



Impact of GST in the context of Indian society: Pros and Cons

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Abstract

GST Bill has been passed in the Rajya Sabha, further ratified by the requisite number of states. Even the President has given his assent to the GST Bill. So, the implementation of GST is nearing reality. All the necessary steps are being taken for the effective implementation of GST or Goods and Services Tax from July 2017 in India. GST has been a hot topic of discussion everywhere these days. So, you need to be aware of different aspects of GST. Keep reading further, to have a deeper insight of the positive as well as the negative Impact of GST on common man. Presently, there are around 160 countries that have implemented GST/VAT in some form or other. In some countries, VAT is the substitute for GST, but conceptually it is a destination based tax levied on consumption of goods and services. France was the first to introduce GST or Goods and Services tax. Presently, only Canada has a dual GST model (somewhat similar to the Dual GST Model that India is going to implement). The rate of GST normally ranges in between 15–20%. However, it may differ to a higher/lower side in some of the countries. The rates of GST play a crucial role in its successful implementation. Various countries have been struggling to rationalize the rate structure.

Keywords: GST, goods, services tax, VAT

Introduction

GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages. After a lot of deliberation, our GST council has finalized the rates for all the goods and major service categories under various tax slabs, and the GST is expected to fill the loopholes in the current system and boost the Indian economy. This is being done by unifying the indirect taxes for all states throughout India. The tax rate under GST are set at 0%, 5%, 12%, 18% and 28% for various goods and services, and almost 50% of goods & services comes under 18% tax rate.

Impact on Many Sectors of the Society- *Let's see how GST on some day-to-day good and services will have an impact on an end user's pocket.*

Footwear & Apparels/Garments: Footwear costing more than INR 500 will have a GST rate of 18% from an earlier rate of 14.41 rate but rates for the footwear below INR 500 has been reduced to 5%. So, you need to shell out more for buying a footwear above INR 500/-. And with respect to the ready-made garments, the rates have been reduced to 12% from an existing 18.16% which will make them cheaper.

Cab and Taxi rides: Now, taking an Ola or an Uber will be cheaper because the tax rate has come down to 5% from an earlier 6% for a cab booking made online.

Airline tickets: Under the GST, tax rate for economy class for flight tickets is set at 5% but the tax for business class tickets will have a higher tax rate of 12%.

Train Fare: There will not be much of an impact. The effective tax rate has increased from 4.5% to 5% in GST. But, passengers who travels for business trips can claim Input Tax Credit on their rail ticket which can help them to reduce expenses. People travelling by local trains or in the sleeper class will not be affected, but first-class & AC travelers will have to pay more.

Movie Tickets: Movies tickets costing below INR 100 will be charged a GST rate of 18% but prices above INR 100 will have a higher tax rate of 28%.

Life Insurance Premium: The Premium Amounts on policies will rise, with an immediate impact can be seen on your term and endowment policy premiums as the rates have been increased under GST across life, health and general insurance.

Mutual funds Returns: GST impact on your returns from mutual funds' investments will largely be marginal as the GST will be charged on the TER i.e. Total Expense Ratio of a mutual fund. The TER is commonly called as expense ratio of a mutual fund company, and the same is set to go up by 3%. The return what you get as an investor will be reduced to that extent unless the respective mutual fund company i.e. AMC absorbs it but that anyhow will be a marginal difference.

Jewellery: The gold investment will become slightly expensive because there will be 3% GST on gold & 5% on the

making charges. The earlier tax rate on gold was around 2% in most of the states and the GST is increased from the existing rate to around 2% to 3%.

Buying a Property: Under construction properties will be cheaper than read-to-move-in properties. The GST rate for an under-construction property is 18% but the effective rate on this kind of property will be around 12% due to input tax credits the builder will avail of.

Education & Medical Facilities: Education and Medical sectors have been kept outside the GST ambit and both the primary education & healthcare is exempt from GST. It means a consumer will not pay any tax for the money you spent on these services. But due to increase in the rate of taxes for certain goods & services as procured by these organisations, they may pass on the additional tax burden to the consumers.

Hotel Stay: For your hotel stay, if your room tariff is less than Rs 1,000, then there will be no GST, but anything above Rs 5,000 will attract 28% tax.

Buying a Car: Most of the cars in the Indian market will become slightly cheaper, except for the hybrid cars because the GST rate will be 28% tax on all the vehicles irrespective of their make, engine capacity or model. However, over and above this 28%, an additional cess will be levied which can be either 1%, 3% or 15 %, depending on the particular car segment.

Mobile Bills: People will have to pay more on mobile phone bills as GST on telecom services is now 18%, as opposed to the earlier tax rate of 15%. However, telecom companies may absorb this 3% rise due to fierce competition.

Restaurant Bills/EATING OUT: Your restaurant bill would depend on whether you dined at an AC or Non-AC establishments which do not serve alcohol. Now dining at five-star hotels will be charged at 18% GST rate and the Non-AC restaurants will be charged 12% and a 5% GST will be charged from small hotels, dhabas and restaurants who do not cross an annual turnover of INR 50 Lakh.

IPL & other related events: Events like IPL i.e. sporting events will have a 28% GST rate which is higher than the earlier 20%.rates. This will increase the price of your tickets. And the GST rate for other events like theatre, circus or Indian classical music shows or a folk dance performance or a drama show will be at 18% GST rate, this is lesser than the earlier tax rate.

DTH and cable services: The money you pay towards your DTH (Direct-To-Home) connections or to your cable operator will reduce a bit as the rate is fixed at 18%, which is lower than the earlier taxes which were comprising of entertainment tax in the range of 10% to 30%, apart from the service tax of 15%.

Amusements Parks: The ticket price for amusement parks and theme parks will increase as the earlier service tax of 15%

will become 28% under the GST.

Impact of GST on Manufacturers, Distributor, and Retailers

GST is a boost competitiveness and performance in India's manufacturing sector. Declining exports and high infrastructure spending are just some of the concerns of this sector. Multiple indirect taxes had also increased the administrative costs for manufacturers and distributors and with GST in place, the compliance burden has eased and this sector will grow more strongly. But due to GST business which was not under the tax bracket previously will now have to register. This will lead to lesser tax evasion.

Impact of GST on Service Providers: As of March 2014, there were 12, 76,861 service tax assesseees in the country out of which only the top 50 paid more than 50% of the tax collected nationwide. Most of the tax burden is borne by domains such as IT services, telecommunication services, the Insurance industry, business support services, Banking and Financial services, etc. These pan-India businesses already work in a unified market, and will see compliance burden becoming lesser. But they will have to separately register every place of business in each state.

Sector-wise Impact Analysis

Logistics: In a vast country like India, the logistics sector forms the backbone of the economy. We can fairly assume that a well organized and mature logistics industry has the potential to leapfrog the "Make In India" initiative of the Government of India to its desired position.

E-commerce: The e-commerce sector in India has been growing by leaps and bounds. In many ways, GST will help the e-com sector's continued growth but the long-term effects will be particularly interesting because the GST law specifically proposes a Tax Collection at Source (TCS) mechanism, which e-com companies are not too happy with. The current rate of TCS is at 1%.

Pharma: On the whole, GST is benefiting the pharma and healthcare industries. It will create a level playing field for generic drug makers, boost medical tourism and simplify the tax structure. If there is any concern whatsoever, then it relates to the pricing structure (as per latest news). The pharma sector is hoping for a tax respite as it will make affordable healthcare easier to access by all.

Telecommunications: In the telecom sector, prices will come down after GST. Manufacturers will save on costs through efficient management of inventory and by consolidating their warehouses. Handset manufacturers will find it easier to sell their equipment as GST has negated the need to set up state-specific entities, and transfer stocks. The will also save up on logistics costs.

Textile: The Indian textile industry provides employment to a large number of skilled and unskilled workers in the country. It contributes about 10% of the total annual export, and this value is likely to increase under GST. GST would affect the

cotton value chain of the textile industry which is chosen by most small medium enterprises as it previously attracted zero central excise duty (under optional route).

Real Estate: The real estate sector is one of the most pivotal sectors of the Indian economy, playing an important role in employment generation in India. The impact of GST on the real estate sector cannot be fully assessed as it largely depends on the tax rates. However, the sector will see substantial benefits from GST implementation, as it has brought to the industry much-required transparency and accountability.

Agriculture: The agricultural sector is the largest contributing sector the overall Indian GDP. It covers around 16% of Indian GDP. One of the major issues faced by the agricultural sector is the transportation of agri-products across state lines all over India. GST will resolve the issue of transportation.

Freelancers: Freelancing in India is still a nascent industry and the rules and regulations for this chaotic industry are still up in the air. But with GST, it will become much easier for freelancers to file their taxes as they can easily do it online. They are taxed as service providers, and the new tax structure has brought about coherence and accountability in this sector.

Automobiles: The automobile industry in India is a vast business producing a large number of cars annually, fueled mostly by the huge population of the country. Under the previous tax system, there were several taxes applicable on this sector like excise, VAT, sales tax, road tax, motor vehicle tax, registration duty which will be subsumed by GST.

Startups: With increased limits for registration, a DIY compliance model, tax credit on purchases, and a free flow of goods and services, the GST regime truly augurs well for the Indian startup scene. Previously, many Indian states had different VAT laws which were confusing for companies that have a pan-India presence, especially the e-com sector. All of this has changed under GST.

Pros of GST on Society – Positive Impact of GST

A unified tax system removing a bundle of indirect taxes like VAT, CST, Service tax, CAD, SAD, Excise etc. A simplified tax policy as compared to earlier tax structure. However, its not as simple as it seems to be, Check disadvantages below to grab more details. GST or Goods & Services tax removes cascading effect of taxes i.e. removes tax on tax. Due to lower burden of taxes on the manufacturing sector, the manufacturing costs will be reduced, hence prices of consumer goods likely to come down. Due to reduced costs some products like cars, FMCG etc. will become cheaper. This will help in lowering the burden on the common man i.e. you will have to shed less money to buy the same products which were earlier costly. The low prices will further lead to an increase in the demand/consumption of goods. Increased demand will lead to increase supply. Hence, this will ultimately lead to rise in the production of goods. The increased production will lead to more job opportunities in the long run. But, this can happen only if consumers actually get cheaper goods. It will curb circulation of black money. This

can happen only if the “kacha bill” system, normally followed by traders and shopkeepers is put to check. A unified tax regime will lead to less corruption which will indirectly affect the common man. Most importantly, experts hope to see a positive impact of GST on Indian economy in the long run. But, this is possible only if the actual benefit of GST is passed on to the final consumers. There are various other factors also like the sellers profit margin that determine the final price of goods. GST alone does not determine the final price of goods. The anti-profiteering clause has been inserted in the GST Act to protect the interest of the consumers.

Cons of GST on Society -Negative Impact of GST

Compliance burden : The number of GST returns that you need to file i.e. you have to file 3 monthly returns, this amounts to total of 36 returns plus 1 annual return. Filing 37 returns in a year...Moreover, this applies to one state, if you have a place of business in different states, you need to register in each state separately and file the respective returns. Although big businesses having ample staff can handle the whole process very easily. But, what about small traders/service providers or individuals who have just started their business or service, isn't that getting a bit complex for them ? A small exemption in this regard could have been a big sigh of relief for such people! Recently, the GST rules have been a bit relaxed to reduce the compliance burden of small businesses. Now, businesses with a turnover of upto 1.5 crore a year can file their GST returns quarterly instead of monthly returns. Service tax rate at 15% is presently charged on the services. So, if GST is introduced at a higher rate which is likely to be seen in the near future, the cost of services will rise. GST shall be charged at 18% on maximum services and shall reach upto 28% for few services. In simple words, all the services like telecom, banking, airline etc. will become more expensive. Increased cost of services means, add on to your monthly expenses. You will have to reschedule your budgets to bear the additional services cost. Businessmen and service providers are still learning about the new laws. This will increase reliance on tax experts and professionals and further add to your business expenses. Being a new tax, it will take some time for the people to understand it completely. Its actual implications can be seen after a certain period of time. It is easier said than done. There are always some complications attached. It is a consumption based tax, so in case of services the place where service is provided needs to be determined. Proper invoicing and accounting needs to be done to ensure better compliance. However, GST Accounting Software are being developed in this regard by various companies. If actual benefit is not passed to the consumer and the seller increases his profit margin, the prices of goods can also see a rising trend. An increase in inflation might be seen initially that may come down gradually. A strict check on profiteering activities will have to be done, so that the final consumer can enjoy the real benefits of GST. Although, a large number of officers are being trained and a systematic IT software is being developed for the successful implementation of GST. But, it will take some time for the people including the manufacturers, the whole sales, the retailers or the final consumers to understand the whole process and apply it correctly. However, GST or Goods and Services tax is a long

term strategy planned by the Government and its positive impact shall be seen in the long run only. The rates of GST and how effectively GST is introduced in all the States and at the Centre also plays a crucial role in deciding the actual impact of GST on the common man.

Conclusion

As we can conclude that GST is long run fruit, GST has brought in 'one nation one tax' system, but its effect on various industries is slightly different. The first level of differentiation will come in depending on whether the industry deals with manufacturing, distributing and retailing or is providing a service. GST is expected to bring greater transparency, improve compliance levels and create a common playing field for businesses by amalgamating a host of central and local taxes. It would change the current tax regime of production-based taxation to a consumption-based system. There is no doubt that the corporates would benefit once they settle in under GST and assess the impact on their respective businesses, however, the advantages to the common man may take longer to be apparent.

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