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Impact of Goods and Services Tax on Different Sectors and Sub Sectors of the Economy

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ABSTRACT:
The Goods and services tax (GST) is the biggest and substantial indirect tax reform since 1947. The main idea of GST is to replace existing taxes like value-added tax, excise duty, service tax and sales tax. It will be levied on manufacture sale and consumption of goods and services. GST is expected to address the cascading effect of the existing tax structure and result in uniting the country economically. The paper highlights the background, objectives of the proposed GST and the impact of GST in the present tax scenario in India. The paper further explores various benefits and opportunities of GST. Finally, the paper examines and draws out a conclusion.

KEYWORDS: Indirect tax, Goods and services tax (GST), Value-added tax Rate.

I. INTRODUCTION:

The word tax is derived from Latin word ‘taxare’ which means to estimate. A tax is an enforced contribution, exacted pursuant to legislative authority. Indian Taxation System comprise of- Direct and Indirect Tax. Goods and Services Tax (GST) is one of the most discussed Indirect Taxation reforms. It is a comprehensive tax regime levied on manufacture, sales and consumption of goods and services. It is expected to bring about 2% incremental GDP growth of the country. So, GST is the need of the hour.
Section 1 of the article introduces the GST, its objectives and Present Indirect Tax structure as well as its major reforms.
Section 2 of the article examines the impact of GST on the economy and studies the effect of GST on certain sectors.
Section 3 of the article discusses various benefits and opportunities of GST.
Section 4 laid down the key suggestions and conclusion of the article.

The idea was that there would be a national level Goods and Services tax. But as the release of first discussion by the empowered committee of the state Finance Ministers on 10.11.2009, it has been made certain that there would be a “Dual GST” in the country. Centre and state both governments are entitled to charge taxes on the goods and services. Almost 150 countries have introduced GST in some form. While countries such as Singapore and New Zealand tax virtually everything at a single rate, Indonesia has five positive rates, a zero rate and over 30 categories of exemptions. In China, GST applies only to goods and the provision of repairs, replacement and processing services. GST rates of some countries are given below in Table 1:-

Table 1: Rate of GST (Some Countries)

Country	Rate of GST
Australia	10%
Canada	5%
France	19.6%
Japan	5%
Sweden	25%
Singapore	7%

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Introduction of Goods and Service Tax:

Section 1, India is one of the 123 countries across the world that is following the VAT mode. White Paper with basic design for VAT was released on January 17, 2005 by the Finance Minister P. Chidambaram. VAT was introduced both at centre and state level. It was implemented in Haryana in 2003 and later on 1st April 2005 it was introduced in remaining states as an Indirect Tax in the Indian taxation system. VAT replaced central excise duty at the national level and the sales tax system at the state level. Thus, it improved the indirect taxation system of the country.

Goods and Service tax bill officially known as the constitution (one hundred and twenty second amendment) bill, 2014 proposes a national value added tax to be implemented in India from June 2016. The GST implementation in India is „Dual" in nature, i.e. it would consist of two components: one levied by Centre (CGST) and another levied by States and Union Territories (SGST). However, base of tax levy would be identical.

World over in almost 150 countries there is GST or VAT, which means tax on goods and services. Under the GST scheme, no distinction is made between goods and services for levying of tax. This means that goods and services attract the same rate of tax. GST is a multi-tier tax where ultimate burden of tax fall on the consumer of goods/services. It is called as value added tax because at every stage, tax is being paid on the value addition. Under the GST scheme, a person who was liable to pay tax on output, whether for provision of service or sale of goods, is entitled to get input tax credit (ITC) on the tax paid on its inputs.

Since VAT was beneficial for the taxation system but with certain shortcomings which are expected to be overcome by the Goods and Service Tax. Thus, it would definitely a positive reform for the Indirect tax system in India.

II. REVIEW OF LITERATURE:

- **Hooper and Smith (1997),** GST is actually collected at various stages of the production process. Accordingly, there is output tax, a GST tax charges by the suppliers on taxable goods and services and input tax, a tax incurred by businesses on goods and services purchases. It is noted that GST is not a cost to the sellers and would not appear in financial statements as expenditure. Recently, the government initiative to introduce Goods and Services Tax (GST) has been a growing topic of interest in Malaysia. Despite the increasing popularity and success of GST implementation around the world (Hooper & Smith, 1997), Malaysian citizens are not entirely convinced with this new tax scheme. There are debates mainly centered on the advantages and disadvantages derived from the new tax initiative.
- **Ehtisham Ahmed and Satya Poddar (2009)** studied, "Goods and Service Tax Reforms and Intergovernmental Consideration in India" and found that GST introduction will provide simple 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.
- **Dr. R. Vasanthagopal (2011)** studied, "GST in India: A Big Leap in the Indirect Taxation System" and concluded that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy. Success of GST will lead to its acceptance by more than 130 countries in world and a new preferred form of indirect tax system in Asia also.
- As per as India is concerned **Agogo Mawuli (May 2014)** studied, "Goods and Service Tax-An Appraisal" and found that GST is not good for low-income countries and does not provide broad based growth to poor countries. If still these countries want to implement GST then the rate of GST should be less than 10% for growth.
- Empowered Committee of Finance Ministers (2009) introduced their First Discussion Paper on Goods and Services Tax in India which analyzed the structure and loopholes if any in GST
- Indirect tax committee of ICAI (2015) submitted a ppt naming GST which stated in brief
- The ICAI (2015) published a reference on goods and service tax to provide the information on the concept of GST in details.

Objectives of Goods and Service Tax:-

GST is proposed to fulfill the following objectives:

- ✓ GST would help to eliminate the cascading effects of production and distribution cost of goods and services. This would help to increase GDP and then to economic condition of the country.
- ✓ GST would eliminate the multiplicity of indirect taxation and streamline all the indirect

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taxes which would be beneficial for manufacture and ultimate consumer.

- ✓ GST would be able to cover all the shortcomings of existing VAT system and hopefully serve the economy health.
- ✓ Incidence of tax falls on domestic consumption.
- ✓ The efficiency and equity of system is optimized

Present Indirect Tax structure in India is very complicated and complex in nature. It consists of cascading effects of tax. These add to cost of goods and services through "tax on tax" which the final consumer have to bear. There are manifolds in indirect taxation structure.

Table 2: Five Major types of Indirect Taxes in the country

Excise duty	Service tax	Sales tax/ VAT/CST	Custom duty	Party tax
Entry no.84 List I, Schedule VII	Residuary entry no. 97, List I, Schedule VII	Entry no. 54 of List II (VAT) and 92 A of list 1(CST)	Entry no.83, Unit I, Schedule VII	Entry no. 52 & 62 List II, Schedule VII
Taxable event is manufacture	Taxable event is provision of service	Taxable event is sales	Taxable event is import & export	Taxable event is Entertainment and entry of Goods

Impact of goods and service tax:
Section 2, GST has a positive impact on the economy and on various sectors which are as follows:

Fast moving consumer goods sector:-
With the implementation of Goods and Service Tax, FMCG sector would really change. FMCG sector consist 50% Food and Beverage sector and 30% is Household and Personal care. FMCG sector is the major taxation contributor both direct and indirect in the economy. The multiplicity of the taxation influences the company's decision on manufacturing location and distribution of Goods. FMCG companies set their manufacturing units and warehouses where they can avail tax benefits. To transfer the stock from the warehouses among the states they have to pay taxes.
So, GST would surely impact on FMCG sector as taxes affect the cost to the company.

Food Industry:
Since food constitutes a large portion of the consumer expense of lower income households, any tax on food would be regressive in nature. Therefore, extending GST to food processing sector will also cause difficulty in view of the fact that production and distribution of food is largely unorganized in India. On global front, most of the countries tax food at a lower rate keeping in view the considerations of fairness and equity. Even in countries such as Canada, UK and Australia where food constitute a relatively small portion of the consumer basket, food is taxed at zero rates. While in some countries, food is taxed at a standard rate which is as low as 3% in Singapore and Japan at the inception of the GST. Even in international jurisdictions, no distinction is drawn on the degree of processing of food. Hence, the benefit of lower or zero tax rates should also be extended to all food items in India regardless to degree of processing.

Information Technology enabled services:-
The proposed GST rate under the IT industry is not yet decided. While the discussed combined rate of GST for the product is 27%. According to proposed GST if the software is transferred through electronic form it would be regarded as service (intellectual property).and if it is transferred through media or any other tangible property then it should be treated as goods. Implementation of GST will help in uniform simplified and single point taxation and thereby reduced price.

Infrastructure sector:
The Indian infrastructure sector largely comprises power, road, port, railways and mining. And the indirect tax levy is different and unique for each of them, and this is complex in nature. Although this sector enjoys different exemptions and concessions as it is important on national front. With the implication of GST the multiplicity of taxes will be removed and it would increase the tax base with continuation of exemptions and concessions for national interest and growth

Benefits and opportunities of GST:

Section 3, The Goods and Services Tax have many benefits and will create various opportunities on various stakeholders like business, industry, government and consumers which are being discussed in Table 3 below:

Table 3: Benefits on various Stakeholders

- For business and industry
  - Easy compliance
  - Removal of cascading
  - Improved competitiveness
- For state and government
  - Better controls on leakage
  - Consolidation on tax base
  - Higher revenue efficiency
- For the consumers
  - Single and transparent tax proportionate to the value of goods and services
  - Reduction of prices

Key findings and suggestions:

Section 4, GST has the following implications:

- GST will widen the tax base, improve tax compliance and will remove unhealthy competition among states. It will redistribute the burden of taxation equitably among manufacturing and services.
- It ensures uniformity of tax system across the states. It will integrate the tax base and allow seamless flow of Input Tax Credit (ITC) resulting in reduced cost of goods and services.
- It will improve disclosure of economic transactions.
- It will mitigate cascading and double taxation thus enables better compliance. It will also lead to transparency in tax system resulting in difficulty of tax evasion.

The suggestions which are being drawn out from the study are as follows:

- Tax payer education or public awareness campaign need to be provisioned by Central Government. Public Workshops, training and various seminars on GST must be conducted in all states by their respective State Governments.
- States must analyze and deduce their revenue neutral rates, revenue implications as well as compensation packages.
- Government should construct a proper monitoring system for monitoring the dummy registrations and refunds problems.

III. CONCLUSION:

It can be concluded from the above discussion that GST will provide relief to producers and consumers by providing wide and comprehensive coverage of input tax credit set-off, service tax set off and subsuming the several taxes. Efficient formulation of GST will lead to resource and revenue gain for both Centre and States majorly through widening of tax base and improvement in tax compliance. It can be further concluded that GST have a positive impact on various sectors and industry. Although implementation of GST requires concentrated efforts of all stake holders namely, Central and State Government, trade and industry. Thus, necessary steps should be taken

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