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GOODS AND SERVICES TAX (GST): PRE AND POST ROLLOUT ANALYSIS

SAUMYA GARG
STUDENT
DEPARTMENT OF COMMERCE
INDRAPRASTHA COLLEGE FOR WOMEN
DELHI UNIVERSITY
DELHI

SIMRAN KAPOOR
STUDENT
DEPARTMENT OF COMMERCE
INDRAPRASTHA COLLEGE FOR WOMEN
DELHI UNIVERSITY
DELHI

ABSTRACT
The Goods and Services Tax (GST)is being considered as an opportunity to fill the gap that has been left in India's development. With effect from 1st July 2017, GST aims at removing a maze of state and central taxes and makes the country unified. This paper is an attempt to discuss the basic meaning of GST, its types and compares it from the previous taxation system. In this paper we have covered a period of three months: PRE GST (25th May 2017 to 30th June 2017) and POST GST (1st July 2017 to 30th August 2017) to identify the expectations and reality of this regime. In the PRE GST period we have analyzed the expected impact of GST rates on different sectors of the economy. In the POST GST period we have covered the various changes and reactions on the sectors covered in PRE GST after its implementation. Though it is a short period and does not cover the major impacts, but this paper will give you an insight into the significant changes in the early months of the new taxation system.

KEYWORDS
GST, Indian economy.

INTRODUCTION
1. WHAT IS GST?
Goods and Services Tax (GST)is an indirect tax applicable throughout India with effect from 1st July 2017. It aims at eliminating inefficiencies in the tax system that results in tax on tax. GST is a tax levied at every stage of value addition in the supply of goods and services. It is considered as an important economic reform of Modi government's agenda. It is drafted on the concept of one nation, one market, and one tax. GST will unify the country into a single market. Various taxes on production such as central excise duty, import duties, custom duties, state taxes like VAT, central sales tax on interstate trade of goods, luxury tax, entertainment tax, state cess and surcharges on supply of goods and services are subsumed into GST. Government of India has set four slabs 5%, 12%, 18% and 28%.

2. TYPES OF GST
The three types of GST have been imposed in this regime which has been discussed below:
Central Goods and Services Tax (CGST)is a tax levied by Central Government.
State Goods and Services Tax (SGST)is a tax levied by State Government.
Integrated Goods and Services Tax (IGST)is a tax levied by central government on interstate supply of goods and services.
Union Territories Goods and Services Tax (UTGST)The GST Council has introduced the UTGST Act, to levy a tax, called UTGST, in the union territories of Chandigarh, Lakshadweep, Daman and Diu, Dadra and Nagar Haveli and Andaman and Nicobar Islands. UTGST will be levied in place of SGST in these union territories.

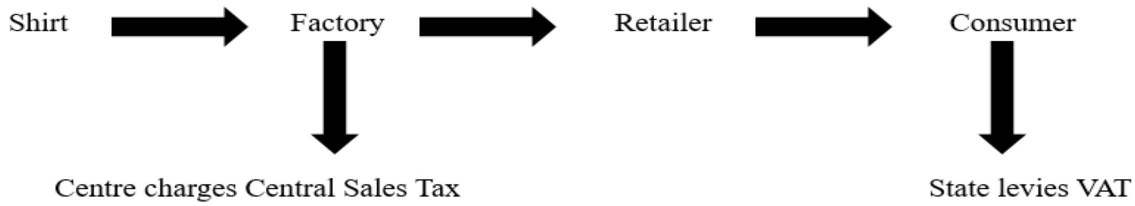
TABLE 1

Transaction	After GST	Before GST	Effect
Sale within the state	CGST+SGST	VAT+ Central excise/ service tax	Sharing between Centre and State
Sale to another state	IGST	Central Sales Tax + Excise / Service tax	One tax

Example 1 A dealer in Punjab sold goods to a customer in Punjab for ₹2000. GST is at 18 % (9% CGST + 9%SGST). In such case dealer collects ₹360 as tax (₹ 180 to central government + ₹ 180 to state government).
Example 2 Suppose Delhi dealer sold goods in Gujarat for ₹ 2000. GST is at 18%. Now ₹360 tax will go to Centre as IGST. There is no need to pay CGST and SGST.

3. OLD TAXATION SYSTEM NEW TAXATION SYSTEM
In the old taxation system, power was divided between the Centre and the State government. The direct taxes (tax levied on income or profits of those person who pays it) were collected by the Centre. Indirect tax is a tax levied on goods and services where burden of tax can be shared. Tax on manufacturing of goods was collected by the Centre and tax on consumption was under State.
There are two problems associates with old taxation scheme
Problem 1: WHEN GOODS ARE SOLD IN THE MANUFACTURING STATE
Example1 the central government levies its indirect tax called central excise when the good leaves the factory.
When this good reaches a retailer and bought by the customer, the state government, at this stage, levies value added tax (VAT). So a tax at the factory and a tax at the final price add to the cost of the good.

FIG. 1



Problem 2: WHEN INTERSTATE TRANSACTIONS TAKE PLACE

Example 2 A shirt manufacturer in Punjab buys dye from Himachal Pradesh. He pays Central excise and Himachal Pradesh's state tax. On this cost the manufacturing state levies tax when it is sold in its state. If it is sold across its borders it collects export tax.

This makes India economically divided. These multiple taxes raise the cost of products and makes economic activity complicated.

4. HOW GST WILL HELP IN SOLVING THE PROBLEMS OF OLD TAXATION SYSTEM?

GST is an indirect reform which aims to remove all interstate taxes and create a single market. From consumer's point of view all taxes will be collected on consumption stage. Once the multiple taxes are removed consumers will not be paying tax on tax when goods move from one state to another.

One of the main features of Old Taxation system was **the Cascading Effect** of taxes where the tax liability passes at every stage of transaction. Here tax is paid on tax and the value of item increases.

Example

TABLE 2

Action	Cost	10% tax	Total
1. Good manufacturer buys raw material for ₹200	₹200	₹20	₹220
2. Wholesaler buys from manufacturer for ₹220. He adds some value to it, increasing its cost by ₹40.	₹220+₹40=₹260	₹26	₹260+₹26=₹286
3. Retailer pays ₹286 for the article. He does the packaging and advertising. His value addition is ₹30.	₹286+₹30=₹316	₹31.6	₹347.6

The customer pays ₹347.6 for a good whose cost price was ₹270 (200 + 40 + 30). Here tax liability passes at each stage and comes to rest with the consumer.

To solve the problem of Cascading Effect, GST introduces the concept of input tax credit. It is the credit that individual gets for the tax paid on inputs used in manufacturing the product

TABLE 3

Action	Cost	10% tax	Actual tax liability	Total
1. Manufacturer buys raw material for ₹200	₹200	₹20	₹20	₹220
2. Wholesaler buys good from manufacturer for ₹200. Adds value to the shirt for ₹40 Now he has already paid ₹10 as tax to the manufacturer. He pays only ₹4 as tax and ₹10 becomes his input tax credit.	₹200+₹40=₹240	₹24	₹24-₹20=₹4	₹240+₹24=₹264
3. Retailer buys from the wholesaler and pays ₹264. He adds value for ₹30. Since he has input tax credit of ₹14 (as he has already paid to the wholesaler) his tax liability reduces to ₹3. He sells the shirt to the customer for ₹297	₹240+₹30=₹270	₹27	₹27-₹24=₹3	₹270+₹27=₹297

The final value of the shirt reduces from ₹347.6 to ₹297. Thus reducing tax burden on the customer.

5. PRODUCTS AND SERVICES UNDER VARIOUS GST SLABS

Indian government has fixed four categories of taxes on goods and services. Some of the goods and services are exempted from GST and some attract an additional cess.

Products which are **currently exempt from GST** are: Crude oil, Diesel, Petrol, Natural Gas, Jet fuel and Liquor. More than half of the consumer goods like unpacked food grains, milk, curd, eggs, unpacked paneer, unbranded natural honey, Maida, Atta, besan, kajal, salt are exempted from GST. Education and Healthcare services are out of GST regime. A business whose annual turnover in a financial year does not exceed ₹20 lakh is out of GST. For northeastern and hilly states, the annual turnover should be below ₹10 lakhs.

GST will be **5%** for the following goods: sugar, tea, coffee, edible oils, packed paneer, footwear (upto ₹500), apparels (upto ₹1000), cashew nuts, raisins, fabric, domestic LPG.

Under **12%** slab goods like butter, ghee, almonds, fruit juice, pickle, murabba, jam, mobile phones etc. are included.

Goods like hair oil, soap, ice creams, pasta, pesticides, corn flakes, computers, soups, toiletries will attract **18%** GST.

28% tax will be levied on white goods, cars, television, 5 star hotel services and cinema.

Luxury cars, pan masala, tobacco products will attract an additional cess.

PRE GST PERIOD (25TH MAY TO 30TH JUNE 2017)

Despite the benefits of GST, this system has faced a lot of opposition. The finance minister of West Bengal, Amit Mitra said that "GST must be rolled out systematically with full preparation. But we are heading towards an impending catastrophe. GST will be a double-burden on the states that are yet to recover from the shocks of demonetisation" Markets in Old Delhi also witnessed protests demonstrated by small business traders in the form of a lockdown of the market. But despite these hurdles, India is moving forward with the implementation of GST and rightly said by the Chairman of GST Council and the Finance Minister of India, Mr. Arun Jaitley "To begin with, people could face some difficulties because any change over has its own problems, but it will settle down and the country will benefit"

1. **CHANGES DUE TO GST REGIME**

- **ON GOVERNMENT**

1. Though the real impact on GST on government revenue can be known only after the implementation of GST, the government is expecting a fall in income in the first year due to implementation problems.
2. With destination based tax (DBT)is replaced by Origin Based Taxation, the revenue earned by the manufacturing state will fall and the revenue earned by the consuming states will rise. The producing states fear loss of revenue and expect compensation from central government. The Centre will compensate the states for revenue losses in the first five years of GST.
3. Since technical glitches are expected for the first few months after the implementation of GST, the government has agreed to no penalty on wrong filing of tax for the first 2-3 months.

- **ON CONSUMERS**

1. Before July 1, consumers have derived benefits in the form of reduced prices on various goods. Pre GST sales and discounts were offered by retailers to consumers particularly on goods whose prices are expected to rise after the implementation of GST like Cars, AC, TV, Washing Machines, Clothes, Mobile

Phones, etc. These sales were also offered by online e-commerce websites like Amazon and Flipkart. Heavy discounts on electronics attracted many new buyers into the market. Consumers purchased even those goods that they don't need in advance to avoid paying more in the form of taxes after GST.

2. With the amount spent on the purchase of clothes of the value Rs. 1000 and more to be increased after GST, the usual end of season sale were also pushed back in malls and summer sale started quiet earlier than usual. Consumers benefitted from these sales along with the retailers who wanted to clear their pre GST inventory. These discounts were not only on apparels but on high end accessories too.
3. Other than electronics and home appliances, consumers have not stocked up items of daily use beforehand because eatable items are expected to become cheaper after GST.

- **ON COMPANIES**

1. Retailers from Big Bazaar to Amazon set up huge last minute discounts to clear their stock. BMW was the first company to pass on discount of up to 12% on all its luxury models to customers since cars attract a GST of 28% and cess depending on the model features.
2. New entities have been formed such as Pune based Vayana Network that will help small and medium enterprises to arrange funds. These entities are called GSPs (GST Service Provider). ASPs (Application Service Provider) have also come in place and will convert sales and purchases to GST online filing returns.
3. Companies have also hired more consultants and chartered accountants to help with the new tax return. Demand for specialists in GST has increased with some firms willing to pay a salary of more than ₹ 2,00,000
4. CEO of Levi Strauss, Charles V Bergh said that the dip in sales due to GST would be less than that of the one suffered during demonetisation. According to him, GST would be good for India as it simplifies the tax structure.
5. While some small retailers fear the collapse of their industry due to high GST on their product like the Agarbatti industry that earlier faced a vat of 0% but now has a GST rate applicable that too of 12%. Similarly, the Pickle Industry fears collapse due to a GST rate of 18% in comparison to an earlier VAT of 7%
6. Firms are also facing a lot of problems as many SMEs are not equipped in dealing with online registration for GST. Suppliers are unwilling to register for GST such as the textile traders in Surat who had protested against tax on fabrics. With the hike in fees of chartered accounts, the firms have no option but to pay the required fee as GST requires monthly filing. There is also confusion regarding products as all products need to be mapped with a code and different items have different tax rates even if they belong in the same category of code.
7. Companies selling processed foodgrain feared losing out to unregistered foodgrains. These companies feared that with a levy of 5% tax on processed food-grains, consumers will shift to unbranded commodities.
8. GSTN (GST Network) is a non-profit company and is partnered by Tech Mahindra and Infosys. GSTN will set up two call centres to handle turnover details of companies and uploading invoices of businesses. The central and the state government together own an equity of 49% in GSTN.

PRE GST EFFECT ON DIFFERENT SECTORS

1. PRIMARY SECTOR

1.1 AGRICULTURAL SECTOR

- While the produce of farmers like foodgrain, vegetables, pulses, flour are exempt from GST but indirectly the products involved in making these products does attract GST. The government introduced a GST of 12% on fertilizers against the earlier tax of 5%. With the request of several farmers, the government decided to put fertilizers in the 5% slab fearing an increase in the price of foodgrains by farmers. Now, the decrease in the prices of fertilizers can lead to overuse of fertilizers.
- Earlier, the tractor parts were put in the 28% tax bracket. But the GST council later put the parts in the 18% tax bracket to help small farmers. This move will go a long way in making the small and medium farmers more profitable.

2. SECONDARY SECTOR

1.1 VEHICLE SECTOR

- Automobiles will attract a GST of 28% plus an additional cess
- Hybrid cars to be more dearer by at least 1.5 lacks to 45 lacks and SUVs and large sedans to be cheaper after GST and enjoy lower tax
- Tax burden on SUVs down from 55% to now 43% and Hybrid cars up to 43% from 30%
- Cess on luxury cars will be 15% and on small petrol cars will be 1% and on small diesel cars will be 3%
- Retailers of luxury cars like Mercedes Benz cut prices on all models by up to 4%

Chairman and director of Toyota said that this move is an anti-environment policy as hybrid cars don't run on fuel and help in conserving the environment and now they face more tax than large SUVs.

1.2 CLOTHING

- GST on apparels above Rs.1000 will be 12% than the existing 7%
- GST on apparels below Rs.1000 will be 5%
- Footwear above Rs.500 will attract a tax of 18% and below Rs.500 will be charged at 5%
- Cotton, silk, wool, nylon and other artificial fibres also come under 5% bracket
- Prices of clothes are expected to rise but the impact would be small as input tax can be availed by retailers.
- Offers were raining in all stores pre GST period with all branded shops offering up to 40-50% discounts

3. TERTIARY SECTOR

1.1 RESTAURANTS

GST proposed for restaurants has the following tax slabs:

- 18% for Five Star hotels
- 18% for air conditioned restaurants with liquor license (Present 10.6%)
- 12% for non AC restaurants (Present 6%)

Eating out is bound to become more expensive after GST.

1.2 HOTEL STAY

According to the prices of hotel rooms per night, the GST rates proposed are

- For rooms costing Rs.1000 - Rs.2500 = 12%
- For rooms costing Rs.2500 - Rs.7500 = 18%
- For rooms costing Rs.7500 and above = 28%

According to Pradeep Shetty of Federation of Hotels and Restaurants Association of India this move will have a negative impact on the economy as "Tourism is the biggest grosser and biggest employment generator."

1.3 HEALTHCARE SECTOR

- The healthcare sector is **exempt** from GST. Exemption is in the form of service provided by medical practitioners and transportation of patients.
- Medical devices attract a GST of 12% against the present tax of 13%
- Lifesaving drugs will be charged at 5%
- Overall other medicines will be charged at 12%
- Ayurvedic medicines will be charged at 12% against the present 7%

Baba Ramdev expressed his disappointment since ayurvedic medicines provide cure to common people at affordable prices are now taxed higher.

1.4 EDUCATION SECTOR

- Education from pre-school to higher secondary is **exempt** from GST
- Student necessary items like bags, books, notebooks, coloring books are to be made cheaper after GST

- Since tax on coaching centres has been increased from 15% to 18%, the cost of education is to rise in the form of more coaching fee, food, laundry, security of students

1.5 TELECOM INDUSTRY

- GST on telecom services has been decided at 18%

Since telecom services are used by more than a billion users, Cellular Operator Association of India wrote a letter to Mr. Arun Jaitley to put telecom in the 5% bracket as all other services or it would lead to an increase in the tax burden faced by consumers in the more of increased bill.

1.6 ENTERTAINMENT SECTOR

TABLE 4

GST RATE	PARTICULAR
28%	Cinema
28%	Amusement Park
28%	Race
28%	Casino
28%	Sports events like IPL

- The tax rate of 28% on cinema can have a positive or a negative impact depending from state to state. Before GST, a few states like Punjab had nil tax on cinema while Jharkhand had a tax of 110% on cinema. States like Delhi and Maharashtra had a tax of 40%. So it might be a fall in movie tickets for some states while an increase in others
- Tickets of Rs.100 or less will face 18% tax compared to 28% faced by tickets above Rs.100
- The tax on food and beverages provided inside cinema halls has been kept at 18%. Thus, the cinema hall owners can gain by the F&B sector
- On TV and DTH services also, GST has been decided at 18%

TABLE 5

GST RATE	PARTICULAR
18%	Circus
18%	Indian Classical Dance
18%	Theatre
18%	Drama

1.7 FMCG

- FMCG is the fourth largest sector in the economy and items in this sector includes all consumable items. Keeping in mind the items of mass consumption, the government has put most of the products under the 18% slab.
- Items like toothpaste, soaps, hair oil have been kept under 18%. The prices of such goods is expected to fall and FMCG companies would pass on the benefits to consumers in the form of reduced prices due to the anti-profiteering law.
- Colgate – Palmolive is expected to be the biggest beneficiary as the present tax on toothpaste is 25% and now the reduced tax under GST will be 18%
- Some of the items like shampoo, detergents, paints, hair dye, and skincare products attract 28%. Their prices are expected to rise but sales will remain static.
- A 12% tax on sanitary napkins was criticised by many people, as they are not an item of luxury but a basic necessity for sanitation and menstrual health of women. An online campaign was also launched called "Lahu ka Lagaan"

POST GST (1ST JULY TO 30TH AUGUST 2017)

The Goods and Services Tax which came into effect on July 1 is considered as the one of the important economic reform. It is expected to yield many macroeconomic gains. Ironically it is known as the Goods and Simple tax as it will bring an end to the 14 year struggle to replace 20 federal and state taxes. Though GST was welcomed with all pomp and show at the parliament on 1st July, it did not appeal to many traders. Traders of popular markets like Chandni Chowk, Kashmere Gate, Khari Baoli, Karol Bagh and Nehru Place protested against the implementation of GST by shutting down their shops for several days. Nehru Place market even faced a 60% downfall. Others faced confusion about the new billing system and GST requirements.

POST GST EFFECT ON DIFFERENT SECTORS

1. PRIMARY SECTOR

1.1 AGRICULTURAL SECTOR

A few hours before the rollout, the tax rate for fertilizers was brought down to 5% from 12% to avoid protests in the agricultural sector and bring relief to farmers. Similarly, there was a tax reduction of 18% from 28% on tractor parts. This has led to easy and better transport services and reduced the workload of farmers as the tractor sector saw many new buyers. Check posts have also been removed and have helped in reducing travelling time.

2. SECONDARY SECTOR

2.1 VEHICLE SECTOR

Benefits offered by Automobile companies remained even as GST kicked in. Benefits of upto ₹4150 were offered by TVS for scooters. Heavy discounts were offered by Toyota particularly for the SUVs that became cheaper after GST. Toyota Fortuner had offers upto Rs. 2.69 Lakhs. Luxury vehicles such as Jaguar had a price reduction of over Rs. 5 Lakhs.

The government has approved to hike up the cess of larger SUVs and luxury cars from 15% to 25%.

2.2 CLOTHING SECTOR

The prices of various brands have increased after GST. Many companies like United Colors of Benetton, Arrow, US Polo offered discounts but they were exclusive of taxes. Thus, spending on clothes has become dearer.

Traders in Gujarat continued to protest against the 5% levy on textiles in Surat. These traders continue to demand that tax should be on apparels and not fabric.

GST on all job work related textile items has been reduced to 5% from earlier 12%

3. TERTIARY SECTOR

3.1 RESTAURANT SECTOR

The tax rate for AC restaurants was 18% and five star hotels charged 28% GST. The Central Board of Excise and Customs ruled out that tax will be 18% irrespective of the takeaway being from AC or non-ac area. Sweet makers are reducing their variety because of the confusion regarding different taxation rates.

3.2 HOTEL STAY

GST of 28% on restaurants at luxury hotels has been brought down to 5%. There might be a drop in the first few months, but after that the occupancy in hotels would be same as before.

3.3 HEALTHCARE SECTOR

Though health care services are exempt from GST, People will have to spend more for availing the following services:

TABLE 6

SERVICE	EARLIER RATE	NEW RATE
Dialysis	5%	12%
Pacemaker	5.5%	12 – 18
Support devices in orthopedics	5%	12%
Support devices for cancer	5%	12%

3.4 EDUCATION SECTOR

The impact of GST on the education sector is ambiguous. Mid day meal schemes under the rules of government are exempt till higher secondary schools.

3.5 TELECOM SECTOR

The tax rate after GST is now 18 percent from the previous 15 percent resulting in a load over the telecom sector which is already under financial burden.

3.6 FMCG SECTOR

FMCG sector showed a positive response to GST as it stocks grew after the rollout. Godrej Consumer Products hit their 52 week high. ITC and Colgate Palmolive touched their yearly high. Many companies reduced the prices of their products among them was AMUL, GODREJ and HUL which aimed at passing the benefits of GST to the consumers. Even the BSE FMCG rose by 32.6% becoming the best performer in equity indices.

CONCLUSION

The GST regime has been greeted with mixed reactions of the masses, some support and some oppose. On one hand the system brings hope for a better India by unifying it in one nation. On the other a lot apprehensions and glitches are faced by the council. From the producers and sellers point of view GST has brought more transparency, fewer tax filings and less tiring book keeping. Consumers will also pay less for few items and the government aims at earning more revenue. Though consumers will now pay a tax at higher rate but this doesn't mean it will increase their spending provided the producers pass on the benefits in terms of lower input cost and improved productivity.

In the recent article of The Economic Times, we came across the total GST collections of ₹92,283 CR. The total CGST collection is ₹14,894 CR and the total SGST collection is ₹22,722 CR. It is a good news for the government as they had not thought of crossing this remark in the first month itself. Government is expecting these figures to go up as big chunk of taxpayers hasn't filled returns yet.

Since the time frame that we are covering doesn't indicate much change, the new system will evolve as we go along. To judge the current impact, it is ambiguous in different sectors. It is the government to see how to make amendments and make them fast. All in all GST is a good reform to replace the old taxation system to unify the country, but the GST council will have to review its rates and policies frequently so that India's taxation system comes par with the world.

REFERENCE

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