

Goods and Services Tax: Impacts and Challenges

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Abstract

Manufacturing and service sector play a pivotal role in shaping the overall economic growth of a country. Goods and Services Tax will test the technological readiness of the GST network, which will be used by almost 10 million entities, including those who are currently paying service tax, value added tax and central excise. These entities have multiple users and agents operating on their behalf, so that the network has a high USER base. It is estimated that about 3 billion invoices are uploaded on GSTN every month. This reviewed article on GST makes an attempt to capture its impact during first four months (1st July to 31st October, 2017) on different manufacturers and service providers, the consumers and the government since its implementation on 1st July, 2017.

Keywords: Goods and Services Tax, Indirect Tax, Service tax, Tax Deducted at Source (TDS), Tax Collection at Source (TCS), Value Added Tax

1. Introduction

Goods and Services Tax (GST) is an indirect tax effective across India replacing multiple cascading taxes charged by the Central and State governments. However, some companies can reap higher benefits and some will lose if the rate is lower or higher than the present respectively. Many Indian companies including some of the largest ones are struggling to update their technology infrastructure after implementing GST and uploading the invoice bills in the GST portal.

Even after four months since introducing the GST on 1st July 2017, the biggest hurdle is the co-ordination between tax experts and the technology teams in establishing and tweaking the IT systems. In many cases, some of the ERP softwares provided by the IT majors have to be redesigned as the GST rules keep changing. Hence, this paper focuses on the features of GST and its impact on various groups and as well the challenges that are posed.

2. Review of Literature

Banamali Nath (2017)¹ highlighted the programmes on tax payer education or public awareness and the conduct of workshops, training, and various seminars on GST in all States by the respective State governments. Hitesh k. Prajapati (2016)² focused on the challenges and implementation of GST in India by pointing out the non-boom in IT sector and the threshold limit of turnover for dealers under GST a matter of disagreement between the government and the empowered committee.

Raj Kumar (2016)³ identified the impact of GST on Indian Economy with a comparison of GST and current taxation system, and concluded that after implementation of GST, manufacturers, wholesalers and retailers can easily recover input taxes in the form of tax credits. Lourdunathan F and Xavier P (2016)⁴ exposed the challenges and prospects of implementing GST, concluding that GST will bring One Nation and One Tax market that will relieve

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the producers and consumers from several taxes. Akansha Khurana and Aastha Sharma (2016)⁵ asserted that GST will yield relief to producers and consumers through input tax credit set-off, service tax set-off and encompassing several taxes. Monika Sehrawat et. al., (2015)⁶ stressed that GST would give India a world class tax system. Pinki, Supriya Kamma, and Richa Verma (July 2014)⁷ noted that the implementation of GST would benefit Central government, State governments and consumers in the long run. According to Vasanthagopal R. (2011)⁸, enforcing GST will be a positive step in our country.

2.1 Objectives of the Study

- To understand the features of goods and services tax in India.
- To analyze the impact of goods and services tax on the manufacturers, consumers, and government.
- To identify the merits and challenges of goods and services tax in our nation.

3. Methodology

The present reviewed article adopts descriptive methodology employing secondary data gathered from journals, magazines, newspapers, websites and books related to GST implementation in India on 1st July, 2017 to bring to the fore the impacts and challenges experienced by various groups during the period of first four months (1st July and 31st October, 2017) since its roll out.

4. Features of Goods and Services Tax

The salient features of GST⁹ are as follows:

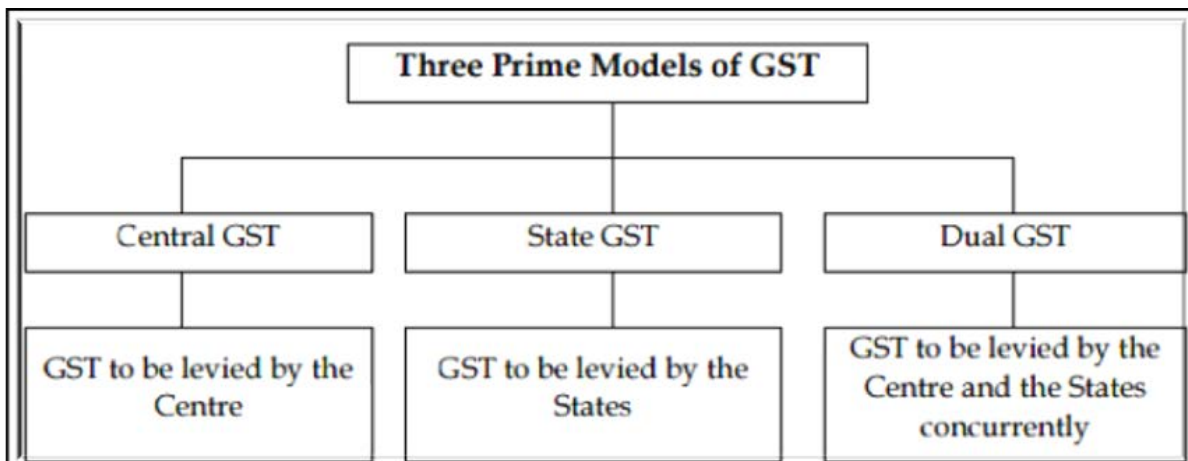
- All transactions and processes only through electronic mode
- PAN based registration
- Registration required if turnover exceeds Rs.20 lakhs
- Option for voluntary registration
- Deemed registration in three working days
- Availability of input tax credit on all procurements with some exceptions
- Invoice is to match to avail the credit
- Challenges tax evasion
- Automatic generation of returns
- GST practitioners to assist filing of returns
- Technology based assistance through GSTN and GSPs
- Remittance of tax through net banking, NEFT/RTGS, Debit/Credit card and over the counter
- TDS for certain specified categories and TCS for e-commerce companies
- Provisional release of 90% refund to exporters within 7days
- Quarterly filing of returns by small taxpayers opting for composition scheme
- Common Accounting Codes.

5. Present Structure of GST

The present Structure of GST¹⁰ in India entails the following:

- Under GST, every sale within the State will be levied with both State GST and Central GST.
- Every sale outside the State is levied with Integrated GST only, payable to the Centre.
- GST removes the old system of VAT, Excise and Service Tax both within and outside the States.

Chart 1 shows the Central GST, State GST and Dual GST clearly as to be levied accordingly.



Source: “Basics of GST-Implementation in India”¹¹ at: www.gstindia.com

CHART: 1 PRIME MODELS OF GST

6. Impact of Goods and Services Tax on Different Industrial Sectors

The positive and negative impacts of GST on various industrial sectors¹² are as follows:

6.1 Automobile Industry

- Positive Impact

On-road price of vehicles could drop by 8%, giving a higher stimulus to boost volumes. For the prime beneficiaries - Maruti Suzuki Company, Mahindra and Mahindra Motors and Eicher Motors, margins may expand.

- Negative Impact

The Demand for commercial vehicles may be hit in the medium term. With increase of fleet productivity, operators may not feel the need to expand mid-term.

6.2 FMCG Industry

- Positive Impact

The companies' savings in logistics and distribution costs will be phenomenal by eliminating multiple sales depots. These companies paying around 24-25 % taxes comprising excise duty, value added tax and entry tax earlier, now need to pay GST at 17-19 % yielding significant cut in taxes. The key beneficiaries are Hindustan Unilever, Colgate Palmolive, GlaxoSmithKline, and Asian Paints.

- Negative Impact

If the recommended 40% "sin/demerit" GST for aerated beverages and tobacco products is levied, then prices may increase by over 20%. Food companies may witness a boost in effective tax as many companies avail concessional rate of excise.

6.3 Cement Industry

- Positive Impact

If GST rates are pegged at 18-20 % for cement companies experiencing an effective tax rate of 25% earlier, will lead to savings in transportation cost, lowering the number of depots in the country. Key beneficiaries are Pan India players namely, UltraTech , ACC, Ambuja, and Shree Cement.

- There is no negative impact on cement industry.

6.4 Technological Industry

- Positive Impact

GST will nullify multiple levies to facilitate intense percolation of digital services.

- Negative Impact

With GST, IT companies need to generate a separate invoice to every contracting party (delivery centres and offices). Further, the duty to surge from 14-15 % to 18%, which will make the price of electronics (mobile phones to laptops) to glide up.

6.5 E-Commerce Industry

- Positive Impact

GST enabling a single unified market across India will yield efficiency in product costs.

- Negative Impact

The administration and documentation works likely to enhance as per TCS guidelines under GST, which escalates the resultant costs for these firms.

6.6 Telecom Sector

- Positive Impact

Mobile phones will cost less or even out across the States. Producers can pass on to the customers the cost benefits from consolidation of their warehouses with organized inventory management.

- Negative Impact

Call charges and data rates to shoot up if GST goes beyond 15%. Petro-products remaining outside the ambit of GST, tower firms cannot set off their input duty liabilities. Hence it is disadvantageous to Bharti Airtel, Idea and Reliance Telecommunications.

6.7 Media and Film Industry

- Positive Impact

DTH, film producers and multiplex players are levied with both service tax and entertainment tax. As GST will enable more uniform tax, multiplex players can save more revenue. Film producers and studios can claim input credit for their services except some; thereby can reduce the overall cost. Key beneficiaries are Dish TV and PVR Cinemas.

- There is no negative impact on media and film industry.

6.8 Insurance Sector

- There is no positive impact on insurance sector.

- Negative Impact

Insurance policies such as life, health and motor will cost more, as taxes will go up to 300 basis points.

6.9 Transport Sector

- There is no positive impact on transport sector.
- Negative Impact

Flying will become costlier with higher GST rates than the prevailed service tax.

7. Impact of Goods and Services Tax on Consumers

Indirect tax is one of the major sources of revenue to the government, wherein the tax collected by businesses and remitted to the government is borne by the consumers. Hence the price paid by consumers comprises the following unnoticed components¹³:

- Cost of inputs/ raw material – (Controlled by business decisions of what, where and of which quality to produce, leaving indirect taxes to play a limited role.)
- Profit margin – (Exclusively a business decision.)
- Taxes – (Specifically governed by the scheme of taxes on such products or services.)

The various significant impacts of GST on consumers¹⁴ are as follows:

7.1 Cut in Prices of Goods and Services

GST curbs the cascading effect and allows credit to the suppliers of goods and or services. Thus, tax is on value addition only, thereby goods and services will cost less to the consumers.

7.2 Uniform Prices across the Nation

GST replacing various indirect taxes will enforce uniform prices across the nation. Hence it is known as 'one nation, one tax, one market'.

7.3 Transparency in Tax Structure

With the elimination of MRP-based taxation, the levy of GST is more transparent to consumers with its details to get disclosed in the labels and bills.

7.4 Certain Goods to become Costlier with Additional Cess and Services to be Taxed at a Higher Rate

GST allows minimum exemptions only, where it is essential. Further, a levy of cess on certain goods (tobacco

products, coal, aerated water, motor cars) will make them costlier than the earlier prices as the rate under GST gets increased.

7.5 Better Accessibility of Goods and Services

GST will ensure easy of access to warehousing and logistics. Consumers need not travel across the States to save tax on purchases. Also, e-tailers can reduce their lead time with the ease of warehousing facilities.

8. Impact on Government

GST will increase the government's revenue in the long term, than in the short term, as tax compliance increases and GDP growth is bolstered. According to Fitch Ratings Report¹⁵:

- The unified national system would offer significant opportunities for productivity.
- As GST allows movement of goods faster, trucks need not be held up at checkpoints of State borders. It is estimated that on an average, trucks spend 48 hours per trip at various check-posts. (Example: Walayar Checkpost in the borders of Tamil Nadu and Kerala)
- GST would create an ecosystem where supply chains can extend and encourage specialization since there would be less incentive to source goods within State borders.
- Tax filing may also become less time-consuming and likely to lead to more tax reporting as a result of the new electronic system.
- The tax base will be broadened, as only SMEs [small and medium enterprises] with sales of Rs. 2 million are exempted from paying the GST.
- Small informal retailers constituting over 90% of retail sales cannot understate their sales or avoid filing tax returns altogether, since transactions are tracked throughout the supply chain, and in turn accelerates the shift towards organized retail.
- The informal sector is very large, accounting for over 20% of the GDP and 80% of employment and is largely untaxed, which was why government revenue was low at just 21.4% of the GDP in 2016, compared with a median of 29.9% for 'BBB' range sovereigns.

9. Suggestions

- GST should weed out procedural complexities to make the products of various industries competitive in the markets.

- The government must establish a good infrastructure and maintain servers without interruption during the sales return filing process.
- The manufacturers must file the sales inwards and outwards returns before the due date.
- The state government must conduct orientation programmes regularly for the business people regarding the Goods and Services Tax.
- According to Bhasin T. S.¹⁶, Chairman, Engineering Export Promotion Council (EEPC), instead of first paying the taxes and then claiming credit for the same, the proposed enabling GST law should exempt exporters from the taxation net since the country does not want to export taxes.
- Pratik Shah¹⁷, Partner, SKP Business Consulting LLP, emphasizes that there is a need for support from finance, procurement, legal, IT, and many other departments for positive outcome of GST, else the holistic picture may not be possible
- Sabyasachi Ray¹⁸, Executive Director, Gems and Jewellery Exports Promotion Council, asserts that the supply and manufacturing side should not be overburdened with taxes, and getting tax input credit refund should be smooth. Above all, exports should remain competitive, given the current global scenario.

10. Challenges

- GST implementation calls for robust systems and tracking of information with the process of accounting and auditing being revamped.
- Re-configuring ERP systems and training of staff on GST aspects.
- Assurance of smooth transition in the States and the formation of a GST Council yielding consensus on various aspects of GST.
- Full-fledged IT system to avoid disputes.
- The items in the accounting software require a relook for effective execution.

11. Conclusion

The small scale industries and traders who have less than Rs.20,00,000 of their annual turnover will be exempted from the GST. Those with an annual turnover below Rs.75,00,000 under composition scheme will have to pay 1% tax on turnover. Manufacturer will have to pay 2% and restaurant business will pay 5%. It is inferred from the present study that cements, media and film industries will have a positive impact, while insurance and transport

sectors will have a negative impact. The GST is considered to be a structural reform that is not just transformational for our economy but also beneficial in multiple ways- such as creation of a better national market and ease in doing business. The GST implementation will give benefits to everyone who is a part of the Indian economy both businessmen and consumers.

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