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Research Paper

# GST-A NEW FACELIFT FOR INDIRECT TAXATION SYSTEM OF INDIA

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## ABSTRACT

*GST is a comprehensive tax system that will subsume all indirect taxes of states and central governments and unified economy into a seamless national market. It is expected to iron out wrinkles of existing indirect tax system and play a vital role in growth of India. This paper presents an overview of GST concept, explains its features, rational, rates across countries along with its timeline of implementation in India. The paper is more focused on comparative rates and affects on the common man and the traders of India in execution.*

**KEYWORDS:** *Tax, Indirect tax, Goods and Service Tax (GST), India.*

## INTRODUCTION

Goods and service tax is taking India by the storm. GST will bring in "One nation one tax" to unite indirect taxes under one umbrella and facilitate Indian businesses to be globally competitive. The Indian GST case is structured for efficient tax collection, reduction in corruption, easy inter-state movement of goods etc.France was the first country to implement GST to reduce tax- evasion. Since then, more than 140 countries have implemented GST with some countries having Dual-GST (e.g. Brazil, Canada etc.) model. India has chosen the Canadian model of dual GST.

USA does not have GST as it ensures high autonomy for the states.

## LITERATURE REVIEW

Dr. R. Vasanthagopal (2011)2studied,"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

Ehtisham Ahmed and Satya Poddar (2009) studied, "Goods and Service Tax Reforms and Intergovernmental Consideration in India" and found that GST introduction will provide simplier 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

Nitin Kumar (2014) studied, "Goods and Service Tax- A Way Forward" and concluded that implementation of GST in India help in removing economic distortion by current indirect tax system and expected to encourage unbiased tax structure which is indifferent to geographical locations.

Pinki, Supriya Kamma and Richa Verma (July 2014)7 studied, "Goods and Service Tax- Panacea For Indirect Tax System in India" and concluded that the new NDA government in India is positive towards implementation of GST and it is beneficial for central government , state government and as well as for consumers in long run if its implementation is backed by strong IT infrastructure.

## OBJECTIVE OF STUDY

1) To recognize the concept of GST.
2) To study the features and rational behind implementation of GST.
3) To compare the rates across countires and impact on common man.
4) To furnish information for further research work on GST.

## RESEARCH METHODOLGY

Being an explanatory research it is based on secondary data of journals, articles, newspapers and magazines. Considering the objectives of study descriptive type research design is adopted to have more accuracy and rigorous analysis of research study. The accessible secondary data is intensively used for research study.

## THE IMPACT AND COMPARISION GLOBAL

All around the world, GST has the same concept. In some countries, VAT is the substitute for GST, but conceptually it is a destination based tax on consumption of goods and services. But perhaps the most contentious issue that still needs to be resolved among the different governance in the world is the GST rate. Some are still struggling to rationalize an adopted rate structure.

Similar to Indian context, it is only Canada that has the concept of dual GST. While there was strong rebel at the time of introduction of GST by the then political division in Canada, however, GST sustained despite the opposition. Even for the subsistence, the Government of Canada has been pragmatic and worked towards reducing the GST rate a couple of times post implementation. While some others have had to increase the rates very soon after introduction.

| Country | Rate of GST / HST / VAT |
|---|---|
| Canada | Ranges from 13% to 15% |
| France | Standard rate: 20%, Reduced rate: 5.5% & 10% |
| UK | Standard rate: 20%, Reduced rate: 5% |
| New Zealand | Peak rate: 15% |
| Malaysia | 6% |
| Singapore | 7% |
| India | Indicative rate ~ may range from 12% to 20% |

The aforesaid is highly relevant in the India context where once revenue neutral rate was discussed at 27% and now realistically being talked about at 16-18%. It is imperative that a reasonable rate structure is adopted to ensure the success of GST.

Another aspect encountered and accepted by most of the GST countries lies in the statistic that GST will be inflationary, especially if the effective tax rate is higher than what prevailed before. For instance, Singapore saw a spike in inflation in 1994 when it introduced the GST. That makes it all the more important for administrators to keep tabs on how prices move after imposition of the tax. Malaysia, to an extent, was able to mitigate this risk as price control on account of the GST was administered by the Ministry of Domestic Trade and Consumer Affairs.


## PERSONAL FINANCE

Imapct of GST on your personal finances will be mixed. For many items, there is a reduction in taxes. This is mainly because Government has put up strict anti-profiteering measures & warned businesses of tax raids to make sure the companies pass on the benefits to their consumers

### Food Items

Most food items are exempted from GST. They were also not taxable under old regime so prices expect to be largely neutral.

- Cereals
- Fresh fruits & vegetables (Other than frozen or processed)
- Meat (Other than in frozen state and put up in unit containers)
- Fish (not frozen or processed)
- Common salt

There was confusion whether wheat, flour, rice sold in packets would be under high tax. Revenue Secretary has clarified that only those sold under a registered brand name will attract a higher tax of 5%. So, your normal unbranded packets from your local grocery will still be 0 rated.

Impact of processed food will be varied. Items like corn flakes will reduce under GST while pastries and cakes will rise.

### Household Items

Hair oil, soaps, shampoos are expected to get cheaper.

Cost of washing clothes will increase due to increase in rate of detergent and also due to increase in tax on services of laundry places.

Other basic items such as Kumkum, alta, puja samagri, bangles (except those made from precious metals) are exempted from GST which will lead to decrease in prices. However, makeup will be more expensive under GST falling under 28%.

### Other Household Items & Appliances

Kitchen utensils like stainless steel cooker, pan etc are a little cheaper as they are charged at the rate of 12% under GST compared to the old tax rate of 19.5%.

Sanitary items like taps, faucets etc. are costlier under GST as they are also kept under the 28% tax bracket. Heavy home appliances such as air conditioners, washing machines are more expensive under GST. Their maintenance and service contracts will also be more expensive as services attract 18% GST.

So making small repairs to your home (replacing a tap) & home appliances will be costly under GST.

## Medicines

Human blood and its various components are exempted under GST as well as existing laws so prices will remain neutral.

Only chemical contraceptives (hormones based) were earlier exempted. Now condoms and other contraceptives are also exempted under GST.

Impact on life saving drugs including medicines for diabetics are largely neutral which were taxed also around 5% under VAT/excise regime.

Prices of ayurvedic and other alternative medicines will increase as they are taxed under 12% GST.

## Mobile network, DTH and Other Services

Service industry are now under 18% GST compared to the earlier 15%. So, mobile connections, DTH booking of tickets through agents, apps will increase.

Computers are expected to become cheaper.

## Restaurants

Dining out will be cheaper in most cases because of decrease in taxes. Earlier tax on restaurants came to an effective rate of 20.5%. This has been reduced for all restaurants to 18% GST, including 5-star restaurants. Even better, non-ac restaurants without alcohol will be even cheaper under 12% tax. Many restaurants have already started giving discounts and happy hour low prices.

So, eating out is definitely easy on your finances in GST.

## Moviegoers

Movie tickets will attract GST at 28% and food, drinks at theatres will attract 18%. The effect of GST will be mixed depending on the states. States with high entertainment tax such as Maharashtra, UP, will be benefitted as it will reduce the prices for the end consumers. However, GST will have a negative effect on states which already have a low entertainment tax such as Punjab, Rajasthan.

## Banking & Insurance

Ironically, your actual financial transactions will reduce your finances due to the increase of tax on services to 18% (from earlier 15%)

So, your life, health, car insurance premiums will increase. Cost of taking out a loan will also increase due to the service component in loan processing etc.

Banking services charge 15% service tax currently which will increase to 18% under GST. Most banks have applied transaction charges on cash withdrawals from different bank ATMs, cash withdrawals from branch (first 5 for both are free). All these attracted 15% service tax which has increased to 18% under GST regime.

## Travelling

Prices of mid-large cars will increase as they will attract 28% GST along with cess. However, prices of small cars will attract 1%-3% cess thus resulting in a decrease in prices. Mid-sized cars, SUVs and luxury cars will have a 15% cess. Motorcycles will attract 3% cess.

Travelling by app based cabs like Ola, Uber has become cheaper as the tax has reduced to only 5%. Already, we pay a reduced amount on travelling. Also, all radio-taxi companies have started various discounts and offers keeping in line with the anti-profiteering measures.

## Tourism

Railways tickets will increase slightly due to rates. Economy air prices will fall. However, luxury and business class ticket prices will rise.

Budget hotel rooms below Rs. 1000 per day are exempted from GST. Rooms between 1000- 2500 will attract 12% GST. Rooms between 2500-7500 will be taxed under 18%. Rooms above 7500 are taxed at the luxury rate of 28%. Hotel rent will decrease for all rooms except for the high-end luxury ones.

## Gold

Gold, Diamonds, Precious stones will attract 3% GST which will increase prices in most states where the earlier rate came to 2% (1% excise +1% VAT).

## Housing

Cement prices will increase due to the 28% GST rate. In turn, costs for infrastructure and housing which are highly dependent on cement, will also increase.

Also rent of office buildings will be subject to GST of 18%. However, the rent of residential buildings are exempted from GST.Here's how a monthly budget of Rs. 50,000 will look after GST.

| | | | 50,000 | | | | |
|---|---|---|---|---|---|---|---|
| **Expenses** | **Percentage of Overall Spending** | **Percentage of Overall Spending** | **Before GST** | **After GST** | **Increase** | **Impact** | **Reason** |
| Rent/Home loan EMI | 25-35% | 30% | 15000 | 15391 | 391 | Increase | no GST on rent of residence. Assumed this is a new home loan EMI. 3% increase in tax on services such as processing fees. No changes due to GST on old home loan EMIs. |
| Credit card repayment | 5-10% | 10% | 5000 | 5000 | 0 | no GST | No impact of GST unless there is delayed payment |
| Groceries bill | 5-15% | 12% | 6000 | 6000 | 0 | largely neutral | largely neutral |
| Books, magazines, periodicals etc. bill | 5-9% | 0.2% | 100 | 100 | 0 | largely neutral | largely neutral |
| Cooking gas bill | 5-10% | 5% | 600 | 661 | 61 | Increase | Increase-5% GST applies now+ an increase in prices |
| Water bill | 5-10% | 2% | 1000 | 1000 | 0 | no GST | no GST |
| Electricity bill | 5-10% | 5% | 2500 | 2500 | 0 | no GST | no GST |
| Phone bill | 5-10% | 3% | 1500 | 1539 | 39 | Increase | 3% increase in tax on services (telecom services) |
| Cable tv bill | 5-10% | 2% | 1000 | 1026 | 26 | Increase | 3% increase in tax on services (services) |
| Transportation cost (own car, cabs, parking) | 10-15% | 10% | 5000 | 5130 | 130 | Insurance increase. Travelling decrease | insurance increase by 3% due to increase in tax on services. Travelling decreases by 1% |
| Restaurant bill (a/c outlets, alcohol) | 5-9% | 10% | 5000 | 4917 | -83 | Decrease | decrease by 2%. Non AC (without alcohol) will be even cheaper |
| Movies multiplexes bill | 5-9% | 8% | 5800 | 5711 | -89 | Mixed | Depends on the Entertainment tax earlier levied by States. If Entertainment tax was high (30% as per example) then it will decrease after GST. |
| Medicine bill | 5-10% | 3% | 1500 | 1500 | 0 | largely neutral | largely neutral |
| Total | | 100.00% | 50,000 | 50475 | 475 | | |

| **Items** | **Effect of GST** |
|---|---|
| Food items and other basic items | Neutral since mostly exempted under GST |
| Kumkum,alta | Less costly since exempted under GST |
| Puja Samagri | Less costly |
| Cosmetics | Expensive |
| Detergent | Expensive |
| Laundry | Expensive |
| Repairing house | Expensive |
| Renting your home | Not under GST |
| Life saving drugs | Neutral |
| Ayurvedic medicines | Expensive |
| Mobile connections | Expensive |
| Eating out | Cheaper |
| Movie | Mixed effect depending on your state |
| Insurance | Expensive |
| Loans | Expensive |
| Banking & ATM | Expensive |

| | |
|---|---|
| Small cars | Cheaper |
| Radio cabs | Cheaper |
| Air fare (Economy) | Cheaper |
| Rail fare | Slightly higher |
| Hotels (except 5-star) | Cheaper |
| Gold | Expensive |
| Smoking | Neutral |
| Rent of office buildings | Expensive (rent of residence is exempted) |

## CONCLUSION

The primary impact to be felt by the consumers would change in prices of goods and services on account of GST rates.

In terms of impact in prices, while services would mostly be more expensive in the initial phases, impact on prices of goods could be a mixed bag. In the long run, once the benefits of GST are expected to kick in in terms of higher input credits and reduction in cascading effect, it is anticipated that the inflationary effect will come down and prices, in general, would come down and stablized.

Within the household budget, there are likely to be some obvious gainers and some obvious losers but once the law and pricing of commodities reach steady state, all consumers should gain. We have provided a few examples to explain the impact of GST on the common man, the impact on pricing on account of additional credits and hence reduced cost of supply is separate.

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