Impacts Of Goods And Service Tax (GST)?: An Overview of Five Key Sectors Of India's Economy

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Abstract

The GST is meant to be a unified indirect tax across the country on products and services. In the current system, tax is levied at each stage separately by the Union government and the States at varying rates, on the full value of the goods. But under the GST system, tax will be levied only on the value added at each stage. It is a single tax (collected at multiple points) with a full set-off for taxes paid earlier in the value chain. Thus, the final consumer will bear only the GST charged by the last dealer in the supply chain with set-off benefits at all the previous stages. GST also known as the Goods and Services Tax is defined as the giant indirect tax structure designed to support and enhances the economic growth of a country. More than 150 countries have implemented GST so far. However, the idea of GST in India was mooted by Vajpayee government in 2000 and the constitutional amendment for the same was passed by the Loksabha on 6th May 2015 but is yet to be ratified by the Rajyasabha. However, there is a huge hue and cry against its implementation. It would be interesting to understand why this proposed GST regime may hamper the growth and development of the country.

Keywords: Goods and service tax; Indian economy

INTRODUCTION

Since GST’s implementation over the past few days, startups have been pinging @askGST_GoI, the official Twitter handle of the Government of India, for clarity on this new tax reform. As their enterprises are vulnerable to any major changes in economy due to a new policy implementation, founders and employees of these
companies are extremely concerned about the impact of the four tax slabs of 5%, 12%, 18%, and 28% that have been specified in GST.

Many Indian businesses have limited capital and resources at their disposal, meaning that any confusion can quickly escalate into panic. Along with these concerned parties, millions of customers are wondering about the impact of this new tax system on the amount of money they will need to shell out to avail of their preferred goods and services. In this article, I'll attempt to break down the impact of GST on the most popular sectors of India's startup ecosystem, including real estate, e-commerce, hospitality, smartphones, and ride hailing.

**Objectives of the study:**

The objective of the study is to understand the concept, benefits and features of GST

**Methodology:**

Various secondary data is collected from various articles, magazines, news papers.

**Current Indirect tax structure in India**

Presently government of India is collecting Indirect taxes by Excise duty, Service tax, Vat, Custom duty etc. These all taxes are contributing major portion in Government revenues. The rates vary according to government rules and policies.

**GST:**

GST known as Goods and Services Tax applicable to both goods and services, will be levied at all the stages of supply. Tax will be charged on all taxable goods and services in India. There are two components included in GST: CGST and SGST charged by Central and State government respectively. In the interstate transaction central government will collect GST and distribute it to the imported states.

**Models of GST:**

Very First County to adopt GST is France, adopted GST in the year 1960.
Models of GST are like:

**State GST:** In this model tax is charged by respective states of the nation, it is applicable in USA.

**National GST:** In this system Central government collects the taxes and distributes it among the states with certain provisions. It is followed by China and Australia.

**Non concurrent Dual GST:** In this model states collect GST on goods whereas GST on the services would be charged by Central Government.

**Concurrent Dual GST:** In this model is levied by central and state government on both goods and services.

**Quebec Model:** In this system different provisions prevail for States and central government for collecting tax.

Concurrent Dual GST model comprises three terms which are:

**CGST:** Central Goods and Services Tax

**SGST:** State Goods and Services Tax

**IGST:** Integrated Goods and Services Tax

CGST is going to be charged by Central Government for the transactions related to intra state which will be paid to the account of central government. SGST is proposed to be collected by state government. IGST is going to be collected by Central government on interstate transactions which is an additional tax to be levied.

**GST Rates:**

GST Council has declared four tier tax structures: 5%, 12%, 18% and 28%. Lower rates are kept for essential items and higher ones for luxury goods. For controlling the inflation food items will be taxed at zero rates.

**Benefits of GST:**

GST will benefit to many parties including Government, Customers and Producers. The various benefits expected are as under: To the
Consumers: The major benefit of GST is that it reduces the cost of product and services. So customers will be getting the products and services at lower cost compared to the price they need to pay in current tax structure under VAT. It increases purchasing power and saving capacity

To the Producers:
Currently because of multiple taxes in VAT there are some complexities which increases the cost of product, GST, Overcoming all the shortcomings of present tax structure will reduce the cost of product. Producers will be able sale the products at lower cost which directly increases their amount of sales and profit.

To the Government:
GST is easy to understand and implement, Customers whose income will be increased because of lesser tax, will save more and by this government will be getting more amount of investment from customers.

GST: The Short-Term Impact
From the viewpoint of the consumer, they would now have pay more tax for most of the goods and services they consume. The majority of everyday consumables now draw the same or a slightly higher rate of tax. Furthermore, the GST implementation has a cost of compliance attached to it. It seems that this cost of compliance will be prohibitive.
and high for the small scale manufacturers and traders, who have also protested against the same. They may end up pricing their goods at higher rates.

**What the Future Looks Like**

Talking about the long-term benefits, it is expected that GST would not just mean a lower rate of taxes, but also minimum tax slabs. Countries where the Goods and Service Tax has helped in reforming the economy, apply only 2 or 3 rates – one being the mean rate, a lower rate for essential commodities, and a higher tax rate for the luxurious commodities. Currently, in India, we have 5 slabs, with as many as 3 rates – an integrated rate, a central rate, and a state rate. In addition to these, cess is also levied. The fear of losing out on revenue has kept the government from gambling on fewer or lower rates. This is very unlikely to see a shift anytime soon; though the government has said that rates may be revisited once the RNR (revenue neutral rate) is reached. The impact of GST on macroeconomic indicators is likely to be very positive in the medium-term. Inflation would be reduced as the cascading (tax on tax) effect of taxes would be eliminated. The revenue from the taxes for the government is very likely to increase with an extended tax net, and the fiscal deficit is expected to remain under the checks. Moreover, exports would grow, while FDI (Foreign Direct Investment) would also increase. The industry leaders believe that the country would climb several ladders in the ease of doing business with the implementation of the most important tax reform ever in the history of the country. In this article, I'll attempt to break down the impact of GST on the most popular sectors of India's startup ecosystem, including real estate, e-commerce, hospitality, smart-phones, and ride hailing.

**Real Estate**

Under the new tax structure, due to the input credit benefits that most builders will get on the key raw materials they buy, the base price of property projects launched post 1 July 2017 will be comparatively cheaper. Buying under-construction properties will attract a net effective rate of 12% as against the earlier rate of 5.5% (including value added tax and service tax). Real estate players such as Proptiger
and Quikr want to pass this cost benefit on to property buyers. “For new projects with 100% input credit passed to the buyer and land cost being 50% of the project cost, we expect property prices to fall by around 1% in western and northern markets and around 3% in southern markets,” said a report by Edelweiss. However, prices of ready-to-move-in apartments with completion certificates, before implementation of GST on 1 July, would remain steady as these properties are out of the GST ambit. Any price change in the segment will depend purely on demand and supply.

**E-commerce**

E-commerce websites such as Flipkart and Amazon.in will have to collect TCS (tax collected at source) at a fixed 1% rate, and pay this collection to the sellers listed on their websites. This is likely to impact prices and make online shopping more expensive. Though the latest notification issued by the government stated that the provisions of “TDS (Section 51 of the CGST/SGST Act 2017) and TCS (Section 52 of the CGST/SGST Act, 2017) will be brought into force from a date which will be communicated later.” Also to deal effectively with GST, e-commerce platforms are regularly engaging and training the sellers on their stores. Commenting on GST’s impact Rajiv Kumar, Founder, e-commerce website Store Hippo has stated: “We are thrilled to announce the reformation of our tax engine in accordance to GST. E-Commerce platforms need to provide flexible and powerful tax solutions after the implementation of GST and StoreHippo facilitates this through its new move, aimed at simplifying GST for all involved.”

**Travel and tourism**

Depending on room rates there are four slabs for hotels and lodges. While Hotels and lodges with room rates below $16 (Rs 1,000) a day have been exempted from GST, accommodation costing $16 - $39 (Rs 1,000-Rs 2,500), $39 - $117 (Rs 2,500-7500) and above $117 (Rs 7500) will attract 12% 18%, and a 28% tax slab respectively. Ritesh Agarwal, founder and CEO, OYO concurs that the lower tax rate for budget hotels sector will ensure that the industry’s quality upgrade continues while delivering standardized accommodation to millions of
middle-class travelers. He says, “Hotels are the single biggest contributor to tourism industry which accounts for 7.5% of the GDP. The move will boost revenue from the travel & tourism sector for the next many years. The industry is expected to contribute $280 Billion to the GDP by 2026 and will pass on the benefits of uniform taxation across the country to travelers.” Budget travelers also have a reason to cheer as air travel for economy class passengers has become cheaper. On the other hand, business class fares are going to cost more with a marginal increase from earlier 9% to GST rate of 12%.

**Ride Hailing Apps**

Tax rates are expected to rise from 14.5% to a range between 29% and 43% for drivers who do not own cars and are associated with Ola and Uber cab-leasing programs. This is due to leases becoming costlier post-GST. For instance, these individuals were paying an EMI of Rs 25,000 pre-GST, and in a present scenario they are likely to pay an EMI of around Rs 35,000 to Rs 40,000 post-GST. Transport services have been taxed at 5%, which will also apply to cab aggregators like Ola and Uber. The government has not only reaffirmed its pro-consumer, pro-business stance by keeping transport services in the lowest tax bracket but also put to rest any apprehensions among drivers and riders around GST rates being inflationary. Thus, GST will bring down the tax rate for ride-hailing services marginally. The new rate structure as compared to the previous service tax rate of 6% is a step in the right direction by the GST council. But while the 1% fall may bring some cheer to consumers, driver partners of both Ola and Uber will be affected.

**Smartphones**

Under GST, mobile handsets are being taxed at 12% as compared to an earlier range of 8-18% implemented in various states. As a result of this average reduction in tax levied, Apple has reduced prices of its iPhone by 7.5% and Lenovo has announced a reduction in prices of models sold through offline brick and mortar stores. Motorola handsets, a Lenovo owned entity, sold through brick-and-mortar stores are also likely to see a downward price revision in coming days. According to Rajesh Agarwal, co-founder of Micromax: “The
government seems to be in a ‘walk the talk’ mode, they have been fostering a local manufacturing environment in the country and have been mindful of the early investments that have been made into manufacturing in India by many corporate houses already.” A further 10% basic customs duty has been levied on imports of mobile phones to give protection to local production, thereby giving impetus to several local companies such as Micromax, Intex and foreign firms including Foxconn, Flex, Salcomp and iPhone-maker Wistron, that have pumped millions into setting up more than 70 phone and component manufacturing units over the past couple of years.

**Conclusion:**

While comparing challenges with its advantages, it is clearly visible that its advantages are more compared to challenges. GST will give Indian economy a strong and smart tax system for economic development. But for gaining those benefits country will need to build strong mechanism. The objective GST is to replace VAT; GST will be solving all the complexities present in the current indirect tax system. It will be giving relief to various parties like consumers, producers and Government. On priority, it is up to the government to address the capacity building amongst the lesser-endowed participants, such as the small-scale manufacturers and traders. Ways have to be found for lowering the overall compliance cost, and necessary changes may have to be made for the good of the masses. GST will become good and simple, only when the entire country works as a whole towards making it successful.

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