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"GST – A Paradigm shift in Indirect Taxes"

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Abstract:

The Good and Services Tax (GST) is the major and important indirect tax reform since 1947. The core idea of GST is to replace existing tax system like Excise Duty, Service Tax, Sales Tax and VAT. It will be imposed on manufacturing, selling 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.

Researchers aim to study the short term and long term effects of GST on various sectors of economy, GDP of our country and looking forward to the overall use of technology to make the system transparent and efficient stating the role of technology in the co-ordination between Central and State Government. Researchers will also look into the pictorial framework of employment generation due to GST and its effect on services sector. Around seventy percent of income is through agriculture in India, hence it is vital to study the effect of GST on this sector of economy.

Keywords: *GST, Impact, Economy, GDP, Opportunities and Implementation.*

Introduction:

The GST is worldwide accepted system of indirect taxation. It is considered for the goods sold as well as for the services provided. GST is a system of taxation where there is a single tax in the economy for goods as well as services. This is meant to bring together the state economies and create a single taxation system in the entire country for all goods and services. The GST when introduced can abolish all the present indirect taxes.

Objectives of the Study:

1) To understand the concept of GST.
2) To find out the possible effects of GST on different sectors of Indian Economy.
3) To study the present scenario of our country in regards to GST.

Need of Study:

GST is not an effective measure to ensure short term benefits. It is not a standard procedure. GST is reform in its truest sense. It may give labour pain but ultimately it will result into a regenerative force for the Indian economy. If effectively put into function or not and also there is a big doubt with regards to those Indian political leaders likely to focus more on the short term rather than long-term returns. The service sector attracts lots of foreign investment along with the GDP, into the economy of India as the sector is responsible for generating huge jobs. The first question that comes to mind is whether the IT infrastructure is ready for such a massive outcome. The process has aptly begun, with a team of technology and tax experts working on a robust IT network in order to make the GST application seamless, and this is possible by the GST Network (GSTN).

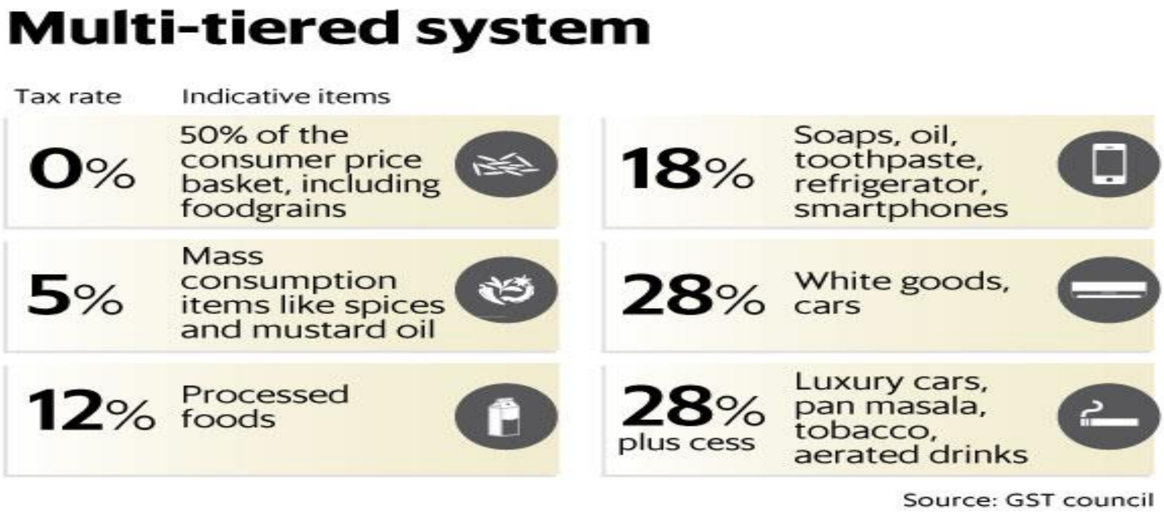
Research Methodology:

Sr. No.	Particulars	Details
1	Type of Data	Secondary Data.
2	Source of Data	➢ Views, Articles and Research Papers Published in News Papers and Journals by the Experts, Researchers and Economists. ➢ Several Websites.
3	Method of Data Collection from Eminent Personalities and Subject Experts	Discussion with – ➢ Experts i.e. Finance Faculty Members and others, ➢ Eminent personalities i.e. Practicing Chartered Accountants and ➢ Mr. Avinash Chavan, Assistant Sales Tax Commissioner in this field for background study.

Limitation of the Study:

No primary data is collected; as maximum people are not actually aware about the concept of GST. After implementation of the GST, study on primary data becomes possible. Only two sectors have been considered for the study.

Range of GST- Tax Bracket:



Possible Effects of GST on Different Sectors:
GST will mainly influence on Agricultural Sector, Service Sector and Overall Employment.

A) Agricultural Sector:

Many food items in India have been exempted from the CENVAT, while cereals and food grains are accountable for the state VAT of 4 %. While the other natural food such as meat and eggs, coarse grains, fresh fruits, and vegetables come under the limited state VAT class.

- It is expected that after the execution of the GST, the prices of the agricultural products and services will rise but the products will be able to reach places via trucks in an improved way.
- The functioning of GST will also favour the National Agricultural Market on integration all the different types of taxes on agricultural products.
- The ease of movement of the agricultural goods will improve the marketing and enhance the virtual market growth.

In order to achieve National Market in agriculture, there is need for synchronization in the provisions of APMC Act, EC Act and WDR Act. The implementation of GST is expected to ease the functioning of National Agricultural Market on account of subsuming all kinds of taxes/cess on selling of agricultural produce as well as it would ease interstate progress of agricultural commodities which would improve marketing efficiency, facilitate development of implicit markets through warehouses and reduce overhead marketing cost. There is need for more clarity on exemptions available under CGST and SGST.

B) Service Sector:

1) **Real Estate:** This sector is brought within the umbrella of GST. It is likely to result in mirror image, which will substantially reduce tax trafficking through more efficient transaction-checking methods, and improved enactment and compliance. Since GST may be charged on a single value, the current issue of levying tax on tax (VAT on central excise duty) is likely to be restricted. There may be an increase in rate to the end consumers.

2) **Financial Services:** GST is expected to be 18 percent to 20 percent for banking and financial

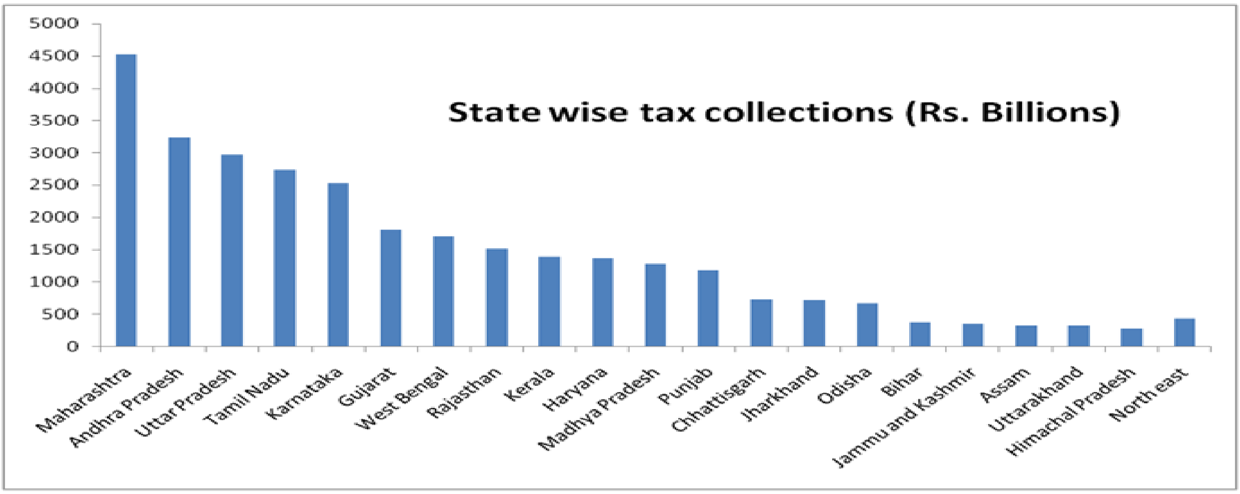
services. Thus, these services are likely to be charged more. GST may make things tough as financial service providers may be required to follow to compliances across multiple states instead of the current single, centralized registration formality. Due to destination based taxation system of GST, it may lead to a difficulty in getting SGST, CGST or inter-state GST on B2B and B2C transactions. Interest on loans, trading in securities, foreign currency & retail services are likely to fall within the umbrella of GST.

3) **Travel, Tourism and Hospitality:** It is expected that within GST, supplies of hotels and restaurants will charged to a single tax. R&D cess, payable on franchise fees is likely to fall under GST, thus easing formal procedures and making less cascading of taxes. On the whole, GST is likely to eliminate cascading of taxes and lack of credits. It may also lead to increase in tax rates.
4) **Healthcare:** GST may either remove the inverted duty structure or allow refund of accumulated credit. This sector enjoys various exemptions and benefits. It is still unclear whether these benefits will be there under GST.
5) **Education:** The education sector now has various tax exemptions and benefits; services provided by schools and colleges are either out of tax or are in the negative list. The situation is likely to continue even after the functioning of GST.
6) **Airlines**: Service tax on fares now ranges between 6% and 9% (depending on the class of travel). With GST, the rate will exceed 15%, if not 18%, resulting in doubling the tax rate.
7) **Costlier Services**: The services are expected to be higher at the taxation rate of around 18% to 26% making an overall increased effect on the services.

Winner and Looser of GST State wise:

As per the Article published by Prudhvi Teja on August 5, 2016, in states like UP and Bihar tax collected per person is much lower than that of states like Punjab, Tamilnadu and Gujarat reason being lack of industries. The tax collections of various states in India and comparison with population of states like Bihar, UP whose population is much higher than many states.

According to following graph there is a tremendous difference between the states in terms of tax collection and it is highest in manufacturing states.



GST is a consumption based tax, so it will ensure that tax collections in other states also rise.

Type of Sales	Present Scenario	After GST

Intra-State Sales	Tax collection goes to same states	Tax collection goes to same states.
Inter-State Sales	Tax collection goes to original state.	Tax collection goes to destination state.

- This is because, being a consumption based tax, tax collection will go to the states in which the goods are consumed, and not where they are manufactured.
- Now, where are the goods consumed? Typically speaking, more consumption will take place in states where the population is higher. As a result of this, the per capita tax collection (tax collected per person) in the economy, across various states will even out.
- So currently states like Bihar, UP which did not have many industries for indirect tax collection but consume heavily will see a huge benefit. So they can spend more on infrastructure and provide good atmosphere for industries.

Short Term and Long Term Impact of GST:

1) **Inflation**: There is possibility to be a temporary increase in price, especially as service taxes are improved from the existing 15% to 17% or 18%, while some product taxes are lowered. These changes however will fairly equalize each other, therefore lowering the net impact on inflation.

   There is a short-term rise in inflation. If present slab is taxed at a higher 18%, inflation could raise by 0.4-0.7% in the year of the implementation. Secondly, if the revenue unbiased rate is higher at 20%, an average 0.9% rise in the inflation is prone. Particularly, manufacturers' pricing power, exemption and kind of tiers will also persuade the price go through. There would be no lasting effect on inflation.

2) **Growth**: The GST influence on escalation will prone be downbeat in the near-run but positive future given the profit of an integrated taxation system. In the short-term, service sector tax is supposed to rise and it accounts for over 50% of the economy's growth. Part of this hurt will also be offset by prospective price savings for the manufacturing sector i.e. 17-18% of GDP due to an integrated taxation process and accessibility of input credits. Longer-out, GST will be a positive for growth. A study done by the Thirteenth Finance Commission pointed out the long-term growth to GDP at 0.9-1.7%.
3) **Fiscal Implications**: On the basis of GST ratio revenues that need to be raised, in the suggested ratio of 47:53 tax amount sharing understanding between the central and state governments. According to this, the central government's share in revenues will rise from 32% to 47% at the same time the states reduce to 53% to around 68%.

   Because of such prospective revenue loss, state governments have long opposed the implementation of the GST. Their key demands include:

   a) Revenue creating products like alcohol and petroleum should not be included in the GST. This is lucid as alcohol and petroleum account for one third of indirect tax revenues;
   b) Impose 1% surcharge over and above the GST between manufacturing and consuming states;

c) Demanded compensation for revenue losses for the first five years.

4) **Foreign Exchange:** In the near term while growth could be troublesome, depending on go through and efficient tax rate, in the average tenure it will likely add 80 basis points to GDP growth, of which 50 bonus points would come from privileged investment. Inflation will most likely to spike if the GST Council recommend a higher than 18% rate, it will eventually lower over time.

Challenges in Implementation of GST:

a) Any new change is seen with doubt and suspicion. There is always a general unwillingness to change. Thus this would act as a hurdle in implementation of GST.

b) Determining uniform GST rate is a difficult task- based on Revenue Neutral Rate as per to which all states have same revenue as before poses a challenge. Higher rate of Revenue Neutral Rate (RNR) will pose high inflationary challenge.

c) The nature of GST is a difficulty, being an indirect tax affects more poor than rich as rate of indirect taxes is more than direct taxes in India.

d) Large scale restructuring of departments, institutions, ministries has to be done to absorb GST provisions. Any delay would result in hold-up in overall implementation.

e) Pressure would be there to make compliance easy as any complexity might cause evasion. Necessary structures have to be built / reformed.

f) Till time no clarity on the Tax rate despite many meetings between Finance Ministers of different state's. GST council needs to arrive at it quickly.

g) Tax administration staff at State and Central levels would require to be trained properly in terms of Concept, Process and Legislation for successful implementation of GST.

h) The tax administration staff would also need to change their attitude, approach and mind set towards the tax payers and for this, they must learn, unlearn, and relearn the GST not only in letter but in courage too.

Use of Technology for Effective Implementation of GST:

Government should use the Technology for effective implementation of GST.

- Online validation of Aadhaar, Challan Identification Number (CIN), Director Identification Number (DIN), PAN, BHIM App etc. is required.
- In future, sharing of taxpayers uploaded data with tax authorities.
- Completely automatic return process with various ways for upload.
- Totally transparent system with complete taxpayer records and dashboard.
- On GSTN portal, complete information of GST compliance rating for taxpayers will be published.
- GSTN would help in PAN-based registration of traders, besides filing of tax returns and payment system.

Working of GSTN:

Users will have the alternative to either file their taxes on their own through the portal or use the services of accountants who can use the portal on their behalf or deploy their own software. The portal will permit new businesses to register using their PAN and Mobile Number or Aadhaar

Number. All businesses will be given a GST Identification Number, which will be a 15 Digit Code, consisting of their State Code and Ten Digit PAN.

GST Mobile App:

Tally Solutions announced on 14th December, 2016 regarding launch of its GST Mobile App to ensure easy adoption of the technology. This free enterprise application can be downloaded by Android and iOS users from their respective app stores.

Findings:

Challenges	**Steps being taken/planned**
IT readiness of states	Some states do not have matured IT systems for tax, and for them, the back-end system to process registration applications, assessments, appeals, etc. is being developed by GSTN. For these states, there will be one common system handling the back-end functions as well.
Readiness of taxpayers to file returns and pay taxes online	Presently, many states do not have online systems of filing/tax payment return. Rigorous training is planned through state tax authorities to prepare the taxpayers.
Elimination of the requirement of sending signed physical copy of filed return (in absence of digital signature)	As per implementation by Central Board of Excise and Custom (CBEC), GSTN is also considering the implementation of e-sign to remove the need for sending the signed physical copy to the designated address. This, however, has to be suitably backed by GST laws.
Readiness of CAs / Tax Advocates / *Tax Return Preparer Scheme (TRPs)*	Training

Conclusion:

1) Shifting to a GST system will be beneficial for the economy in many ways. Whereas single-rate system would be perfect, it could prove tricky to pass. The government faces a problem to reach to consent with the state governments and opposition parties. The government also needs to ensure higher taxes don't interrupt on growth/ incomes.
2) The chances are more that the authorities initially adopt a diluted and multi-tiered version of the GST. If so, a move to a single rate remains possible over the medium-term. Either version is preferable to the current VAT.
3) The implementation of GST is certainly linked to successful implementation of NAM as it aims at unified tax structure of goods and services which would sooner or later include agricultural produce. The National Agricultural Market (NAM) predicts smooth flow of goods across states leading to competitive and transparent prices with possibility of increased share to the farmer in the value produced in agricultural goods.
4) The GST will also impact the Services Sector. The expected GST proposition is known to have a better economic makeover but in the case of service sector, the economy will see a higher taxation reform for the country.

5) Government need to plan suitable, simple strategies for implementation of GST and develop the appropriate technology for easy operations.

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