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Positive and negative Impact of GST on the businesses and consumers

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Abstract:

In India VAT was introduced into the Indian taxation system from 1 April 2005. VAT was a sufficiently improvement over the indirect tax system. At the state level the advantage of vat is that it is a multi-point tax with set-off for tax paid on purchases and it prevents repeated taxation of the same product. Despite the success of vat there were certain limitations in the structure of vat both at the central and at the state level. To solve the limitation in vat,The GST bill was passed by the Rajya Sabha on 3 August 2016, and the amended GST bill was passed by the Lok Sabha on 8 August 2016. The GST bill, after ratification by the States, received Consentt from President Pranab Mukherjee on 8 September 2016, and was notified in The Gazette of India on the same date. The present research paper is an attempt to study concept of goods and service tax and its advantages and disadvantages.

Introduction

Taxation policy plays an important role in Indian economy through their impact on both efficiency and equity. A good tax system should keep in view issues of income distribution and, at the same time, also attempts to generate tax revenues to support government expenditure on public services and infrastructure development.

The goods and services Tax (GST) is a further significant improvement towards a comprehensive indirect tax reforms in the country. Integration of goods and services taxation gave India a world class tax system and improved tax collections. It ended distortions of differential treatments of manufacturing and service sector. It resulted in to the abolition of taxes like central sales tax, state level sales tax, entry tax, stamp duty, telecom license fees, turnover tax, tax on consumption or sale of electricity, etc. GST created a business friendly environment, as price levels and hence inflation rates would come down overtime as a uniform tax rate is applied. It will also improved government's fiscal health as the tax collection system became more transparent, made tax evasion difficult.

Objectives of the study:-

- To understand the concept of goods and service tax.
- To understand how GST is working in India.
- To find out the benefits and limitations of GST over the current taxation system in India.

Research methodology

The study focuses on extensive study of Secondary data collected from various books, National & international Journals, government reports, publications from various websites which focused on various aspects of Goods and Service tax.

What is the Goods and Services Tax (GST)

Goods and Services Tax (GST)is a comprehensive indirect tax on manufacture, sale and consumption of goods and services at a national level. One of the biggest taxation reforms in India the(GST) is all set to integrate State economies and boost overall growth. Previously, companies and businesses were paying lot of indirect taxes such as VAT, service tax, sales tax, entertainment tax, luxury tax. Now GST is fully implemented, all these taxes ceased to exist. There is almost only one tax, that too at the national level, monitored by the central government. GST is also different in the way it is levied. at the final point of consumption and not at the manufacturing stage. At present, separate tax rates are applied to goods and services. Under GST, there are four tax rate categories for both goods and services. The goods and services Tax is a significant improvement towards a comprehensive indirect tax reforms in the country. Integration of goods and services taxation gave India a world class tax system and improved tax collections. It ended distortions of differential treatments of manufacturing and service sector.

How was India's previous tax system structured?

The constitution divided taxation powers between centre and states. Both levels of government have some exclusive areas where they can levy tax. Income tax, which includes tax on company profits, is the exclusive domain of central government. These taxes are referred to as direct taxes.

INDIA-ECONOMY-TAXATION

Indirect taxes are taxes levied on manufacture of goods, provision of services and consumption. In India, generally speaking, indirect taxes levied on manufacture of goods or provision of services were the exclusive domain of central government. Taxes on consumption were the exclusive domain of state governments.

What was the problem with the previous arrangement?

There were two important problems with the previous arrangement.

First, keep in mind that some good such as a shirt has to first be manufactured before it is consumed. The central government, therefore, levies its indirect tax called central excise at the factory gate. Subsequently, a shirt reaches a retail outlet and is bought by a consumer. The state government, at this stage, levies a tax on consumption dubbed value added tax (VAT). So, we have a tax at the factory gate which adds to the cost of the shirt and another tax on the final price.

Since states have their exclusive domain on consumption tax within their borders, they treat goods coming from other states as "imports." For example, if a shirt maker in Uttar Pradesh buys dye in Bihar, he would have paid central excise and Bihar's state taxes on the product. On this cost, Uttar Pradesh government would levy its tax if the shirt is sold in the state. If the shirt is sent across Uttar Pradesh's border and sold in Delhi, an "export" tax called central sales tax is collected by UP.

As the example suggests, India is politically one country, but economically it was fragmented. There were multiple taxes when there is commerce across state borders. Consequently, it resulted in to increase d costs for everyone and made economic activity within India for Indians complicated.

How is GST helping?

Goods and Services Tax (GST) is an indirect tax reform which aims to remove tax barriers between states and create a single market. For that to happen the constitution first was amended to remove different layers of governments' exclusive powers to levy taxes. After this step has taken, the tax barriers between states, and centre and states disappeared.

INDIA-ECONOMY-TAXATION

As one of the biggest tax reforms of the country, the Goods and Services Tax (GST) subsumes many indirect taxes which were imposed by Centre and State such as excise, VAT, and service tax. It is levied on both goods and services sold in the country.

Any reform is bound to have advantages and disadvantages. this paper focuses on both the advantages and disadvantages of GST:-

Advantages of GST:-

GST eliminates the cascading effect of tax

Higher threshold for registration

Composition scheme for small businesses

Simple and easy online procedure

The number of compliances is lesser

Defined treatment for E-commerce operators

Improved efficiency of logistics

Unorganized sector is regulated under GST

Disadvantages of GST:-

Increased costs due to software purchase

Being GST-compliant

GST will mean an increase in operational costs

GST came into effect in the middle of the financial year

GST is an online taxation system

SMEs will have a higher tax burden

How is GST helping consumers?

Previously consumers had no idea about the extent of taxes they had to pay on goods. If you get a bill after buying merchandise which gives the extent of VAT you have paid, it is an understatement of the actual tax you have paid. Remember, well before merchandise reached the retail outlet, the central government has collected excise duty. The extent of excise duty is not mentioned in the bill.

Therefore, previously it is reasonable to assume we were paying well over 20% tax for most merchandise we were buying.

In GST, consumers should benefit in two ways.

First, all taxes will be collected at the point of consumption. It means that if a shirt is taxed at 18%, it will include both central government's taxes and state government's taxes. Transparency in taxation should deter governments from indiscriminately increasing taxes as there is bound to be public backlash.

Second, once barriers between states are removed, we as consumers will not end up paying "tax on tax" which is what happens when goods move across state borders.

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