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Impact of GST on Economy and Business

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Abstract:- *Goods and service is very comprehensive tax structure when implemented at the national level . It is one of the significant step towards the development of the country. It is one of the biggest tax revolution which is all set to integrate the state and national economy to boost the overall growth of the country. Presently companies and businesses pay multiple taxes which increases the cost of product and also hampers the profit level of the company. Multiple tax and complex taxation system is one of the biggest hurdles for economic growth of the country. Once the GST system is applied there would be single tax system which would record a significant development in comprehensive indirect taxation reform. Under the GST system there would be only on rate applicable for both goods and services. GST will create a business friendly environment, as prices will fall and it would also control the inflation rates.*

INTRODUCTION Taxation plays a very important role in economic development of country. With much awaited GST system and in-depth analysis, here we are with final GST bill passed by the parliament. Because taxes are only means for financing the public goods because they cannot be properly priced in the market. And government is only the source of funding using the taxation methods. As taxes are the drivers of the economy. Tax regimes should be designed in such a manner that is does not become the source of distortion in the market or result in failure of market. Raising a sufficient amount of revenue is main aim of tax law in efficient, effective and equitable manner. Tax policies are important contributor to the economy in both the cases efficiency and equity. Good tax system should keep in view the issues of income distribution and also focused on strategies to generate tax revenues to support government expenditures on public services and infrastructural development. GST stands for Goods and Service Tax. Domestic trade tax will be levied in the form of a value added tax on all goods and services, in practice with some exemptions. VAT exempts all inputs including capital goods. Moreover it is general tax is on domestic consumption. Basically there is need to change the taxation pattern, as double taxation system demotivates the consumer from consumption of products. It also impacts spending pattern of public. Development of the economy depends on the purchasing power of the country. GST is convenient and economically efficient way of taxing the consumption. Basically there are very few exemptions because it has single rate and it becomes a proportional tax on consumption. One level of tax is efficient way of collection, because it either goes to the state or central level. Multiple level of tax is distortion in case of destination of tax collection. Tax should go to the state in which the concerned consumer lives. This will automatically take place if tax is levied at the central level or state is in unitary level with the one and only level of tax collection. If GST has to be implemented at central level i.e. in one level, it has to face many challenges at central level.

Part 1

Economical Impact:-

Impact Of GST on Indian Economy Expect reduction in prices of :

FMCG goods such as shampoos, chocolates

Eating out
Small cars
DTH

Increase in prices of:

- Luxury cars
- Tobacco
- Aerated beverages
- Textiles

Advantages Of GST

For Citizen

Simpler tax system

- Reduction in prices of goods and services due to elimination of cascading.
- Uniform prices throughout the country.
- Transparency in taxation system.
- Increase in employment opportunities.

For Trade/Industry

- Reduction in multiplicity of Taxes
- Mitigation of cascading /double taxation
- More efficient neutralization of taxes especially for exports

Challenges Of GST in Indian Context

GST will be the biggest reform in Indian taxation since 1947, but there are many challenges for its successful implementation. These are as under

- **Consent of States:** For implementing it is critical that GST bill is passed by the respective state Governments in state assemblies so as to bring majority. This is a herculean task.
- **Revenue Neutral Rate (RNR):** It is one of Prominent Factor for its success. We know that in GST regime, the government revenue would not be the same as compared to the current system. Hence, through RNR Government is to ensure that its revenue remains the same despite of giving tax credits.
- **Threshold Limit in GST:** While achieving broad based tax structure under GST, Both empowered committee and Central Government must ensure that lowering of threshold limit should not be a "taxing" burden on small businessmen in the country
- **Robust IT Network:** Government has already incorporated Goods and service tax network

  (GSTN). GSTN has to develop GST portal which ensure technology support for GST Registration, gst return filing, tax payments, IGST settlements etc. Thus there should be a robust IT backbone

- **Extensive Training to Tax Administration Staff:** GST is absolutely different from existing system. It, therefore, requires that tax administration staff at both Centre and state to be trained properly in terms of concept, legislation and Procedure.

Part 2:-

Business Impact :-

Overall Impacts of GST:

- **Business Decision making will be Tax Neutral:**

GST will be a tax on consumption & hence all stages of production and distribution will be mere pass-through. Therefore business decision making will be Tax neutral

- **Impact on the Stock Transfers :**

Taxation of stock transfer is in effect only a prepayment of tax on output which will primarily impact the working capital requirements. At present Stock Transfer from one State to another take place free of Tax against Form F. However, under the GST, Stock transfers from one State to other to one's branch or consignment agent might be treated as inter-State sale. The quantum of impact will vary depending on stock turnaround time at ware house, credit cycle to customer, quantum of stock transfer , etc. Moreover, it will also have an impact on the stock transfers to branches/consignment agents within the state. At present, the treatment of these transactions have been subject to the laws & rules of different states. However, GST would be attracted if a dealer transferring any goods or services from one branch in a state to other branch in the same state do not have same BIN (Business Identification Number). Hence, these transfers might also be subject to tax, unless the BIN of transferor and transferee is same.

- **Revision in Prices of goods & services :**

Price fixation is critical to the growth of any business. Once there is clarity about the operational impact of GST and finality about the rate structure, then price fixation would become easier. In order to gauge the component of tax built into the cost and price of a product or services, businesses first need to decipher their current pricing system. This exercise may require collection of data from within and outside the organization. Those organizations which restructure their prices early may gain first player advantage in a competitive market. Moreover this is also likely to result in a reduction in the prices of the commodities in the long run as manufacturers and distributors would pass on the benefits of lower costs of carrying on their businesses to the consumers.

- **Uniform Structure, Design & Compliance System :**

The proposed GST, dual in nature envisages a uniform m structure, design and compliance system at all levels of Government and across the states, Therefore, cost of doing the business in India will significantly reduce as the differences in the Tax Structure of different States and the Central government greatly increase the cost of doing the business, which would not be the case now.

- **Changes in the Tax Rates :**

Under the current tax regime, the cumulative rate of tax on goods (both at the Centre and the state) is approximately between 20-22 percent. Whereas for services the present rate of tax is only 12.36 percent. This brings the over-all rate to 25%-30%. But, post GST, it is likely to be in range of 18%-20%; a net gain of almost 6%-10%.There could be strong consumer resistance in case of services with strong demand elasticity. This could force some sectors to absorb the hike themselves. Depending on how much is passed on or absorbed, it would affect the performance of service sector companies.

Therefore, most of the dealers would experience the change in tax rates, either significantly or marginally. Therefore they would be required to conduct detailed study of the changed scenario.

- **Impact of GST on Working Capital Requirement :**

Apart from the tax cost, GST is also likely to have an impact on the cash flow requirements of business. This would be especially prominent in case of transactions involving supply of goods. The contingencies due to which working capital would be blocked may arise primarily on account of GST on Imports and on Stock Transfers, etc. Even in the federal structure with

The unified GST through proper transaction planning, it may be possible to optimize the cash flows. Hence it will be important for businesses then to estimate and plan their working capital requirements.

- **Changed system of Input Tax Credit :**

The distinguishing feature of GST is provision of full input tax credit across goods and services, and collection of tax on value added at each stage so that full tax is borne by final consumer. This ensures that tax is always a pass the rough and that it never becomes part of the cost. For these reasons, introduction of GST will have a positive impact on profitability. The GST will facilitate seamless credit across the entire supply chain and across all States under a common tax base. The current framework allows limited inter-levy credits between the Excise Duty and the Service Tax. Moreover, presently no cross credits are available across these taxes and the VAT paid (on inputs) or payable (on output). Hence introduction of GST would rationalize the tax content in product price and would thereby benefit the ultimate consumer. Apart from the impact on bottom line of businesses, seamless credit would also be beneficial to Government revenues as it has a built in self policing feature and will reduce tax evasion. Moreover, it is to be noted that the taxation of the Capital Goods discourages savings and the investments and thereby retards productivity. The 'Flawless' GST envisages full and immediate credit for GST on capital goods (Both Buildings and the Plant & Machinery), thereby fully eliminating the incidence of any indirect tax on the Capital goods. This thereby enhances the productivity of Capital and hence reduces the Capital-Output ratio.

- **Cash Flow Benefits :**

GST will offer the cash flow benefits to the dealers and the distributors. They would be collecting GST from their customers as they make sales, but would be required to remit it to the government only at the end of the month or the quarter, when they file their returns. This extra cash flow would allow them to achieve scale and invest in making their operations more efficient.

- **Training:**

Competent professionals will be required and for that, comprehensive training will have to be given to the staff members at each level so as to handle the complex GST matters, which will be a combination of various indirect taxes prevalent now. Training will have to be rendered to all departments such as marketing, accounting, etc.

OBJECTIVES OF THE STUDY

- To enquire the impact of GST after its implementation.
- To find out difference between present indirect taxes and GST.
- To identify benefits and challenges of GST after implementation.

Expected price movement for items upon implementation of GST

Decrease	No GST	Increase
Television	Bread, white & whole meal	Mobile phone
Refrigerator	Cooking oil(palm oil, coconut oil & groundnut oil)	Computer
Air- conditioner	Beef, mutton, lamb, chicken & pork	Eye-pad& tablet
Spark plug, brake pad & car battery	Local fruits	Photocopy machine
Home theater system	Diesel	Digital photo printing
Hair dryer	Petrol unleaded 95	Transportation of goods
Electric fan & toaster	Rice	Drinking water
Gas cooker- double burner	Fresh vegetables	Magazines
Electric Iron	Fresh fish &prawans	Fish balls
Cotton bath towel	Powdered milk	Canned sardine & tuna
Colour pencil	Chicken & duck eggs	Lipstick
Toothbrush	Public transport	Nail colour
Dettol, antiseptic	Motor oil	Motorcycle, 110cc
Dinning set (6 chairs)	Engine oil	Watches
Diapers	Private clinic x-ray	Ice cream

CONCLUSION :-

The implementation of GST, taxes move s from the origin state to the consumption state due to which overall economic activity is expected to increase and it could expect a better GDP growth that should push demand for vehicle across categories. Impact of tax cascading will also go away that will reduce overall cost of vehicle manufacturing as all taxes on input paid will be offset with the output liability of GST

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