

Tax reform Goods & Service Tax (GST) and its Impact on Common man

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ABSTRACT

The author examined information available in social, print media and articles to detail the tax reform Goods & Service Tax (GST) and its impact on common man. GST is a comprehensive tax system which includes the indirect tax of the State and Central government. It aims to improve the growth of Indian economy. Implementation success of GST depends on backing of income tax (IT) infrastructure. The reform will result in resource and revenue gain for Central and State. However common man and business man have not prepared to accept the new tax system or reform.

The experience of other countries has showed that there was mixed opinions from people in the transition period. GST has both positive and negative impacts on common man. Creating awareness and empowering people at grass route level will pave way for success of the reform. NGOs and CSR programs can take this initiative. They will support the successful execution.

INTRODUCTION

The giant tax structure is made comprehensive by introduction of Goods and Service Tax. This tax reform was launched on the 30th June 2017 by Indian Prime Minister, Narendra Modi. Great amount of work was conducted to roll out the implementation of GST. The concept was first promoted by Dr. Manmohan Singh in year 1990; then it was recommended by Kelkar force in year 2003. In March 2011, the bill was introduced in Lok Sabha to amend the constitution for introduction of GST. Finally the amendment Bill on GST was accepted by parliament in August 2016. Standing committee of finance and select committee of Rajya Sabha did intensive work and all the state government was involved.

GST refers to a consumption based tax levied on sale, manufacture and consumption on goods & services at a national level. This comprises Central GST (CGST) levied by Centre, State GST (SGST) levied by State and Integrated GST (IGST) levied by Central Government on inter-state supply of goods and services. Many taxes are subsumed under GST and they are Central Indirect Taxes & Levies and State Indirect Taxes & Levies. GST will bring in "ONE NATION ONE TAX" by replacing various taxes levied by Central and State government as well as local authorities. GST tax reformation in India has been introduced after long period of debate and discussion focusing on the political issues and the other issues which was assumed to be faced by stake holders. Good and Service tax main objective was to promote efficient tax collection, to facilitate easy movements of goods within the intrastate and to reduce corruption. This reformation came into action within a short period of demonetization exercise in the country. More than 160 countries have implemented this reform to address tax- evasion and it started with France.^[1]

Finance tax reform plays an important role in public and its main agenda is redistribution of wealth and thereby reduction of inequalities. It is done not to just raise revenue to meet the over growing expenditure on administration and social service but also considerably reduce inequalities. The name of the tax

reform varies in the countries. For example in Canada it is called as Federal goods and Service Tax and Harmonized sales tax, in UK it is called as Value added tax, in Singapore and Malaysia it is called as goods and service tax etc.^[2]

In India the standard rate of GST is 0% for staple food 5%, 12%, 18% and 28 % and plus for luxury items. The threshold exemption limit is 20 lakhs and 10 lakhs for North Eastern States. The liability arises on accrual basis - issue of invoice or receipt of earlier payment. Returns and payments have to be done on monthly and yearly basis. More or less the GST features are similar across many countries with minor variations.

United States of America (USA) do not have GST since their States have high autonomy. Most of the countries faced challenges in the initial days of the implementation of GST and India is also challenged with transition to GST tax reform. In India Dual GST is implemented where the Central Goods and Services Tax (CGST) and the State Goods and Services Tax (SGST) will be levied. It is on every supply of goods and transaction of service. It is designed to ensure simple and transparent tax with CGST and SGST rates. The percentage of GST is governed by a GST Council and its Chairman is the Finance Minister of India. Under GST, goods and services are taxed at the following rates, 0%, 5%, 12%, 18% and 28%[3]. There is a special rate of 0.25% on rough precious and semi-precious stones and 3% on gold. There is no GST on certain products.

OBJECTIVES OF THE STUDY

- 1) To understand the concept of Goods and Service Tax (GST) and its roll out in India
- 2) To understand the lessons learnt from other countries
- 3) To understand impact on common man in India

RESEARCH METHODOLOGY

The author conducted systematic review of literature on GST after its implementation from print, social media and selected articles. All the content which was reviewed is secondary data. Review analysis was done and inferences were taken.

SCOPE AND LIMITATIONS

The present study is based on the secondary sources and it not based on primary research. It has comprehensively used the available information to review, analyse and conclude.

LITERATURE REVIEW

Ahmad et al. (2016)^[4] studied "Awareness and Perception of Taxpayers towards Goods and Services Tax (GST) Implementation" and concluded that the awareness of GST is moderate and there is very high level of negative perception in its implementation and so the acceptance was low.

Kumar et al. (2017)^[5] examined "Goods and Service Tax (GST) and India's new journey towards Indirect Taxation" and concluded that GST has led to a simplified tax system and has reduced the complexity of multiple tax regimes and it will boost economic growth and help the government to concentrate on development projects.

Suresh (2017)^[6] analyzed what is GST and how does it affect common man?" and concluded that GST will eliminate the taxes of different states and all states will come under a single tax regime though many professionals, bankers and industries are not ready to accept the challenge imposed by GST.

Ravi (2017)^[7] studied that India reacts to GST and the people get confusion, apprehension and handwritten bills on day one and concluded that though there are apprehensions over GST some are willing to accept it but others are against it.

Syed Mohd Ali Taqvi et al. (2011)^[8] studied "Challenges and Opportunities of Goods and Service Tax (GST) in India" and concluded that all sectors small, medium and large scale industries are affected by GST directly; it is likely to improve tax collections and tax burden will be divided equally between manufacturing and service industries.

Singh (2017)^[9] analyzed GST (Goods and Services Tax) - A Game Changer for India and concluded that it will provide relief to producers as well as consumers and in the long run it can act as a catalyst for growth.

Harishanker (2017)^[10] says that it is anticipated that the GST will be comprehensive and will impact the tax structure, tax incidence, tax computation, tax payment, compliance, credit utilization and reporting, pricing of products and services, supply chain optimization, IT, accounting, and tax compliance systems, leading to a complete overhaul of the current indirect tax system.

Pachisia (2016)^[11] states that GST is implemented in more than 160 countries and there are over 40 models of GST. The rates are between 16 % and 20 %.

Sharma (2016)^[12] explains that the concept of GST is common in most of the countries. In certain countries VAT is

the substitute for GST. It is a destination based tax on consumption of goods and services.

IMPLEMENTATION OF GST

Implementation of GST took considerable time and planning for introducing the reform. The different stages of the GST Bill and its roll out are detailed below:

Kelkar task force suggested comprehensive Goods and Service Tax (GST) in the year 2003 and it was based on VAT principle. In the financial year 2006-07, the proposal for introducing GST was included in the budget speech. GST is a tax reform and therefore a committee of state ministers was assigned the responsibility to arrive at a design to implement the new tax reform. The empowered committee took on record all the inputs from Government of India and states and the first discussion happened on November, 2009. Further a joint working group was constituted in September, 2009 which facilitated to move the work related to GST implementation. In March 2011 to amend the constitution for introduction of GST, the bill was introduced in Lok Sabha.

The standing committee on finance of the parliament examined the report. Committee on GST design which consisted of officials of Government of India, State government and the empowered committee were formed. This standing committee had the responsibility to conduct detailed discussion on the design of the implementation and constitution. They submitted their report in January, 2013. A committee was constituted to examine the various aspects of GST. On August 2013, the parliamentary standing committee presented its report to Lok Sabha. The Ministry examined the recommendation in consultation with the Legislative Department and it was suitably revised.

Further the final draft Constitutional Amendment Bill after incorporating the changes was submitted to the empowered committee in September 2013. The Committee made certain specific recommendation on the Bill. Finally the draft of the constitution amendment Bill was prepared and submitted to the new Government in June 2014 for its approval. Following this the Bill was introduced and passed by Lok Sabha on 06-05-2015 and it was referred to Select committee of Rajya Sabha. The amendment Bill on GST was accepted by parliament in August 2016. Union Finance Minister Mr. Arun Jaitley announced the roll out of GST on 1st July night, 2017.

SALIENT THINGS TO BE NOTED IN GST REFORM

The new tax reform makes GST registration mandatory for business with turnover exceeding Rs 20 Lakhs in the financial year. However it is Rs 10 lakhs for North Eastern and Hill States. If the business is with the goods which are exempted from GST the above clause does not apply. Business men who have registered under the earlier law- Excise, VAT, Service tax etc., have to register for GST. The business people who handle interstate supply of goods have to register for GST. Any casual taxable and nonresident taxable persons have to pay GST. The others who have to pay GST, include agents of the supplier, those paying tax under reverse charge mechanism, e-commerce operator etc.

1. **Goods exempted from GST:** The goods are fresh meat, chicken, fish, milk, butter, curd, natural honey, fresh fruit and vegetables, flour, judicial

- papers, books, newspapers, bangles, bindis, Palmyra jaggeries, etc.
2. **Goods and services with 5% GST:** These are apparel below Rs 1000, footwear below Rs 500, cream, milk powder, branded pannier, frozen vegetables, coffee, tea, spices, pizza bread, rusk, kerosene, coal, cashew nut, medicines and insulin, postage revenue stamps, railways, air transport and small restaurants.
 3. **Goods and services with 12 %GST:** These are apparel above 1000, frozen meat products, butter, cheese, ghee in packaged form, ayurvedic medicines, sewing machine, cell phones, diagnostic kits, Non-AC hotels, business class air ticket, fertilizers, and work contracts.
 4. **Goods and services with 18 % GST:** These are footwear costing more than Rs 500, biscuits, flavored refined sugar, past, cornflakes, pastries, cakes, preserved vegetables, jams, sauces, soups, ice cream, instant food mixes, mineral water, tampons, steel products, camera, speakers, and monitors. Ac hotels that serve liquor, telecom services, IT services, branded garments and financial services.
 5. **Goods and Services with 28 % GST:** These are aerated water, deodorants, shaving creams, after shave lotions, hair shampoos, ceramic tiles, weighing machine, washing machine, vacuum cleaner, automobiles, motor cycles, air craft for personal use, etc.
 6. **Integration of GST with income tax:** Integration of GST with income tax is the final expected outcome that can make the taxation system self-enforcing.
 7. **GDP growth:** Additional GDP growth is expected with GST implementation which is proposed to go up to 2 %.
 8. **GDP reform:** To assure alleviation of poverty and creating a more equitable society.

LESSONS LEARNT BY OTHER COUNTRIES

Price inflammation is one of the major constraints which the other countries faced in the nascent stage of the implementation. Lesson from Malaysia States that business man have to prepare first even before the implementation of GST, since business transaction will undergo a major change. It gave 1.5 years for the business man to get equipped. Worldwide GST rates range from 16 %to 20 %.It is believed that lower rates of GST can help to reduce tax evasion in the long run. In Singapore, they started with 3 % and slowly increased it to 8 % and they cut the income tax rates of the individuals and the corporate. Though the GST was efficient, it was negative for low paid individuals and pensioners.

In countries like Malaysia, there was unrest and people protested in the starting of the implementation. Timely payment of input tax credit refund was vital in Malaysia. It was important to focus on technology infrastructure to be put in place and it took many months to refund tax credits which created cash flow problems in all links of supply chain. The experience of the two countries stated above shows the

bottlenecks faced in the initial days of GST implementation but overcoming the bottlenecks that they saw the advantages of unified tax system, easy input credit and reduced compliances.

RATE OF GST IN OTHER COUNTRIES (FEW EXAMPLES)

The rate of GST in Australia 10%, France 19.6%, Canada 5%, Germany 19%, Japan 5%, Singapore 7%, Sweden 25%, New Zealand 15%.^[13]

BENEFITS OF GST IN INDIA

Some of the benefits envisaged by the tax reform, GST is as follows:

1. The Tax structure will be made lean and simple
2. It will include all indirect taxes at the center and the state level.
3. The manufacturing sector will become free from cascading effect of taxes which will improve the cost-competitiveness of goods and services.
4. Indian market will come under single umbrella of taxation.
5. Promote more transparency and good compliance.
6. Reduce in number of tax departments is assumed to reduce corruption.
7. More revenue through tax collection as more business entities will come under tax system.
8. Unorganized sector will come under tax regime.

GST is expected to enhance the ease of doing business in India. At present the new business man has to have VAT registration from the States Sales Tax department. Every state has different procedures and fess for VAT registration. Therefore it is challenging for business men to operate in multiple states to obtain and maintain the compliance with VAT regulations. However with GST registration, it is centralized and standardized which is similar to service tax registration. Multiple VAT registrations are not required and single registration is applicable across the country. Further GST registration procedure is also planned to be standardized. All the above stated reasons make it easy for starting of new business.^[14]

There are certain criteria for a charitable trust or an NGO to be exempted from the Goods and Services Tax. They are public health services, such as counseling to terminally ill persons or physically disabled, person with HIV or AIDS and drug addicts, promoting of religion, spirituality, or yoga and heritable services to preserve the environment (watershed areas, forests, and wildlife)^[15].

CSR ensures that companies conduct their business in an ethical way. A range of activities includes working in partnership with local communities, socially responsible investment (SRI), developing relationships with employees and customers and environmental protection and sustainability. Main purpose is to fulfill the social or environmental goals.^[16]

SOME OF THE DISADVANTAGES OF GST ENVISAGED ARE AS FOLLOWS:

1. Compliance cost will go up since GST will have dual control on every business
2. Small business men may find it difficult to follow since all the credit will be made available from online connectivity with GST network

3. Certain product price will shoot up because of the VAT and service tax on the product
4. Individual states may not be able to change their tax rates
5. Therefore the states which are involved in manufacturing will lose their revenue.
6. Only one registration is adequate at present for service sector but with GST they have to register with every state with central and state government. Business at all India level will have around 60 registration
7. The taxes of retail business will rise and they also have to register with central government apart from the state government.

OPINION PREVAILING AMONG THE PUBLIC WITH REGARD TO GST

1. GST introduced in the same year of demonetization
2. Small and medium traders are anxious about GST
3. Unorganized and informal sectors are confused
4. People have to spend more money on food items
5. Theatre owners are very worried much in Chennai city
6. Tamil Nadu is the only State which has added State tax apart from the GST on movie tickets
7. Everything in the super markets is packed which has more GST
8. Opposition political parties set protest against GST

On the other side people also believed that demonetization and GST will together reduce corruption. Many believe that new tax regime will stream line taxes and reduce the burden of consumers.

CHALLENGES IN IMPLEMENTING GST

Some of the salient challenges which are faced during the implementation include:

- Demonetization has big impact on timing of the Goods and Services Tax (GST) reform.
- GST is an economic and tax reform and should not be connected with politics.
- GST having impact on cash flow and working capital of business organisation which has high inventory of goods. At different States, they have to pay GST at higher rate on stock transfer from one State to another.
- Readiness of Technology for immediate launch of GST
- Roll out of GST among Unorganized sectors or unregistered firm will not be favorable to government^[17].

POTENTIAL SOLUTIONS FOR REDUCING THE TENSION AMONG COMMON MAN REGARDING GST

It is obvious from various authors and economists that GST will bring one nation and one tax market. Efficient execution of GST will help to increase the revenue and resource of the State and the Central. All the stake holders of state, central, traders and consumers have to be boarded rightly for successful implementation of GST. It became very important to provide awareness and skills to understand the benefits of GST and

successful implementation is going to reap fruits for the nation and the individual, remove poverty, and promote equality. The responsibility for the successful execution can be given to various corporate response programs and NGOs.^[18]

CONCLUSION

The review of information clearly identifies that the reform has taken considerable time and efforts of experts for its roll out in India. It is the reform which has replaced various types of indirect tax. It has salient benefits for the country and the people of India. The challenges posed after the roll out of the reform should be attended to by the Government. The reform should not be looked with political view. From the perspective of the common man as of now it has both positive and negative aspects. Efforts has to take to educate the lay man on the benefits of GST and how the common will to bring in reform is very important for the increase of economic state of the country. This responsibility should be taken by civic bodies to create the right messaging. In addition the information and broad casting department of central and state can take a very active role to educate the people. Efficient execution of GST will increase the economic health of common man and the country.

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