A STUDY ON THE IMPACT OF GST ON VARIOUS SECTORS

Anoop Joseph

Assistant Professor, P G Department of Commerce Pavanatma College, Murickassery

Abstract

Goods and Service Tax (GST) is a Tax on Goods and Services. It is levied at every point of value chain from production or import point to consumption point. Tax is levied only on value addition with input tax credit facility and no tax cascading at any stage. GST will redistribute the burden of taxation equitably between manufacturing and services, bringing about a qualitative change in the tax system. It will broaden the tax base and lower tax rates. The alterations will be reduced fostering a common market across the country. The compliance cost will come down and trade and industry will become competitive leading to an increase in exports and lower prices for domestic consumers. Faultless input tax credit, removal of current restrictions on input tax credit, higher thresholds to benefit small businesses, input tax credit even on tax paid on inter-State procurement, uniform tax rates, legislations, procedures and formats across all the States, common returns/ formats under CGST and SGST making compliance easier and economical, etc. may be regarded as the vigorous advantages of the GST.

The present paper seeks to study the impact of GST on various sectors like Food Industry, Housing and Construction Industry, FMCG Sector, Rail Sector, Financial Services Industry, Information Technology Enabled Services, and Small and Medium Enterprises in comparison with present system of indirect taxation in the Union and States. This study also attempts to bring out the controversies that might exist between central and state governments. This study is predominantly a theoretical analysis and hence it attempts to examine the intricacies of GST in general.

Key Words: GST, impact, industry, controversies

Introduction

Goods and Service Tax (GST) is a Tax on Goods and Services. It is levied at every point of value chain from production or import point to consumption point. Tax is levied only on value addition with input tax credit facility and no tax cascading at any stage. GST will redistribute the burden of taxation equitably between manufacturing and services, bringing about a qualitative change in the tax system. It will broaden the tax base and lower tax rates. The alterations will be reduced fostering a common market across the country. The compliance cost will come down and trade and industry will become competitive leading to an increase in exports and lower prices for domestic consumers. Faultless input tax credit, removal of current restrictions on input tax credit, higher thresholds to benefit small businesses, input tax credit even on tax paid on inter-State procurement, uniform tax rates, legislations, procedures and formats across all the States, common returns/formats under CGST and SGST making compliance easier and economical, etc. may be regarded as the vigorous advantages of the GST.

The present paper seeks to study the impact of GST on various sectors like Food Industry, Housing and Construction Industry, FMCG Sector, Rail Sector, Financial Services Industry, Information

Technology Enabled Services, and Small and Medium Enterprises in comparison with present system of indirect taxation in the Union and States. This study also attempts to bring out the controversies that might exist between central and state governments. This study is predominantly a theoretical analysis and hence it attempts to examine the intricacies of GST in general.

GST is a tax on goods and services with comprehensive and continuous chain of set-off benefits from the producer’s / service provider’s point up to the retailer’s level i.e. up to the last level in the chain. It is essentially a tax only on value addition at each stage. One of the biggest taxation reforms in India, the GST, is all set to integrate state economies and boost overall growth. GST will create a single unified Indian market to make the economy stronger. The implementation of GST will leads to the abolition of other taxes such as Octroi, CST, state level sales tax, entry tax, stamp duty, telecom license fees, turnover taxes, tax on consumption or sale of electricity taxes on transportation of goods and service, etc., thus avoiding multiple layer of taxation that currently exist in India.

GST is a comprehensive tax levy on manufacture sales and consumption of goods and services of a national on value added goods and services of each stage of sale of purchase in the supply chain. The system allows the set of GST paid on the procurement of goods and services against GST which is payable on the supply of goods or services. The whole structure is devised in such a way that only the final consumer should bear the taxas he is the last person in the supply chain.

Importance of the Study

The goods and service tax (GST) is proposed to be a comprehensive indirect tax levy onmanufacture, sale and consumption of goods as well as services at a national level. Integration ofgoods and services taxation would give India a world class tax system and improve taxcollections. The introduction of goods and services tax will lead to the abolition of taxes both at Central level and State level. Goods & Service Tax (GST) as the name suggests, is a tax on supply of goods or services. Everyperson manufacturing, supplying goods or rendering any kind of services will be liable to payGST which they will charge from their customer. The persons liable to pay GST will be allowedto take credit of GST paid by them on their purchase of goods or services.The Central GST and State GST are to be paid to the accounts of the Centre and the States separately. Because of that, taxes paid against the Central GST shall beallowed to be taken as input tax credit (ITC) for the Central GST and could be utilized only against the payment ofCentral GST. The same principle will be applicable for the State GST. A taxpayer or exporter would have to maintainseparate details in books of account for utilization or refund of credit. Further, the rules for taking and utilization of creditfor the Central GST and the State GST would be aligned.The present study is worthwhile on the basis of two aspects. One of which is the seeking of intricacies presented in between CGST and SGST and the other one is due to the inherent nature of the study relating to the impacts of the implementation of GST on sectors like Food Industry, Financial Services Industry, etc.

Objectives of the Study

The important objectives of the present study are given below.

1. To bring out the controversies that might exist between central and state governments in matters regarding GST
2. To study the impact of implementation of GST on selected sectors.

System of GST

A Dual system of GST will be implemented in India. This means GST will have two components

PESQUISA
ISSN-2455-0736

- One levied by Centre (Central GST or CGST)
- Other levied by States (State GST or SGST)

In India both center and states have power to levy taxes to perform variousresponsibilities according to the division of powers prescribed in the Constitution forwhich they need to raise resources. Therefore, a dual system is best suited for India.

Justifications for the System of GST at Central Level

In the case of Excise (ED), duties paid on the raw material consumed are being permitted as input credit only. For the taxes / duties paid for post-manufacturing expenses, there is no mechanism for input credit under the Central Excise Duty Act. This is for the reason that ED is charged at the stage of manufacture and not subsequent thereto. Under the existing system, there is no tax on the value added in the distribution channel.

Secondly, over a period of time, the CG has started charging Additional ED, Additional Customs Duty, Surcharges etc. for which no input credit is permitted. Thus, these duties have led to charging of VAT on it i.e. tax on tax. In order to remove cascading of taxes it is necessary that there should be only one tax with appropriate mechanism for tax credit.

Thirdly, credit for Service Tax (ST) is being permitted to a manufacturer / service provider to a limited extent. Both ED and ST are levied through different statute. In order to permit credit of ST paid in respect of all the services consumed, it is necessary to have a comprehensive system under which both the goods and services are covered.

Fourthly, a major defect in the existing system is that value for the purpose of computing tax under VAT is cost of goods plus ED paid to the CG. Thus, VAT is charged on the duty paid to the CG. This leads to cascading of taxes i.e. levying tax on taxes. In order to make the GS competitive at the global level, it is necessary that the cascading of taxes be removed. It can be done only when there is a comprehensive tax system wherein ITC is seamless i.e. a continuous chain of set-off from the original producer's / service provider's point up to the retailer's level.

Fifthly, as on today, ST is levied on restricted items only. There are large numbers of services remaining to be taxed. If the system has to be made comprehensive and ITC to be seamless, it is necessary that the SGs should be empowered to levy tax on services. At present, under the provisions of the Constitution only the CG is permitted to levy tax on services. In order to make the system seamless all the SGs will have to be permitted to levy taxes on services.

Justifications for the System of GST at State Level

A major defect under the existing structure of state VAT has been levying of tax on ED paid to the Central Government. This goes against the basic principles of not levying tax on tax. For example, if the cost of goods is Rs. 100 and rate of ED is 10.00%, VAT @ 4.00% will have to be paid of Rs. 4.40 i.e. 4.00% of Rs. 110. It can be seen that Rs. 4.00 is VAT on the value of the goods while Rs 0.40 is VAT on ED.

Secondly, VAT is also being charged in respect of Additional ED, Additional Custom Duty etc. All these have distorted the whole structure and lead to cascading of taxes.

Thirdly, despite having introduced VAT, many of the States have continued with levy of various types of indirect taxes like luxury tax, entertainment tax etc.

Fourthly, despite having introduced VAT, tax is being levied on inter-state transfer of goods. Since no input credit is permitted in respect of CST paid, it has led to additional burden for the dealers. It has hindered the growth of inter-state transactions and led to lots of administrative problems like issue / collection of C / F Form etc.

The solution for the entire problem lies in having a continuous chain of set-off from the original producer's point and service provider's point up to the retailer's level which would eliminate the burden of all cascading effects, including the burden of CENVAT and service tax. With the removal of various indirect taxes levied by the SGs there will be reduction in the multiplicity of taxes bringing down the compliance cost.

With GST, the burden of CST will also be phased out. Under the proposed system, the buyer in importing will be able to claim taxes paid to the dealer in exporting state as input credit.

Implementation of GST and its Impacts

Introduction of GST will greatly improve the quality of the indirect tax system and, therefore, make it possible to have higher resources on a sustainable basis, which will make the fiscal situation more sustainable. This reform will solve many critical issues in the long run.

According to a recent study on the impact of GST, India could gain as much as $15 billion annually once the GST is in place. Discounting these flows at a modest 3 per cent per annum, the present value of the GST will work out to about half a trillion dollars.

GST will give more relief to industry, trade and agriculture through a more comprehensive and wider coverage of input tax set-off and service tax set-off, subsuming of several Central and State taxes in the GST and phasing out of CST. The transparent and complete chain of set-offs which will result in widening of tax base and better tax compliance may also lead to lowering of tax burden on an average dealer in industry, trade and agriculture.

The subsuming of major Central and State taxes in GST, complete and comprehensive setoff of input goods and services and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports.

The impact of Goods and Services Tax on certain sectors are discussed hereunder.

Food Industry

The application of GST to food items will have a significant impact on those living under subsistence levels. It would have a major impact on the poor. But at the same time, a complete exemption for food items would drastically shrink the tax base. Food includes a variety of items, including grains and cereals, meat, fish, and poultry, milk and dairy products, fruits and vegetables, candy and confectionary, snacks, prepared meals for home consumption, restaurant meals, and beverages.

In India while food as such is exempt from the CENVAT, many of the food items including food grains and cereals attract the state VAT at the rate of 4%. Exemption under the state VAT is restricted to unprocessed food, e.g., fresh fruits and vegetables, meat and eggs, and coarse grains. Beverages are generally taxable, with the exception of milk. Even if food is within the scope of GST, such sales would largely remain exempt due to small business registration threshold. Given the exemption of food from CENVAT and 4% VAT on food items, the GST under a single rate would lead to a doubling of tax burden on food. Hence certain measures need to be taken in this regard.

Housing and Construction industry

In some countries in Europe, supply of land and real property are excluded from the scope of tax whereas in Australia, New Zealand, Canada and South Africa, housing and construction services are treated like any other commodity. When a real estate developer builds and sells a home, it is subject to VAT on the full selling price, which would include the cost of land, building materials, and construction services. Commercial buildings and factory sales are also taxable in the same way, as are rental charges for leasing of industrial and commercial buildings. There are only two exceptions: (1) resale of used homes and private dwellings, and (2) rental of dwellings. A sale of used homes and dwellings is exempted because the tax is already collected at the time of their first purchase. Residential rentals are also exempted for the same reason. If rents were to be made taxable, then credit would need to be allowed on the purchase of the dwelling and on repairs and maintenance.

In India the construction and housing sector need to be included in the GST tax base because construction sector is a significant contributor to the national economy.

FMCG sector

Despite the economic slowdown, India's Fast Moving Consumer Goods (FMCG) sector has grown consistently during the past three to four years, reaching a size of $25 billion (Rs 120,000 crore) at retail sales in 2008. Implementation of the proposed Goods and Services Tax (GST) and opening of Foreign Direct Investment (FDI) are expected to fuel growth further and raise the industry's size to $47 billion (Rs 225,000 crore) by 2013 and $95 billion (Rs 456,000 crore) by 2018, according to a new FICCI-Technopak report. The FMCG sector is also one of the major contributors to the exchequer with $6.5 billion (Rs 31,000 crore) paid through direct and indirect taxes. Implementation of GST will have several benefits for the FMCG sector including uniform, simplified and single point taxation and thereby reduced prices.

Rail sector

There have been suggestions for including the rail sector under the GST umbrella to bring about significant tax gains and widen the tax net so as to keep the overall GST rate low. The inclusion of the rail sector in the tax regime which will do away with most of the indirect taxes should be done if the government wants to provide a level playing field to road and air transportation sector. This will have the added benefit of ensuring that all inter-state transportation of goods can be tracked through the proposed information technology (IT) network.

Financial services

In most of the countries Goods and Services Tax is not charged on financial services. For example in New Zealand, almost all goods and services are covered under the GST except that of financial services. The reason behind this is that the charge for services provided by financial intermediaries like banks and insurance companies is generally not precise, i.e. the fee is taken as a margin that is hidden in interest, dividends, annuity payments or such other financial flows from the transactions. If the fee was not a hidden one, then it would be easy to charge the service to tax.

In China, financial services are taxable under their business tax, which is a tax on turnover with no tax credits allowed on inputs. Because it is a turnover tax, it can be applied to the total spread for margin services, with no need to allocate the spread between borrowers and depositors. Israel and Korea also apply tax in such alternative forms.

Under the Service Tax, India has followed the approach of bringing virtually all financial services within the ambit of tax where the consideration for them is in the form of an explicit fee.

PESQUISA
ISSN-2455-0736

It has gone beyond this by bringing selected margin services (where the consideration is the spread between two financial inflows and outflows) within the Service Tax net. The following are principal examples of such taxable margin services:

· Merchant discounts on credit/debit card transactions are taxable as a consideration for credit card services, as are any explicit fees or late payment charges collected from the card member.

· In foreign currency conversion transactions without an explicit fee, tax applies to a deemed amount of consideration equal to 2% of the amount converted.

· The tax applies to that portion of life insurance premiums that represents a cover for risks.

In some countries, transactions in gold, silver and other precious metals are also treated as part of the financial sector, given that these metals are often bought as investments, and not for consumption and hence they are exempted from tax.

As there are no compelling reasons to exempt financial services from the purview of GST, it would be advisable to continue the same approach as followed under the Service Tax provisions.

Information Technology Enabled Services

For the purpose of taxing e-commerce or software, it is essential to define the kind of property. Intangible property means property that can be moved but cannot be touched and felt. It can be further divided into Intellectual Property Rights and Others like Goodwill, Interest, and Receivables. The medium through which the software is transmitted determines the nature of goods. If it is through electronic form, then it is considered as intangible property, but if it is any other type of medium, then it would be tangible property. Depending on the type of goods and their place of supply, the tax implications vary in the countries that already have GST. E-commerce and other such transactions are the toughest to tax and need the highest probability of tax planning.

India has been struggling with the taxation of e-commerce. In spite of various judicial pronouncements and laws, the tax implications are still not very clear. Presently, the packaged and customized software is taxed on the basis of the intent of the parties. To be in sync with the best international practices, domestic supply of software should also attract GST on the basis of mode of transaction. Hence, if the software is transferred though electronic form, it should be considered as Intellectual Property and regarded as a service. If the software is transferred on media or any other tangible property, then it should be treated as goods and subject to GST.

Impact on small enterprises

The impact of GST on small enterprises is of great concern. There will be three categories of small enterprises in the GST regime. Those below the threshold need not register for the GST. Those between the threshold and composition turnovers will have the option to pay a turnover based tax or opt to join the GST regime. Given the possibilities of input tax credit, not all small enterprise may seek the turnover tax option. The third category of small enterprises above the turnover threshold will need to be within the GST framework. Possible downward changes in the threshold in some States consequent to the introduction of GST may result in obligations being created for some dealers. In such cases suitable provisions could be made to provide direct assistance to the affected small enterprises if considered desirable. In respect of Central GST, the position is slightly more complex. Small scale units manufacturing specified goods are allowed exemption of excise up to a turnover of Rs 1.5 crores. These units, which may be required to register for payment of GST, may see this as an additional cost.

Conclusion

The basic principal governing behind GST is to have single Taxation System for Goods and Servicesacross the country. Abolition of other central and state taxes is the great advantage of the proposed GST model. However some controversies are there in between central and state governments that should be properly addressed by adopting suitable mechanisms.Under GST, the taxation burden will be divided equitably between manufacturing andservices, through a lowertax rate by increasing the tax base and minimizing exemptions.It is expected to help build a transparent and corruption-free tax administration. GST will be is levied only at thedestination point, and not at various points (from manufacturing to retail outlets).Currently, a manufacturer needs to pay tax when a finished product moves out from a factory, and it is againtaxed at the retail outlet when sold.In the GST system, both Central and State taxes will be collected at the point of sale. Both components (theCentral and State GST) will be charged on the manufacturing cost. This will benefit individuals as prices are likelyto come down. Lower prices will lead to more consumption, thereby helping companies.Moreover, various sectors in the economy in the country will get benefitted through the implementation of GST nationwide.

References:

1. Rajat Mohan, "*Illustrated Guide to Goods & Service Tax*", Jain Agencies, Delhi, 3rd Edition, 2012

2. Datey V.S. , "*Students Guide to Service Tax & VAT*", Taxmaan Publications, 2nd Edition 2012

3. Rajkumar S, "*Facts about GST"*, JD Publishing House, Agra, 2011

4. Discussion Paper onGoods and Services TaxIn India, The Empowered Committee of State Finance Ministers, New Delhi, 2009

5. Kelkar, Vijay (2009): Special Address at ASSOCHAM 3rd National Conference on "GST for Accelerated Economic Growth and Competitiveness", New Delhi.

6. KPMG-CII (2010): "Report on Goods and Services Tax Survey: Industry expectations and perceptions".

7. International journal of Applied Research. Volume: 3, issue: 5, May 2013, ISSN-2249-555X.

8. Mr. Pranab Mukherjee, Finance Minister of India, Speech at the Union Budget 2010-11, February 26, 2010, available at http://www.thehindu.com/business/Econo my/article113901.ece