the collection of taxes as well as boost the development of Indian economy by removing the indirect tax barriers between states and integrating the country through a uniform tax rate.

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