A COMPREHENSIVE STUDY OF GOODS AND SERVICES TAX IN INDIA AND ITS IMPACT ON SECTOR OF THE ECONOMY

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ABSTRACT

Amidst economic crisis across the globe, India has posed a beacon of hope with ambitious growth targets, supported by a strategic undertaking called "Goods and Services Tax" expected to provide the much needed stimulant for economic growth in India by transforming the existing base of Indirect Taxation towards the flow of goods and services. Introduction of GST had various impacts on the country as a whole. By amalgamating a large number of central and state taxes into a single tax, it mitigates the cascading taxation in a major way and paves the way for common national market i.e. free movement of capital and services. The government was able to cover most of the sectors thus having a right control over the economical on goings of the country.

This paper made an attempt to explain the level of impact of this GST (Goods and Services Tax) on the growth of different sectors of the economy and benefits for the business, government and for the consumers.

This paper focuses mainly on a detailed study of GST, Concept and its impact on Indian economy with special reference to Agriculture, Industries and Service sectors. The study adopts descriptive analysis method.

KEYWORDS: Goods and Services Tax, Taxation system in India, Agriculture, Industries, Services, Indian Economy, Consumers

I. INTRODUCTION

The GST is a consolidated tax based on a uniform rate of tax fixed for both goods and services. It is one of the biggest tax reforms in India aiming to integrate State economies and boost overall growth by creating a single, unified Indian market to make the economy stronger. GST is a comprehensive destination based indirect tax levy on the basis of the "Destination Principle" of goods as well as services at the national level. It is a comprehensive tax regime covering both goods and services, and be collected on value-added at each stage of the supply chain. Its main objective is to consolidate multiple indirect tax levies into a single tax thus subsuming an array of tax levies, overcoming the limitations of existing indirect tax structure, and creating efficiencies in tax administration.

In 1954, France adopted GST as its indirect taxation structure and became the first country to adopt the GST. Within 62 years of its start, about 164 countries across the world have adopted GST because this taxation system has the capacity to raise revenue in the most transparent and unbiased manner. Most of the countries follow unified GST i.e., a single tax applicable throughout the country. However, in national politics like Brazil and

Canada, a dual GST system is prevalent. Under dual system, GST is levied by both the national and the state governments. India, also intends to adopt a dual GST.

I.1 Meaning and Purpose of GST

Clause 366(12A) of the Constitution Bill defines GST "Goods and Services Tax" as any tax on supply of goods, or services or both except taxes on the supply of the alcoholic liquor for human consumption. Further the clause 366(26A) of the Bill defines "Services" means anything other than Goods. Thus, it can be said that GST is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level. The proposed tax will be levied on all transactions involving supply of goods and services, except those which are kept out of its purview.

The two important purposes of GST are:

- Single Umbrella Tax Rate: GST shall replace a number of indirect taxes being levied by Union and State Governments.
- Removing Cascading Effect: GST is intended to remove "Tax on Tax Effect" and provide for common national market for Goods and Services.

II. STATEMENT OF THE PROBLEM

The concept of Goods and Services Tax (GST) is the biggest tax reform in decades throughout the world in many countries, but India has just started implementing to meet its target of rolling out Goods and Services Tax (GST). The present research intends to focus on understanding the concept of Goods and Services tax and its restructuring model that have taken place in the Indian taxation system, its impact on Indian economy with special reference to Agriculture, Industries and Service sectors and benefits for the business, government and for the consumers.

III. OBJECTIVES OF THE STUDY

The objective of the study is

- To cognize the Taxation structure in India
- To explain the working mechanism of Goods and Services Tax in India
- To study the Impact of GST on the sectors of the Economy
- To study the benefits of GST for different stakeholders in India

IV. SCOPE OF THE STUDY

The study is confined to below details:

- The Study includes the analysis of Goods and Service Tax structure in India.
- The study is narrowed down to analyse the impact of GST on the Economy with special reference to Agriculture, Industries and Service sectors.
- The study has not incorporated any statistical tool and is a descriptive study considering the collection of data from different sources.
- The study helps to remove the morbid fear of GST from among the business community members

V. RESEARCH METHODOLOGY

This study is Descriptive in nature. The data is collected based on Secondary sources. The paper is based on extant literature and internet sources have been used. Secondary data have been collected from various articles, National and International journals, Conference papers, government reports, newspapers, magazines, and various online GST websites and other sources have also been used.

VI. LIMITATIONS OF THE STUDY

- The field of the GST study is very vast. This paper is limited to understand the concept of GST and its impact on sectors of the economy only.
- The study has not incorporated any statistical tool and is a descriptive study considering the collection of data from different sources.

VII. TAXATION IN INDIA

Tax structure in India is a three tier federal structure. The central government, state government and local municipal bodies make up this structure. The Article 256 of the constitution states that "No tax shall be levied or collected except by the authority of law". Hence, each and every tax that is collected needs to back by an accompanying law.

EXISTING INDIRECT TAX STRUCTURE IN INDIA

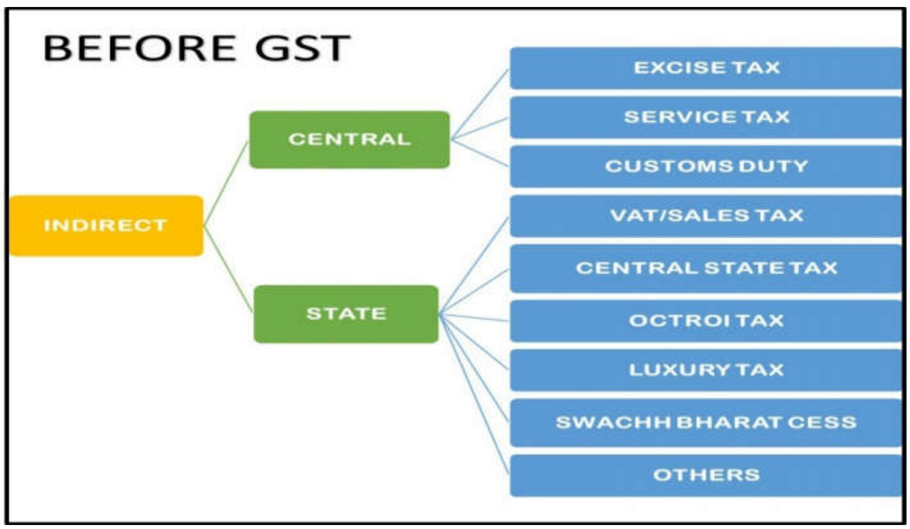

Fig.1.Tax structure before GST

Traditionally India's tax regime relied heavily on indirect taxes including customs and excise. Revenue from indirect taxes was the major source of tax revenue till tax reforms were undertaken during nineties. Indirect taxes are taxes which are indirectly levied on the public through goods and services. The sellers of the goods and services collect the tax which is then collected by the government bodies.

- ✓ Value Added Tax (VAT) – A sales tax levied on goods sold in the state. The rate depends on the government.
- ✓ Octroi Tax – Levied on goods which move from one state to another. The rates depend on the state governments.
- ✓ Service Tax – Government levies the tax on service providers.

✓ Custom Duty – It is a tax levied on anything which is imported into India from a foreign nation.

VII.1. TAX COLLECTION BODIES

Taxes in India are levied by the Central Government and the State Governments. Some minor taxes are also levied by the local authorities such as the Municipality. The authority to levy a tax is derived from the Constitution of India which allocates the power to levy various taxes between the Central and the State. The Central Board of Revenue or Department of Revenue is the apex body charged with the administration of taxes. It is a part of Ministry of Finance which came into existence as a result of the Central Board of Revenue Act, 1924. Initially the Board was in charge of both direct and indirect taxes. However, when the administration of taxes became too unwieldy for one Board to handle, the Board was split up into two, namely the Central Board of Direct Taxes (CBDT) and Central Board of Excise and Customs (CBEC) with effect from 1 January 1964. This bifurcation was brought about by constitution of the two Boards under Section 3 of the Central Boards of Revenue Act, 1963.

The three bodies which collect the taxes in India have clearly defined the rules on what type of taxes they are permitted to collect.

- The Central Government: Income tax, Custom duties, Central Excise Duty.
- The State Governments: Tax on Agricultural Income, Professional tax, Value –added tax, State Excise Duty, Stamp duty.
- Local Bodies: Property Tax, Water Tax, other taxes on drainage & small services.

VII.2. GOODS AND SERVICES TAX

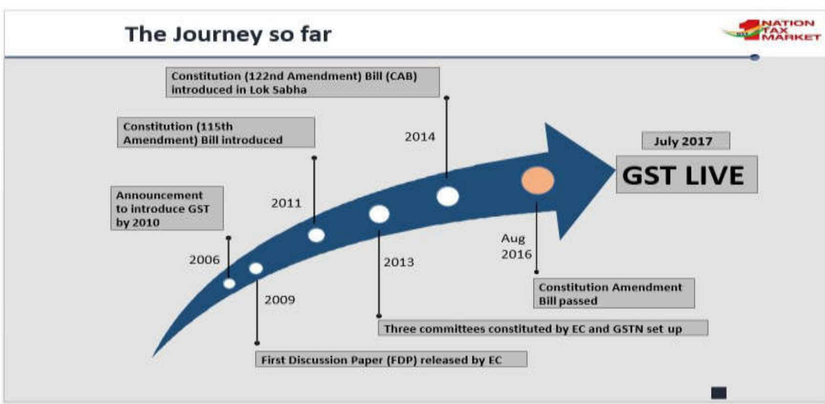

Fig.2. Journey of GST

GST is one indirect Tax for the whole nation, which will make India one unified common Market. The GST intends to subsume most indirect taxes under a single taxation regime. 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 stages 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. This is expected to help broaden the tax base, increase tax compliance, and reduce economic distortions caused by inter-state variations in taxes.

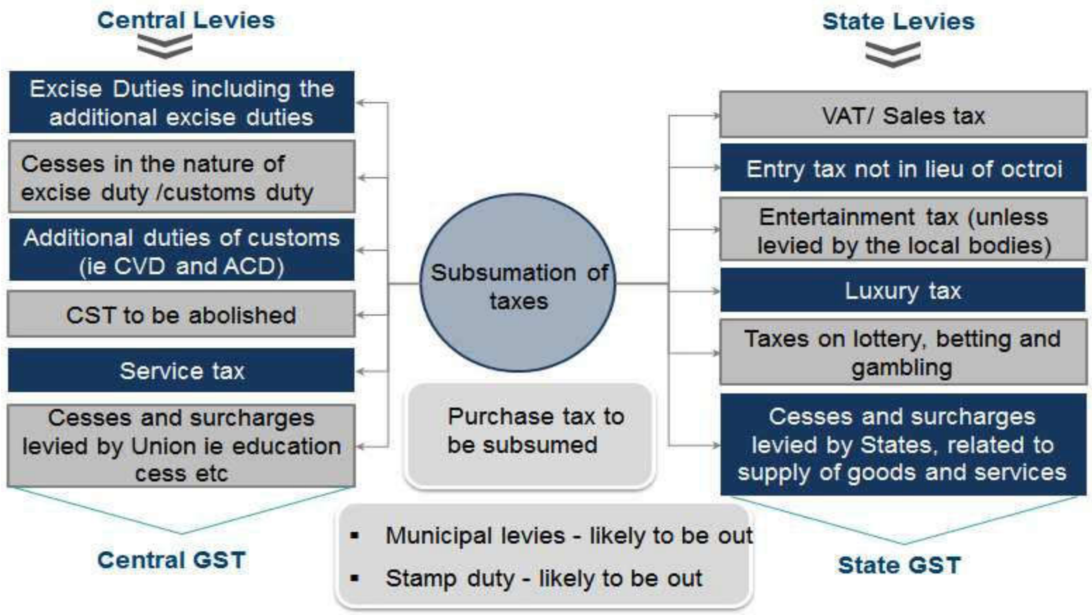

Fig.3. Indirect taxes subsumed under GST

In GST, all the indirect taxes will be subsumed under a single regime. The GST taxation laws will put an end to multiple taxes which are levied on different products, starting from the source of manufacturing to reaching the end consumer. GST works on the fundamental Principle of "One Country One Tax". GST is an indirect tax which will subsume almost all the indirect taxes of central government and states governments into a unified tax. As the name suggests it will be levied on both goods and services at all the stages of value addition.

VII.3. DUAL GST MODEL

India is a federal country where both the Centre and the States have been assigned the powers to levy and collect taxes through appropriate legislation. Both the levels of Government have distinct responsibilities to perform according to the division of powers prescribed in the constitution for which they need to raise resources. A dual GST will, therefore, be in keeping the constitutional requirement of fiscal federalism.

VIII. IMPACT OF GST ON AGRICULTURE

In the agriculture sector we shall look at how GST will impact cost of agriculture inputs, Supply chain of agriculture products and unification of agriculture in one national market.

VIII.1. AGRICULTURAL INPUTS

Any input taxes placed on inputs used in the farm sector such as seeds, fertilisers, pesticides, tractors etc, contribute to increase in cost of farm output. On the other hand, farm output prices are controlled by market forces on which farmer has little control. As the input price rises and output price remains stagnant, the farmer will have no option but to absorb the cost, thus increasing his burden. Indian farmer is already reeling under tremendous pressure from many ends and the increased burden of taxes will create a crater in his income. In this context let's look at tax incidence on some major inputs

Agriculture Input	Tax burden under previous Tax Regime	Tax burden under GST Tax Regime
Seeds	Nil	Nil
Tractors	12-13%	12%
Fertilizers	6%	5%
Pesticides	12.5%	12%

- Seeds - Seeds were exempted both under earlier tax structure and under new GST regime.
- Tractors - The tax incidence on Tractor's inputs combined with VAT on final product takes the total tax incidence for the industry to levels of ~ 12-13%. The fixation of a GST rate of 12% on tractors and on tractor inputs@18% would allow the manufacturers to take credit of the cumulative input duties and taxes. Thus, the total tax incidence on tractors would remain at broadly similar levels and its implementation is neutral for the tractor industry.
- Fertilizers - Fertilisers an important element of agriculture was previously taxed at 6% (1% Excise + 5% VAT). In the GST regime, the tax on fertilisers has been reduced to 5%. Thereby reducing cost for farmers
- Pesticides - Pesticides currently attract an excise duty of 12.5%. But under GST regime, crop protection products like pesticides are taxable at 18%. So, this might increase tax burden on farmer.

So, by and large either tax incidence under GST regime is similar to incidence under earlier tax structure.

VIII.2. SUPPLY CHAIN

One of the major issues faced by the agricultural sector is the transportation of agriculture products across state lines all over India. Agricultural commodities are perishable in nature in varying degrees therefore trade is influenced by the time required for transportation. The Economist reports that long distance trucks in India are parked for 60 per cent of the time during transportation. Previously, trucks wait outsides for hours to pay taxes on borders of states and cities. These taxes were State entry tax and Octroi. However, GST subsumed State entry tax and Octroi this means seamless movement of trucks. Thus, simple uniform tax regime is expected to improve the transportation time, and curtail wastage of precious food as well as it would ease interstate movement of agricultural commodities which would improve marketing efficiency, facilitate development of virtual markets through warehouses and reduce overhead marketing cost.

VIII.3. AGRICULTURE TRADE

The taxes applicable on agricultural trade vary from state to state. The degree of market distortions on account of variation in the levy of market taxes/cess applicable on different commodities in different states are presented in Table below:

Sl.No	Name of the State	Sales Tax
1	Andhra Pradesh	All Commodities (except Maize, Jowar, Ragi, Bajra, Coarse grains) 4%
2	Assam	All Commodities (except Rice, Wheat, Pulm, F&V, Fish, Gur, Atta, Maida etc.) 4-8%
3	Delhi	F&V- nil Oilseeds – 3% Methi – 7%
4	Gujarat	Spices-3%, Aniseed – 2%, Cotton – 4%, Isabgol – 2%, Cummin – 2%, Ajwain – 2%
5	Goa	Betelnut – 2%, Cashewnut – 2%, Coconut, F&V, Cattle & Milk exempted from Sales Tax
6	Haryana	F&V – nil, Food grains – 4%, Pulses – 4%, Oilseeds – 4%
7	Karnataka	Food grains – nil, Pulses – 2%, Oil seeds -4%
8	Rajasthan	F&V – nil, Food grains – 4%, Pulses & Oilseeds – 2%, Coarse grains – nil
9	Uttar Pradesh	Food grains – 4%, Pulses – 2%, Oilseeds & others – 4%

The implementation of GST is a move towards making One National Agricultural Market on account of subsuming all kinds of taxes/cess on marketing of agricultural produce.

IX. IMPACT ON INDUSTRIES

Industrial sector mainly consist of Manufacturing, Construction, Mining and Utilities (electricity, gas water etc.). Manufacturing is the main sub-sector among these and we shall analyze the impact of GST on Manufacturing.

The share of Manufacturing in GDP is stagnant at 16%, however the share is 42% in China. Some of the reasons for such a low share are multiple indirect tax legislations which have led to significant compliance and administrative costs, classification and valuation disputes. So, tax reforms are critical and necessary to give a boost to an already flagging sector.

There will be reduction in tax burden on majority of manufactured goods post GST implementation. A look at important components of manufacturing like automobiles sector reveal that effective tax rate would reduce in Automobile sector the biggest benefit would go to SUV segment. Under FMCG, by and large tax burden would reduce. The biggest relief would be in Soap and Hair oil segment.

AUTOMOBILES

Segment	Total Pre GST rate	GST	Cess	Effective GST	Change
Two/Three wheelers	30.2%	28.0%	0.0%	28.0%	2.2%
Mid Segment Cars	47.3%	28.0%	15.0%	43.0%	4.3%
Sports Utility Vehicles	55.3%	28.0%	15.0%	43.0%	12.3%
Commercial Vehicles	30.2%	28.0%	0.0%	28.0%	2.2%

FMCG

Segment	Excise	VAT	Total Pre GST rate	GST	Change
Pastries & Cakes	12.5%	13.5%	27.7%	18.0%	9.7%
Waffles & Wafers	12.5%	13.5%	27.7%	28.0%	-0.3%
Chocolate	12.5%	6.0%	19.3%	28.0%	-8.7%
Milk	0.0%	0.0%	0.0%	0.0%	0.0%
Ghee	0.0%	13.5%	13.5%	12.0%	1.5%
Butter	0.0%	13.5%	13.5%	12.0%	1.5%
Hair Oil	12.5%	13.5%	27.7%	18.0%	9.7%

Some other aspects of GST which will add to competitiveness and ease of doing business of manufacturing sector are as follows:

- **Correct Valuation of goods** – In Pre-GST regime, various pre-packaged products for retail consumption were subject to excise duty not on the ex-factory transaction value but on a specified percentage of the maximum retail price (MRP) printed on the package. The MRP based value (which is usually between 30%-35% of the MRP) is in most cases, much higher than the ex-factory transaction value leading to a higher excise duty liability than would otherwise be the case. This increased excise duty itself, results in a higher MRP, ultimately leading to a higher cost burden for the consumers. Under the GST regime, GST is payable by the manufacturer at the transaction value, and is creditable for all subsequent resellers up to the final consumer. Accordingly, the unnecessary tax burden of the MRP regime will no longer be relevant.
- **Reduction of cascading taxes** - Under the present indirect tax regime, Central taxes cannot be set-off against State taxes and vice versa. This often leads to a situation where manufacturers are unable to set off excess credit of central or state levies. Further, central sales tax paid on inter-state procurements is also not creditable and are costs for the company. Another issue is the cascading of taxes at the post manufacturing stage. Dealers, retailers etc. are subject to taxes on their input side which are not creditable (service tax on input services, excise duty on capital goods). This leads to an increase in the cost of goods, ultimately affecting the competitiveness of Indian manufactured goods vis-à-vis imports.

All of the above issues are addressed under GST, which permits tax set offs across the production value-chain, both for goods and services. This will result in a reduction of the cascading effect of taxes and bring down the overall cost of production of goods.

- **Formalization of Manufacturing** - Input credit is to be allowed only if the details declared by a taxpayer matches with the details declared by vendors in their returns. This will incentivize vendors supplying to manufacturing firms to move from informal to formal sector, because if they are in informal sector and do not furnish bill to their customers i.e. manufacturing units then these units will route supplies from those vendors which provide bills.
- **Reduction of classification disputes** – In Pre-GST Regime, due to varying rates of excise duty and VAT on different products, as well as several exemptions provided under excise and VAT legislations, classification disputes are a regular cause for litigation under both central excise and VAT, especially for the manufacturing sector. It is expected that the inception of GST which is based on the principles of a simplified

rate structure and minimization of exemptions will significantly reduce disputes regarding classification of products.

- **Supply chain restructuring based on economic factors** - Earlier supply and distribution models are structured to optimize indirect tax impact arising at various levels of value addition. Transition to GST should hopefully result in such decisions being taken to optimize business efficiency (as opposed to indirect tax efficiency). For Example- Earlier warehousing choices are often based on arbitrage between VAT rates in different States/ between applicable VAT and CST rates. With the advent of GST, it is hoped that such warehousing and logistics decision would be based on economic efficiency such as costs and location advantages vis-a-vis key customers.

X. IMPACT ON SERVICES

Services sector accounts for 60% of GDP (2013-14) and contribute to 70% of overall yearly GDP growth since 2011-12. A adverse impact of new tax regime may sub-due overall growth of Indian economy on the other hand gains from new tax regime shall boost overall growth. The assessment of Risks, Opportunities and challenges are as follows:

- **Risks -** The government has unveiled a four-tier GST rate structure for the sector – 5%, 12%, 18% and 28%. The bulk of the services will, however, be taxed at 18%. The sector was previously taxed at 15%, so the GST regime will likely increase tax incidence for this sector. Economic principles tell us final output sold might show slow growth due to increased prices. This may be a bad news given that services sector is not doing well because exported oriented part of services like business process and IT industries are showing decelerated growth due to protectionist stance in Advance economies including USA. But, services sector also include Public administration and defence which might see tremendous growth on account of increase in tax revenue, enhancement of tax base and ease in tax compliance.
- **Opportunity -** Under GST input credit would be available for goods purchases as well as services which enter the production as services like transportation services. This treatment of service inputs shall have at least two distinct effects. First, as producers could get tax credit for service input it will automatically reduce prices of goods. Secondly, outsourcing of services will increase, as input tax credit will be available for services many services in the production process which are produced by producer themselves will now be outsourced to third party. These third parties will provide services at a cheaper cost as compared to in-house production by producer due to economies of scale and division of labour. Thus, price of final products shall reduce because of cheap service inputs.
- **Challenges -** A four-tier tax slab and differential rate between the goods and services sectors may distort/influence business by providing arbitrage practice. For example, if a car is taxed at 10% and leasing rates are at 18%, we may have a situation where car sales could be replaced by car leasing. In the area of composite services, a contract may be specially designed to avail the lower rates on services. Therefore, there are implications in the area of dispute management.

XI. BENEFITS OF GST TO DIFFERENT STAKEHOLDERS

The following are various benefits available for different types of parties

XII.1. Benefits to Consumers

- Single and transparent tax proportionate to the value of goods and services: Due to multiple indirect taxes being levied by the Centre and State, with incomplete or no input tax credits available at progressive stages of value addition, the cost of most goods and services in the country were laden with many hidden taxes. Under GST, there would be only one tax from the manufacturer to the consumer, leading to transparency of taxes paid to the final consumer.
- Relief in overall tax burden: Because of efficiency gains and prevention of leakages, the overall tax burden on most commodities will come down, which will benefit consumers.

XII.2. Benefits to the Government

- Better controls on leakage: GST will result in better tax compliance due to a robust IT infrastructure. Due to the seamless transfer of input tax credit from one stage to another in the chain of value addition, there is an in-built mechanism in the design of GST that would incentivize tax compliance by traders.
- Simple and easy to administer: Multiple indirect taxes at the Central and State levels are being replaced by GST. Backed with a robust end to end IT system, GST would be simpler and easier to administer than all other indirect taxes of the Centre and State levied so far.
- Higher revenue efficiency: GST is expected to decrease the cost of collection of tax revenues of the Government, and will therefore, lead to higher revenue efficiency.

XII.3. Benefits to the Business and Industries

- Easy compliance: A robust and comprehensive IT system would be the foundation of the GST regime in India. Therefore, all tax payer services such as registrations, returns, payments, etc. would be available to the taxpayers online, which would make following easy and transparent.
- Uniformity of tax rates and structures: GST will ensure that indirect tax rates and structures are common across the country, Thereby increasing certainty and ease of doing business. In other words, GST would make doing business in the country tax neutral, irrespective of the choice of place of doing business.
- Removal of cascading: A system of seamless tax credits throughout the value chain, and across boundaries of States, Would ensure that there is minimal cascading of taxes. This would reduce hidden costs of doing business.
- Improved competitiveness: Reduction in transaction costs of doing business would eventually lead to an improved competitiveness for the trade and industry.
- Gain to manufacturers and exporters: The subsuming of major Central and State taxes in GST, Complete and comprehensive setoff of input goods and services and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports. The uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cost.

XII. CONCLUSION

GST will not increase the tax burden drastically, and in many cases total tax burden will decline due to removal of cascading effect replacement of gamut of tax systems by one tax systems. The biggest gain shall be from increase in competitiveness and ease of doing business which GST brings with it. Efficiency & equity in the economy can be brought by proper taxation system in the country. A good tax system should focus on income distribution as well as generate revenues to government. The motive of Implementing GST is to maintain simplicity and transparency in taxation system It is believed that GST would put India is indirect tax structure at par with more than 140 countries and would be productive for all the sectors. The overall impact is expected to be positive on economy thereby increasing the overall economic growth.

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