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STUDY ON IMPACT OF GOODS AND SERVICE TAX (GST) ON TRADING SECTOR IN INDIA

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Abstract: This is a conceptual paper focusing on various impacts of Goods and Service Tax (GST) on trading sector. In this paper efforts have been made to understand various changes which are taking place in recording transactions in accounting, presentation of financial reports after applying Goods and Service Tax and also other impacts on firms undertrading sector.

***Index Terms* - Goods and service tax (GST), trading**

INTRODUCTION

GST is one indirect tax for the whole nation, which will make India one unified common market. GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages.

After introduction of GST (Goods and Service Tax) in India, many changes have taken place in books of accounts for a business organization. As we are aware, GST has replaced almost all indirect taxes in India. One nation one tax is the objective behind implementation of this tax in India. Of course, at present we hear so many views against GST structure, especially with respect to IT part, still it is certain that this tax system will have much more clarity in business. One of such area is accounting and book keeping.

Objectives of the Study

1. To study important provisions under GST for Traders.
2. To study recording journal entries for traders after implementing GST.
3. To Study the positive impact of GST on traders.
4. To study negative impact of GST on traders.

Research Methodology

The Researchers used an exploratory research technique based on past literature from respective journals, annual reports, newspapers and magazines covering wide collection of academic literature on Goods and Service Tax. According to the objectives of the study, the research design is of descriptive in nature. Available secondary data was extensively used for the study.

Results and Discussion

Genesis

GST is being introduced in the country after a 13 year long journey since it was first discussed in the report of the Kelkar Task Force on indirect taxes. A brief chronology outlining the major milestones on the proposal for introduction of GST in India is as follows:

a. In 2003, the Kelkar Task Force on indirect tax had suggested a comprehensive Goods and Services Tax (GST) based on VAT principle.
b. A proposal to introduce a National level Goods and Services Tax (GST) by April 1, 2010 was first mooted in the Budget Speech for the financial year 2006-07.
c. Since the proposal involved reform/ restructuring of not only indirect taxes levied by the Centre but also the States, the responsibility of preparing a Design and Road Map for the implementation of GST was assigned to the Empowered Committee of State Finance Ministers (EC)
d. Based on inputs from Govt of India and States, the EC released its First Discussion Paper on Goods and Services Tax in India in November, 2009.
e. In order to take the GST related work further, a Joint Working Group consisting of officers from Central as well as State Government was constituted in September, 2009.

f. In order to amend the Constitution to enable introduction of GST, the Constitution (115th Amendment) Bill was introduced in the LokSabha in March 2011. As per the prescribed procedure, the Bill was referred to the Standing Committee on Finance of the Parliament for examination and report.

g. Meanwhile, in pursuance of the decision taken in a meeting between the Union Finance Minister and the Empowered Committee of State Finance Ministers on 8th November, 2012, a 'Committee on GST Design', consisting of the officials of the Government of India, State Governments and the Empowered Committee was constituted.

h. This Committee did a detailed discussion on GST design including the Constitution (115th) Amendment Bill and submitted its report in January, 2013. Based on this Report, the EC recommended certain changes in the Constitution Amendment Bill in their meeting at Bhubaneswar in January 2013.

The Empowered Committee in the Bhubaneswar meeting also decided to constitute three committees of officers to discuss and report on various aspects of GST as follows:

a) Committee on Place of Supply Rules and Revenue Neutral Rates;
b) Committee on dual control, threshold and exemptions;
c) Committee on IGST and GST on imports.
d) The Parliamentary Standing Committee submitted its Report in August, 2013 to the LokSabha. The recommendations of the Empowered Committee and the recommendations of the Parliamentary Standing Committee were examined in the Ministry in consultation with the Legislative Department. Most of the recommendations made by the Empowered Committee and the Parliamentary Standing Committee were accepted and the draft Amendment Bill was suitably revised.
e) The final draft Constitutional Amendment Bill incorporating the above stated changes were sent to the Empowered Committee for consideration in September 2013.
f) The EC once again made certain recommendations on the Bill after its meeting in Shillong in November 2013. Certain recommendations of the Empowered Committee were incorporated in the draft Constitution (115th Amendment) Bill. The revised draft was sent for consideration of the Empowered Committee in March, 2014.
g) The 115th Constitutional (Amendment) Bill, 2011, for the introduction of GST introduced in the LokSabha in March 2011 lapsed with the dissolution of the 15th LokSabha.
h) In June 2014, the draft Constitution Amendment Bill was sent to the Empowered Committee after approval of the new Government.
i) Based on a broad consensus reached with the Empowered Committee on the contours of the Bill, the Cabinet on 17.12.2014 approved the proposal for introduction of a Bill in the Parliament for amending the Constitution of India to facilitate the introduction of Goods and Services Tax (GST) in the country. The Bill was introduced in the LokSabha on 19.12.2014, and was passed by the LokSabha on 06.05.2015. It was then referred to the Select Committee of RajyaSabha, which submitted its report on 22.07.2015.

Summary of Important provisions of GST for traders:

Every registered person is required to keep and maintain all records at his principal place of business.

It is the responsibility of the following persons to maintain specified records-

- The owner
- Operator of warehouse or godown or any other place used for storage of goods
- Every transporter

Every registered person whose turnover during a financial year exceeds the prescribed limit (2 crore) will get his accounts audited by a chartered accountant or a cost accountant.

Every registered person must maintain records of-

- Inward and outward supply of goods or services or both
- Stock of goods
- Input tax credit availed
- Output tax payable and paid and
- Other particulars as may be prescribed

Every registered taxpayer will have 3 ledgers under GST which will be generated automatically at the time of registration and will be maintained electronically.

- Electronic Cash Ledger- This ledger will serve as an electronic wallet. The taxpayer will have to deposit money into his cash ledger (add money to the wallet). The money will be utilized to make the payment.
- Electronic Credit Ledger- The input tax credit on purchases will be reflected here under three categories i.e IGST, CGST & SGST. The taxpayer will be able to utilize the balance shown in this account only for payment of tax (not for interest, penalty etc.)
- E-Liability Ledger: This ledger will show the total tax liability of a taxpayer after netting off for the particular month. This ledger will be auto-populated.

As per the GST Act, every registered taxable person must maintain the accounts books and records for at least 72 months (6 years). The period will be counted from the last date of filing of Annual Return for that year.The last date of filing the Annual return is 31st December of the following year.If the taxpayer is a part of any proceedings before any authority (First Appellate) or is under investigation then he must maintain the books for 1 year after the order of such proceedings/appeal has been passed.If the taxpayer fails to maintain proper records in respect of goods/services, then the proper officer shall treat such unaccounted goods/services as if the taxpayer had supplied them. The officer will determine the tax liability on such unaccounted goods.The taxable person will be required to pay the tax liability calculated along with penalty.

Recording transactions in Accounting under GST for trader:

Before implementation of GST, normally all business firms were required to maintain following books of accounting besides regular books for recording purchases , sales and stock.

- Output VAT a/c
- Input VAT a/c
- Input Service tax a/c
- Output Service tax a/c

Thus, for each indirect tax, business firms require to prepare separate books off accounts. Normally for input and output for each of such indirect tax. As GST has replaced all such indirect taxes, now, only following books are to be maintained:

- Input CGST a/c- central government
- Output CGST a/c
- Input SGST a/c- State government
- Output SGST a/c
- Input IGST a/c- inter-state transactions
- Output IGST a/c
- Electronic Cash Ledger (to be maintained on Government GST portal to pay GST)

Let us try to understand various journal entries with respect to GST through a simple example for a trader.
Suppose Mr. X has bought goods worth Rs. 1,00,000 which have been sold for Rs. 1,50,000. He has paid legal charges of Rs. 10,000 and bought furniture of Rs. 20,000. Assume CGST and SGST at 5% each.

Journal entries

Sr. no	Particulars	Debit amount	Credit amount
1	Purchases a/c Dr.	1,00,000	
	Input CGST a/c Dr.	5,000	
	Input SGST a/c Dr.	5,000	
	To creditors a/c		1,10,000
	(being goods purchased on credit)		
2	Debtors a/c Dr.	1,65,000	
	To Sales a/c		1,50,000
	To output CGST a/c		7,500
	To output SGST a/c		7,500
	(being goods sold on credit)		
3	Legal charges a/c Dr.	10,000	
	Input CGST a/c Dr.	500	
	Input SGST a/c Dr.	500	
	To Bank a/c		11,000
	(being legal charges paid)		
4	Furniture a/c Dr.	20,000	
	InputCGST a/cDr.	1,000	
	Input SGST a/c Dr.	1,000	
	To Suppliers' a/c		22,000
	(being furniture bought)		
5	Output CGST a/c Dr.	7,500	
	Output SGST a/c Dr.	7,500	
	To Input CGST a/c		6,500
	To Input SGST a/c		6,500
	To electronic cash ledger a/c		2,000
	(being final tax paid)		

From the above example, we can see that total net amount payable as per CGST will be (7,500-5,000-1,000-500) Rs. 1,000 and the same amount will be payable as SGST. In case if input tax exceeds output tax, the credit balance will be carried forward to next year. It is also to be noted that now with help of GST, it has been possible to set off tax for legal charges against that of sales which was not possible earlier.

In situation of transactions of inter-state, IGST (Integrated GST) will come into picture. As per the rule, Input IGST can be settled against Output IGST first and then it may be adjusted against CGST and still if surplus remains, it can be adjusted against SGST. Let us take one more example to clear inter -state transactions.

Suppose Mr. X has bought goods worth Rs. 2,00,000 from out of state and sold goods at Rs. 1,80,000 within state and at Rs. 1,00,000 out of state . He has paid rent of Rs. 10,000 and bought furniture of Rs. 20,000 from within state. Journal entries will be as under. (Assuming both CGST and SGST at 5% each)

Sr. No.	Particulars	Debit amount	Credit amount
1	Purchases a/c Dr.	2,00,000	
	Input IGST a/c Dr.	20,000	
	To creditors a/c		2,20,000
	(being goods purchased from out of state)		
2	Debtors a/c Dr.	1,98,000	
	To sales a/c		1,80,000
	To output CGST a/c		9,000
	To output SGST a/c		9,000
	(being goods sold within the state)		
3	Debtors a/c Dr.	1,10,000	
	To sales a/c		1,00,000
	To output IGST a/c		10,000
	(being goods sold out of the state)		
4	Rent a/c Dr.	10,000	
	Input CGST a/c Dr.	500	
	Input SGST a/c Dr.	500	
	To bank a/c		11,000
	(being rent paid)		
5	Furniture a/c Dr.	20,000	
	Input CGST a/c Dr.	1,000	
	Input SGST a/c Dr.	1,000	
	To suppliers a/c		22,000
	(being furniture purchased)		
6	Output SGST a/c Dr.	5,000	
	To electronic cash ledger a/c		5,000
	(being final tax paid)		

In the above example,
Total input IGST is Rs. 20,000 and total output IGST is Rs. 10,000So balance of Input IGST will be Rs. 10,000.Total input CGST is Rs. 1,500 and total output CGST is Rs. 9,000 and so balance of output CGST will be Rs. 7,500.Total input SGST is Rs. 1,500 and total output SGST is Rs. 9,000 and so balance of output SGST will be Rs. 7,500.Thus, balance of Rs. 10,000 of IGST will be set off against CGST of Rs. 7,500 and then remaining balance of Rs. 2,500 will be adjusted against SGST of Rs. 7,500 and so ultimately Rs. 5,000 for SGST will be payable

In this way, journal entries for inter-state transactions will be passed under GST. IGST will be set off against IGST first, then against CGST and if then surplus remains it will be set off against SGST.

Looking at changes in accounting entries under GST and availability of tax credit while buying raw material also, it seems that there will be reduction in cost of goods sold in revenue statement of business firms. There will be availability of tax credit of service charges also which was not possible earlier. For example tax paid on services like legal consultancies and audit fees was not possible to set off against vat or excise earlier. There will also be reduction of cost of fixed assets as far as balance sheet is concerned as tax credit of capital goods as well as on services like installation, inspection etc. will be available now which was not possible earlier under VAT and other indirect taxes.

Positive impact of GST on traders:

1. There will be no dispute in terms between good and Services after introduction of GST .
2. After implementation of GST, Composition levy Increased for traders from Rs. 40,00,000 to Rs. 1.5 crores which is a huge change in margin.
3. Credit of Excise Duty and Service tax will be available now under new tax structure of GST which was not possible earlier.
4. No need to Disclose Margin to obtain CENVAT Credit now. Earlier trader who wants to pass on the CENVAT Credit of excise duty needs to obtain dealer registration and have to disclose the margin.
5. No Reversal of Credit on goods sent for stock transfer is required now as under GST regime, stock transfer has been made taxable.
6. Credit of CST will be possible for inter -state transactions now as IGST credit will be available for traders which was not available earlier.
7. Electronic Mode for Forms will be available which will reduce time for the legal formalities and also it will reduce stationary costfor traders.
8. There will be fast movement of goods because of less tax formalities now.
9. Opening up of Markets across India will be easily possible because of single rate of tax across country now.
10. There will be Transparency in tax management for traders after introducing GST.
11. Registration procedure for traders has been made easier now.

Negative Impact on Traders

1. Warehouse decision to be taken more appropriately as now there will be tax on stock transfer also.
2. As there will be No Form “C”, for inter-state transactions, tax burden will increase on part of traders. At present in place of almost 14.5% of tax there will be only 2 % of tax to be charged. But now after introducing GST, there will be IGST to be charged at standard rate all over the country.
3. Goods sent to job work will be taxablenow which was not the case earlier.
4. There will be Increasein burden of Compliances as now almost 37 returns are to be filled with other formalities on monthly basis. Before implementing GST, the numbers of returns to be filled were very less.
5. There will be Increase in Working Capitalrequired for traders because of electronic payments and increase in some expenses covered under services.
6. It will be important to consider Matching of purchase with sellers return/ Blockage of ITC due to non-compliance by supplier or else tax credit will be not available.
7. There will be surely additional costs to upgrade technology for traders.

Scope for future study

1. Study for other sectors like manufacturing, services etc. can be carried out.
2. Detailed study about changes taking place in profitability because of implementing GST may be carried out in future for various sectors.
3. How GST will affect total revenue of government may be studied.

Conclusion

GST could be a game changer for the trading business as it has potential to reduceoperating expenses and better margins. It is required by traders to relook into the business and compliance processes under GST. All in all, GST is good news for the trading community. As long as a trader smartly manages his business ecosystem, efficiently manages his supply chain and stays GST compliant – he will continue to reap benefits under GST. However, technology will surely be a game-changer in this regard, as this will be the only way the compliance burden of GST can be effectively absorbed, translating into more business benefits for the Indian trader.

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