

# INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT

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# CONTENTS

<b>Sr. No.</b>	<b>TITLE &amp; NAME OF THE AUTHOR (S)</b>	<b>Page No.</b>
<b>1.</b>	<b>EMPLOYEE ABSENTEEISM AND ITS IMPACT: A LITERATURE REVIEW</b> <i>M. K. INDUMATHI &amp; Dr. R. AKILA</i>	<b>1</b>
<b>2.</b>	<b>GST IMPLICATION IN INDIA: BENEFITS, CHALLENGES AND WAY FORWARD</b> <i>BHAVANA K. PATEL &amp; BIJAL M. SHAH</i>	<b>3</b>
<b>3.</b>	<b>INTERROGATING DIVISION OF LABOUR IN BENGAL USING TIME USE METHOD</b> <i>PANCHALI SENGUPTA</i>	<b>6</b>
<b>4.</b>	<b>IMPACTS OF DEMONETIZATION ON ECONOMY, INVESTMENT &amp; MUTUAL FUND</b> <i>NIKHIL GARG</i>	<b>15</b>
<b>5.</b>	<b>IMPACT OF GREEN SCEPTICISM AND HEALTH CONSCIOUSNESS ON GREEN PURCHASE INTENTION</b> <i>RIYA MARY &amp; SHARANYA GANESHKUMAR</i>	<b>25</b>
<b>6.</b>	<b>AN ANALYSIS OF PMJDY IN RELATION TO FINANCIAL INCLUSION</b> <i>NANDAN B. GULALDAVAR</i>	<b>28</b>
<b>7.</b>	<b>IMPACT ON SMALL TRADERS THROUGH COMPOSITION SCHEME – A STUDY</b> <i>GAYATHRI NM &amp; MANJULA BAI</i>	<b>30</b>
<b>8.</b>	<b>STRUCTURE OF AGRICULTURAL CREDIT SYSTEM IN INDIA</b> <i>ASHOK KUMAR SAHOO</i>	<b>36</b>
	<b>REQUEST FOR FEEDBACK &amp; DISCLAIMER</b>	<b>41</b>

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**GST IMPLICATION IN INDIA: BENEFITS, CHALLENGES AND WAY FORWARD**

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**ABSTRACT**

*GST will be a game changing reform for the Indian economy by creating a common Indian market and reducing the cascading effect of tax on the cost of goods and services. It will impact the tax structure, tax incidence, tax computation, tax payment, compliance, credit utilization and reporting leading to a complete overhaul of the current indirect tax system. GST will have a far-reaching impact on almost all the aspects of the business operations in the country, for instance, pricing of products and services, supply chain optimization, IT, accounting, and tax compliance system. With the implementation of GST in India, the procedure for GST registration would be centralized and standardized similar to service tax registration. Under GST regime, business would no longer have to obtain multiple VAT registration – as a single GST registration would be applicable across India. The procedure for obtaining GST registration would also be standardized, thereby improving the ease of starting a new business in India.*

**KEYWORDS**

GST implication, effects, benefits.

**JEL CODES**

K34, H20, H21.

**INTRODUCTION**

ST is a value-added tax levied at all the points in supply chain with credit allowed for any tax paid on input acquired for use in making the supply. It will apply to both goods and services in a comprehensive manner with the exemptions restricted to a minimum. Proposed GST will be levied concurrently by the Central GST and State GST. Both CGST and SGST will be levied on the basis of the destination principle. Thus exports would be zero rated and imports would attract tax in the same manner as domestic goods and services. Inter-state supplies within India would attract an Integrated GST aggregate of CGST and SGST of the destination State.

The Constitution Amendment Bill for Goods and Services Tax has been approved by The President of India posts its passage in the Parliament in Rajya Sabha on 3 August 2016 and in Lok Sabha on 8 August 2016. The Government of India is committed to replace all the indirect taxes levied on goods and services by the Centre and States and implement GST by April 2017. With GST, the tax base will be comprehensive, as virtually all goods and services will be taxable, with minimum exemptions.

GST will bring significant change in doing business in India. Tax payers need to be GST compliant and able to test system changes in times. The changes will be substantial and may require proactive planning with a time bound action plan. For the implementation of GST, companies need to understand GST policy development and its implications for scenario planning and transition roadmap preparation.

GST is defined as “Any tax on supply of goods and services other than on alcohol for human consumption”. Central taxes such as Central Excise duty, Additional Excise duty, Service tax, Additional Custom duty and Special Additional duty as well as state-level taxes such as VAT or sales tax, Central Sales tax, Entertainment tax, Entry tax, Purchase tax, Luxury tax and Octroi will subsume in GST.

Petroleum and petroleum products, i.e., crude, high speed diesel, motor spirit, aviation turbine fuel and natural gas, shall be subject to GST - date to be notified by the GST Council. Provision will be made for removing imposition of entry tax /Octroi across India. Entertainment tax, imposed by states on movie, theatre, etc., will be subsumed in GST, but taxes on entertainment at panchayat, municipality or district level will continue.

GST may be levied on the sale of newspapers and advertisements. This would mean substantial incremental revenues for the Government. Stamp duties, typically imposed on legal agreements by states, will continue to be levied. Administration of GST will be the responsibility of the GST Council, which will be the apex policy making body for GST. Members of GST Council comprise Central and State ministers in charge of the finance portfolio.

**OBJECTIVES**

1. To analyse the effects of GST implications in India.
2. To review the changes required for the corporate to implement GST.
3. To analyse the benefits of GST implication on Indian Corporates.
4. To view the challenges faced by Indian Corporate to implement GST.

**RESEARCH METHODOLOGY**

Secondary data is used for this study and it is collected for this study from the published research papers and journals on GST.

**LIMITATIONS OF THE STUDY**

The study is limited to India only.

Data collected is historical in nature, which has its own limitations.

**IMPACT OF GST ON BUSINESS ENTERPRISE**

1. Advocacy
2. Indirect tax impact assessment
3. Supply chain
4. Accounting and reporting
5. Refreshment of Technology

6. Compliances
7. Programme Management
8. Changes in management and training

## EFFECTS OF GST IMPLICATIONS ON ENTERPRISE

1. **Sourcing**
  - a. Inter-state procurement can prove viable
  - b. Open opportunities to consolidate suppliers and vendors
  - c. Custom duty to be replaced
2. **Distribution**
  - a. Changes in tax system can change in both procurement and distribution arrangements
  - b. Current network structure and product flow may need reviewed
3. **Pricing and profitability**
  - a. GST structure will require re-pricing of products
  - b. Margins will also need to be re-examined
4. **Cash Flow**
  - a. Removal of the concept of excise duty on manufacturing can result in improvement in cash flow and inventory costs as GST now be paid at the time of supply rather than at the time of removal of goods from the factory.
5. **System changes and transaction management**
  - a. Potential changes to accounting and IT system in areas of master data, supply chain transactions, system designs etc.
  - b. Existing open transactions and balances as on the cut-off date need to be migrated out to ensure smooth transition to GST
  - c. Change to supply chain reports, other tax reports and forms need to review
  - d. Appropriate measurements are needed to ensure smooth transition to the GST regime.

## THE KEY IMPERATIVES FOR FIRMS IN GST IMPLEMENTATION

1. To understand key areas of impact in their business
2. To prepare different scenarios for the design and application of GST
3. Continuously track policy development regarding GST and update prepared scenarios
4. To identify any areas of adverse impact and prepare contingency measures
5. To identify issues and concerns requiring representation to authorities and develop strategy for effective advocacy.
6. Appoint policy advisory group consists of specialized team of experienced professionals including former government officials who advise business as well as governments on diverse policy issues.

## ROADMAP FOR GST IMPLICATION

1. A GST Council consisting of representatives from the Central as well as State will be formed within 60 days of the enactment of the Bill. The Council will make the recommendations to the Union and the States on model Goods and Service Tax laws, rates including floor rates with bands of goods and service tax, Place of supply rules and any other matter relating to GST as the council may decide.
2. Reports of Joint Committee constituted by Empowered Committee of the State Finance Ministers on business processes of payment, registration refund and return under GST have been released and put in the public domain for suggestions.
3. The draft model GST Law was released and put in public domain in June 2016.
4. GST Network, an IT backbone of GST, which will facilitate online registration, tax payment and return filing, will be launched.
5. States will frame their respective GST Legislations to enable them to implement GST. It will be in line with the Central Legislation.

## BENEFITS OF GST IMPLEMENTATION

1. GST has been envisaged as an efficient tax system, neutral in its application and distributionally attractive.
2. Wider tax base, necessary for lowering tax rates and eliminating classification disputes
3. Elimination of multiplicity of taxes and their cascading effects
4. Rationalization of tax structure and simplification of compliance procedures
5. Harmonization of Central and State tax administrations which would reduce duplication and compliance costs
6. Automation of compliance procedures to reduce errors and increase efficiency

The GST structure may follow the destination principle. Accordingly, imports will be subject to GST, while exports will be Zero-rated. In case of inter-state transactions within India, State Tax can be apply in the state of destinations as opposed to that of origin. GST will replace most indirect taxes currently in place such as:

TABLE 1

Central Taxes	State Taxes
Central Excise Duty [including additional excise duties, excise duty under the Medicinal and Toilet Preparations (Excise Duties) Act, 1955]	Value-added tax
Service tax	Octroi and Entry tax
Additional Customs Duty (CVD)	Purchase tax, Luxury tax
Special Additional Duty of Customs (SAD)	Taxes on lottery, betting and gambling
Central Sales Tax (levied by the Centre and collected by the States)	State cesses and surcharges, Entertainment tax (other than the tax levied by the local bodies)
Central surcharges and cesses (relating to supply of goods and services)	Central Sales tax (levied by the Centre and collected by states)

## CHANGES IN THE LAW AND PROCEDURES REQUIRED FOR GST IMPLEMENTATION

### 1. MAJOR INDIRECT TAX REFORM

GST is a major indirect tax reform in the country. The entire indirect tax code will be a new set. Any comparison with the present laws will be inappropriate. Lot of time will be devoted in understanding new concepts and procedures.

### 2. CHANGE IN TAX RATES

Standard rate of 12% for CENVAT, 14.5% for Service tax, residuary rate of VAT at 12.5 % brings overall rate to 28%. But post GST, tax rate is likely to be between 18-20%, gain of 8-10%.

### 3. CHANGE IN TAX CREDIT SYSTEM

Currently, limited inter levy credits are allowed between excise duty and service tax. No cross credits are available across these taxes. When GST is introduced, it will facilitate seamless cross credit across the entire supply chain and across all states with a common tax base.

**4. STOCK TRANSFERS FROM ONE STATE TO ANOTHER**

Presently, it is free of tax against Form F. But under GST, it will be taxable even though the stock is transferred to one's branch or consignment agent in another state.

**5. STOCK TRANSFERS TO BRANCHES / CONSIGNMENT AGENTS WITHIN THE STATE**

Presently, treatment varies from state to state. But under GST, exemption will be given only when Business Identification Number of transferor and transferee is the same.

**6. SALE / SERVICE**

Presently, there are a number of cases where double taxation is in force. The most common example is transfer of intangible goods where VAT and Service tax both are levied, thus causing double taxation. Under GST, since there is no distinction between sale and service as far as levy of GST is concerned. Only one tax will be levied.

**7. BASED ON HSN**

When GST will be based on HSN, then interpretational issues will be reduced in respect of class of commodities.

**8. SOFTWARE UPGRADATION**

Continuous Upgradation of software is a big challenge for the software companies as well. Dealers and service providers will have to upgrade their respective accounting and tax software.

**9. TRAINING**

Not only staff of the business world, but also marketing personnel and common man need to be made aware of the basic working of GST for successful implementation.

**10. PROFESSIONALS**

Single consultant will be required in place of different consultants for Excise Duty, Service Tax and VAT. No more Hassels in running across various departments of tax. Only one common tax code will prevail.

**ADVANTAGES OF GST IMPLICATIONS**

Apart from full allowance of credit, there are several other advantages of introducing a GST in India:

**POSSIBLE REDUCTION IN PRICES**

Due to full and seamless credit, manufacturers or traders do not have to include taxes as a part of their cost of production, which is a very big reason to say that we can see a reduction in prices. However, if the government seeks to introduce GST with a higher rate, this might be lost.

**INCREASE IN GOVERNMENT REVENUES**

This might seem to be a little vague. However, even at the time of introduction of VAT, the public revenues actually went up instead of falling because many people resorted to paying taxes rather than evading the same. However, the government may wish to introduce GST at a Revenue Neutral Rate, in which case the revenues might not see a significant increase in the short run.

**LESS COMPLIANCE AND PROCEDURAL COST**

Instead of maintaining big records, returns and reporting under various different statutes, all assesses will find comfortable under GST as the compliance cost will be reduced. It should be noted that the assesses are, nevertheless, required to keep record of CGST, SGST and IGST separately.

**CONCLUSION**

Goods and Services Tax is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level. One of the biggest taxation reforms in India is the Goods and Service Tax. It is all set to integrate State economies and boost overall growth.

**CENTRAL TAXES SUBSUMED UNDER GST**

Central Excise Duty (including additional excise duties), Service tax, Additional customs duty (CVD), Special Additional Duty of Customs (SAD), Central surcharges and cesses.

**STATE GOVERNMENT TAXES SUBSUMED UNDER GST**

Value Added Tax, Central Sales Tax, Octroi and Entry Tax, Purchase Tax, Luxury Tax, Taxes on lottery, betting & gambling, State cesses and surcharges, Entertainment tax. Goods and Services Tax is a value added tax, levied at all points in the supply chain with credit allowed for any tax paid on inputs acquired for use in making the supply. Therefore, it is the end consumer who bears this tax as the last person or entity in the supply chain. The introduction of GST in India is expected to result in major simplification of indirect tax structure at both Centre and State levels replacing the multiple layers of complex taxation currently existing in India. GST will Improve Ease of Starting a Business in India.

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