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GST ADVANTAGES , CHALLENGES AND RECENT TRENDS IN INDIA

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Abstract:

There are few aspects with contradict the growth story and might be seen as hurdles. When the aviation industry was witnessing the much awaited growth with increasing domestic traffic, the GST implementation might slower the rate at which the industry is expecting growth as flying will become expensive. This paper presents an overview of GST, Concept Its Features and GST Advantages and Challenges in India.

Keyword: *Goods and service tax, Market, Rate of GST, Indirect Tax, Benefits and Need of GST, Impact of GST on the Indian Economy, VAT, Tax Slabs*

Introduction

Introduction of the Value Added Tax (VAT) at the Central and the State level has been considered to be a major step – an important step forward – in the globe of indirect tax reforms in India. If the VAT is a major improvement over the pre-existing Central excise duty at the national level and the sales tax system at the State level, then the Goods and Services Tax (GST) will indeed be an additional important perfection – the next logical step – towards a widespread indirect tax reforms in the country. Initially, it was conceptualized that there would be a national level goods and services tax, however, with the release of First Discussion Paper by the Empowered Committee of the State Finance Ministers on 10.11.2009, it has been made clear that there would be a "Dual GST" in India, taxation power – both by the Centre and the State to levy the 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 togoods and the provision of repairs, replacement and processing services. GST rates of some countries are given below. Country Australia France Canada Germany Japan Singapore Sweden New Zealand Rate of GST 10% 19.6% 5% 19% 5% 7% 25% 15% 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. In other words, 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 his 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.

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General Observations on GST

The macroeconomic impact of introduction of the GST could turn out to be significant in the years ahead, given the dominance of the services sector in India. Besides giving a major boost to tax revenue, the larger impact on the fiscal health would be from reduction in the administrative compliance cost. GST is likely to be supportive of fiscal consolidation without compromising capital expenditure. Under the prevailing tax structure in India, investment is discouraged through the application of excise duties and VAT on capital goods, for which no set off or input tax credit is provided. For example, input tax credits are not allowed for union excise duties on capital equipment acquired for nonmanufacturing sectors; similarly, no credit is allowed for the state VAT on capital goods acquired by the services sector. Moreover, GST implementation is likely to boost the small and medium scale enterprises (SME) sector by (i) improving their ease of doing business; (ii) lowering logistical costs; (iii) extending outreach beyond state borders; and (iv) aiding SMEs dealing in sales and services. Furthermore, economic activity would also benefit from exports becoming more competitive as the GST regime will eliminate the cascading impact of taxes. The Subramanian Committee (2015) assumed an elasticity of investment demand with respect to price at (-) 0.5 and an incremental capital output ratio of 4 and inferred that GST could increase investment by 2 per cent which could propel growth by an incremental 0.5 per cent although an earlier study had projected GDP growth to increase by 1.7 per cent. A recent study, however, posits a much higher incremental growth impact of 3.1 - 4.2 per cent based on alternative scenarios of the likely aggregated GST rate due to surge in manufacturing activity and trade. The implementation of the GST should also boost domestic business confidence, including among foreign investors by assuring a stable and transparent tax system, free of cascades and distortions. As evident from the cross-country experience, one-off effects on inflation dissipated after a year of GST/VAT implementation in most countries. In this context, the short-term effects on inflation depend upon a host of factors including the initial rate at which GST is implemented, the tax base and the efficiency of tax administration. In the Indian context, the implementation of GST is likely to have a pass-through impact lasting 12-18 months on the inflation trajectory. This would eventually be moderated by reduction in supply chain rigidities, transportation and production costs which would accrue from the creation of a unified goods and services market post-GST. 3.34 The impact of GST on CPI inflation would largely depend on the four-tier standard rate (5, 12, 18 and 28 per cent) that has been decided by the GST Council although almost 50 per cent of the CPI basket is expected to be exempted. A GST structure with a standard rate of 18 per cent and a low rate of 12 per cent (consistent with a RNR of about 15-15.5 per cent) is expected to have a minimal impact on inflation. If the standard rate is increased, the impact on aggregate inflation would be higher, concentrated in selected groups like healthcare. As the standard rate increases to 28 per cent, the impact on CPI would further increase. The general consensus is that the impact on consumer price inflation is likely to be moderate if the standard GST rate is at 18 per cent – in fact, overall price levels may actually go down due to more efficient allocation of factors of production in the long run. The immediate impact of GST on government finances is deemed to be negligible given that the GST rate structure emphasizes. In the medium to long term, however, GST is likely to increase the tax buoyancy of the Central and state governments by 0.6

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per cent which is likely to reduce the gross fiscal deficit by 0.7-1.2 per cent of GDP if disinvestment receipts and non-tax revenues remain unchanged from the trend of the previous 5 years.

Various GST Tax Slabs in India 2020

No Tax

- Goods – No taxes will be levied on goods like sanitary napkins, deities made of stone, marbles or wood, Rakhis without any precious metals like gold, silver, raw material used in brooms, Saal leaves and fortified milk, fruits, vegetables, bread, salt, bindi, curd, sindoor, natural honey, bangles, handloom, besan, flour, eggs, stamps, printed books, judicial papers, newspapers
- Services – All hotels and lodges who carry a tariff below ₹ 1,000 are exempted from taxes under GST. The list also includes IMM courses and bank charges on savings account, jan Dhan Yojana

GST Tax Slab of 5%

- Goods – The goods which will attract a taxation of 5% under GST include skimmed milk powder, fish fillet, frozen vegetables, coffee, coal, fertilizers, tea, spices, pizza bread, kerosene, ayurvedic medicines, agarbatti, sliced dry mango, insulin, cashew nuts, unbranded namkeen, lifeboats , Ethanol- Solid biofuel pellets- Handmade carpets and other handmade textile floor coverings (including namda/gabba)- Hand-made braids and ornamental trimming in the piece
- Services – Small restaurants along with transport services like railways and airways, Standalone ACs non-ACs Restaurants and those which serve liquor, Takeaway Food, Restaurants in hotels with a room tariff less than ₹7,500 (no input credit for these restaurants), will come under this category. Special flights for pilgrims (Economy Class) come under 5%

GST Tax Slab of 12%

- Goods – Items coming are the tax slab of 12% include frozen meat products, butter, cheese, ghee, pickles, sausage, fruit juices, namkeen,tooth powder, medicine,umbrella, instant food mix, cell phones, sewing machine, man-made yarn, -Handbags including pouches and purses; jewellery box, Wooden frames for painting, photographs, mirrors etc, Ornamental framed mirrors, Brass Kerosene Pressure Stove, Art ware of iron, etc.
- Services – Business class air tickets will attract a tax of 12% under GST. The slab also includes movie tickets priced under ₹100

GST Tax Slab of 18%

- Goods -- As mentioned above, most of the items are part of this tax slab. Some of the items are flavored refined sugar, cornflakes, pasta, pastries and cakes, detergents, washing and cleaning preparations, safety glass, mirror, glassware, sheets, pumps, compressors, fans, light fitting, chocolate, preserved vegetables, tractors, ice cream, sauces, soups, mineral water, deodorants, suitcase, brief case, vanity case, oil powder, chewing gum, hair shampoo, preparation for facial make-up, shaving and after-shave items, washing powder,Refrigerators, Water Heaters, Washing Machines, Televisions (up to 68 cm), Vacuum Cleaners, Paints, Hair Shavers, Hair Curlers, Hair Dryers, Scent Sprays, Lithium-ion batteries, detergent, stones used in flooring, marble & granite, sanitaryware, leather clothing, wrist watches, cookers, stoves, cutlery, telescope, goggles, binoculars, oil powder, cocoa butter, fat, artificial fruits, artificial flowers, follage, physical exercise equipment, musical

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instruments and their parts, stationery items like clips, some diesel engine parts, some parts of pumps, electrical boards, panels, wires, razor and razor blades, furniture, mattress, cartridges, multi-functional printers, door, windows, aluminium frames, monitors and television screens, tyres, power banks for lithium ion batteries, video games, carriage accessories for disabled, etc

- Services – Restaurants located inside hotels with tariffs of ₹7,500 and above, outdoor catering(input tax credit to be available), movie tickets priced above ₹100, actual bill of hotel stay below ₹7,500, IT and Telecom services and financial services along with branded garments will be part of this tax slab.

GST Tax Slab of 28%

- Goods – Over 200 goods will be taxes at a rate of 28%. The goods which will be part of this category under GST are sunscreen, pan masala, dishwasher, weighing machine, paint, cement, vacuum cleaner. Other items include automobiles, hair clippers, motorcycles.
- Services – As mentioned above, five-star hotels, whose actual bill of hotel stay above ₹7,500, racing, movie tickets and betting on casinos and racing will come under this category.

Advantages of GST

Here's a look at GST's benefits Less developed states get a lift as the current 2% inter-state levy means production is kept within a state. Under the GST national market, this can be dispersed, creating opportunities for others. Investment boost as for many capital goods, input tax credit is not available. Full input tax credit under GST will mean a 12-14% drop in the cost of capital goods. Expected: A 6% rise in capital goods investment, 2% overall. Instead of maintaining big records, returns and reporting under various different statutes, all assesses will find comfortable under GST as the compliance cost will be reduced. It will also help to build a transparent and corruption-free tax administration. Presently, a tax is levied on when a finished product moves out from a factory, which is paid by the manufacturer, and it is again levied at the retail outlet when sold. According to experts, by implementing the GST, India will gain $15 billion a year. This is because; it will promote more exports, create more employment opportunities and boost growth. It will divide the burden of tax between manufacturing and services. It will lead to development of common national market. Leakages can be controlled with the GST as tax structure.

Challenges of GST

1. The tardy growth of the GST revenue collections has pushed the states and the Centre into a corner. In the month of August, the GST revenue collections stood at Rs 98,202 core, a notch below the psychologically important one lakh crore mark. It was up by an unimpressive 4.5% compared to August 2018. Compared with this year's high of Rs 113,865 crore collected in April, the revenue in August was down 13.7%.
2. The GST is facing today could potentially drag down total revenue. Early this week, the Directorate General of GST Intelligence unearthed a Rs 400 crore fraud of overvaluing and faking invoices to claim refund of input tax credit. The input tax credit is a mechanism that allows businesses to receive refunds on GST paid for the purchase of goods or services so as to prevent cascading taxation.

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3. The GST regime is facing today is the states' unwillingness to bring in items such as petroleum products and electricity under the GST, and also their lack of consensus on matters such as reduction of number of rate slabs (main ones being nil, 5%, 12%, 18% and 28%) and tackling of the contentious dual rate item—the lottery.

Service tax on fares currently ranges between 6% and 9% (depending on the class of travel). With GST, the rate will surpass 15%, if not 18%, effectively doubling the tax rate. India, on one hand, has the lowest insurance penetration in the world (less than 5% of Indian population & half of the global average) and on the other GST will further make the insurance products dearer. Life, health & motor insurances will begin to cost more from April 2017 as taxes will go up by up to 300 basis points. if the rate of GST will be over 15 % the all the services will be costlier. It is really required that all the states implement the GST together and that too at the same rates. Otherwise, it will be really cumbersome for businesses to comply with the provisions of the law. Analysts say that real estate market will be cramped by GST and it may result in 12% down turn in demanded of new houses because of increased cost up to 8%. As per the Constitutional Amendment Bill placed in the Lok Sabha, it was proposed that states would be allowed to levy an additional 1% nonviable tax on inter-state supply of goods for the initial two years, in order to compensate the states for loss of revenue while moving to GST. This was supported by a few states, while a few others criticized the same. A large part of the success of GST depends on two prominent factors – 'RNR' and 'threshold limit' for GST. RNR, i.e. the Revenue Neutral Rate, is the rate at which there will be no revenue loss to the government after implementation of GST. Needless to mention, RNR will impact India Inc adversely, if it is unduly higher than the present tax structure. These are some of the major challenges before the government and the industry, ahead of the actual implementation of GST.

SUGGESTION FOR IMPLEMENTATION OF GST

1. Induction and Orientation Programmes: The preparedness of Industry can be improved by conducting induction and orientation programmes for the company's personnel highlighting the key changes ushered in by GST the present indirect tax laws, key business impact areas, compliance procedures and way forward.

2. Readiness of IT Backbone & Pilot Project: GST network is ready but it will have to carry out pilots with companies after processes are in place to ensure smooth implementation. These will be possible only when details are spelled out.

3. Establishment of Monitoring Cells: It is necessary to establish monitoring cells to keep a close watch on the rollout of GST in every state and at the central level as any new taxation system needs time to stabilise.

4. Government-Stakeholder Interaction: During the entire process of executing the implementation of GST regime (including the transition from the existing system), there is a need for substantial engagement with the industry bodies because meetingthe timeline of implementing GST would require these processes to run in parallel and in a time bound manner

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5. Fixing the RNR: The Arvind Subramanian Committee on the RNR had pegged it at 15-15.5% with a preference for the lower number. Based on this, it recommended the following three slabs: (a) Lower rate: 12% (essentials) (b) Standard Rate: 1718% (most goods and services) (c) High Rate: 40% (luxury cars, aerated beverages, paan masala, tobacco and tobacco products). The RNR should be set at a rate close to the recommended rate to tame inflation.
6. Post GST Inflation and Global Experience: Mild Inflationary pressure brought along by GST rate will reduce in the medium term because of efficiency gains. Countries like Canada, Australia and New Zealand have seen one time increase in inflation post GST implementation, which normalised in a year.
7. Services of Experts and Consultants: Companies need to hire the services of consultants and advisors to understand the possible impact and make the necessary changes, based on their manufacturing location, size and warehousing and current enterprise resource planning (ERP) systems. However, any final action is dependent on the fine print of the new regulations and tax rules.

Conclusion

GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. GST is leviable on all supply of goods and provision of services as well combination thereof. All sectors of economy whether the industry, business including Govt. departments and service sector shall have to bear impact of GST. All sections of economy viz., big, medium, small scale units, intermediaries, importers, exporters, traders, professionals and consumers shall be directly affected by GST... One of the biggest taxation reforms in India the Goods and Service Tax (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. Experts say that GST is likely to improve tax collections and Boost India's economic development by breaking tax barriers between States and integrating India through a uniform tax rate. Under GST, the taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions.

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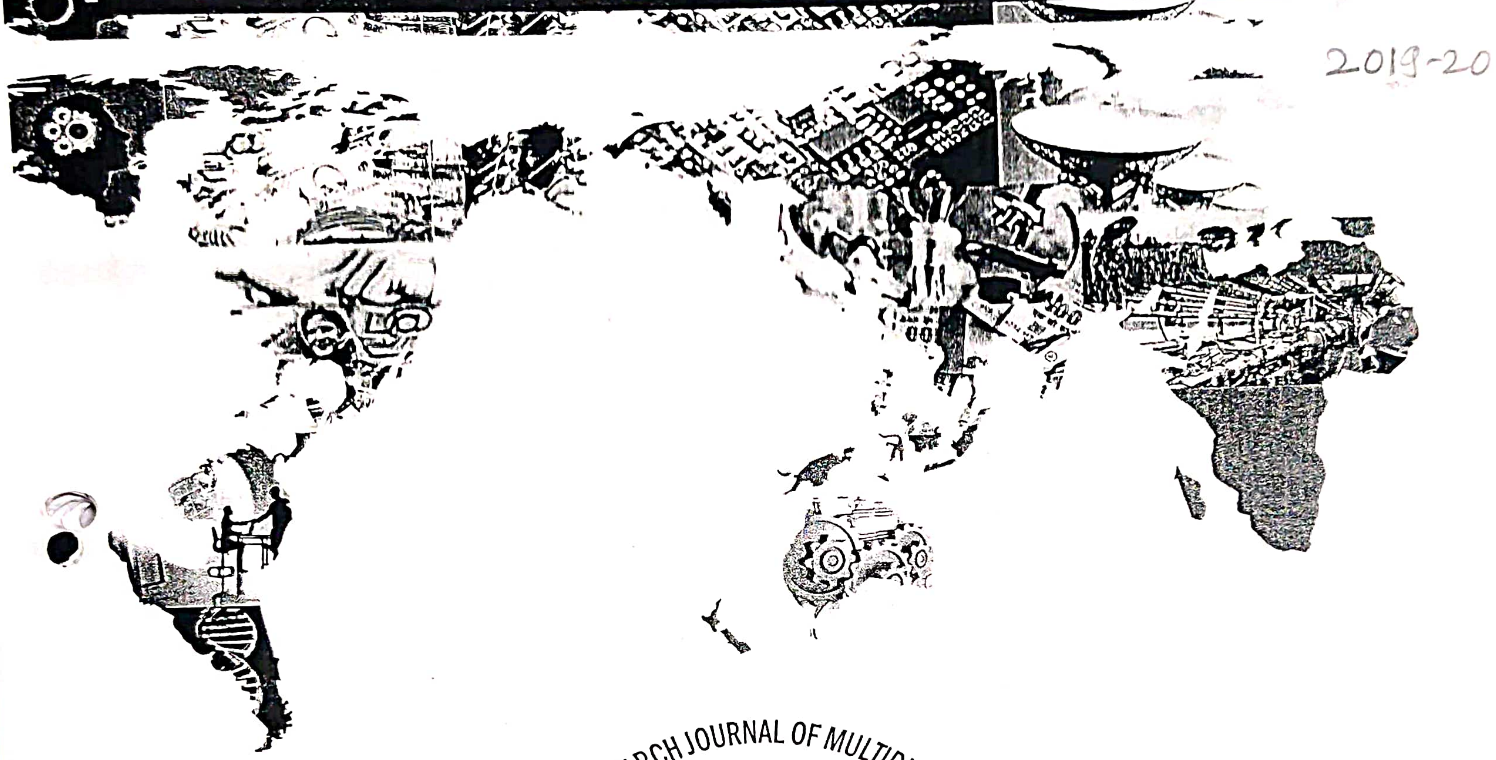

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