# IMPACT OF GOODS AND SERVICES TAX ON TRADE AND INDUSTRY IN INDIA

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**ABSTRACT**

Traditionally India's tax regime relied heavily on indirect taxes. Revenue from indirect taxes was the major source of tax revenue till tax reforms were undertaken during nineties. The major argument put forth for heavy reliance on indirect taxes was that the India's majority of population was poor and thus widening base of direct taxes had inherent limitations. But the Indian system of indirect taxation is characterized by cascading, distorting tax on production of goods and services which leads to hampering productivity and slower economic growth. There are endless taxes in present system few levied by Centre and rest levied by state, to remove this multiplicity of taxes and reducing the burden of the tax payer a simple tax is required and that is Goods and Service Tax (GST). This paper throws an insight into the Goods and Service Tax concept, advantages, disadvantages and international scenario.

**KEYWORDS:** GST in India, Goods and service tax, models of GST, Indirect tax

**INTRODUCTION:**

The Government of India has recently passed the Central Goods and Services Tax (CGST) Act 2017 and the Integrated and Services Tax (IGST) Act 2017 and has announced that the Goods and Services Tax (GST) regime will tentatively be implemented from July 2017. Upon implementation, it would be a dual GST with the Centre and States simultaneously levying it on a common tax base. The GST will be charged for the supply of goods and/or services made for consideration in the course or furtherance of business. Moreover, if a dealer transports business assets to his residence for private or non-business use without consideration, it will also be considered as a supply for the purpose of levy of GST.

Tax policies play an important role on the economy. The main source of revenue for government of India is from tax. Direct and indirect taxes are the two main source of tax revenue. When the impact and incidence falls on same person it is called direct tax. When the impact and incidence falls on different person that is when burden can be shifted to other person it is called indirect tax. The indirect tax system is currently mired in multi-layered taxes levied by the Centre and state governments at different stages of the supply chain such as excise duty, octroi, central sales tax (CST) and value-added tax (VAT), among others. First Indirect Tax Reform occurred in India when the Modified Value Added Tax (MODVAT) was introduced for selected commodities in 1986 to replace the Central Excise Duty. The other reforms are the introduction of service tax in 1994, decision to introduce VAT in 1999, introduction of Constitution Amendment Bill on GST in 2011. Goods and Services Tax (GST) is most ambitious and biggest tax reform plan, which aims to stitch together a common market by dismantling fiscal barriers between states. It is a single national uniform tax levied across India on all goods and services. In GST, all the indirect taxes will be subsumed under a single regime. The GST taxation laws will put an end to multiple taxes which are levied on different products, starting from the source of manufacturing to reaching the end consumer. GST works on the fundamental Principle of "One Country One Tax".

**Why GST in the place of present regime?**

In present regime there are separate laws for separate levy like excise duty, customs duty, central sales tax, value added tax etc. But in case of GST it is going to be a broad scheme which subsumes all the laws. The tax compliance is going to be easy as all the laws are subsumed and only one GST law to be implemented. The four GST slabs have been set at 5%, 12%, 18% and 28% for different items or services. The integration of tax laws in GST is expected to reduce the tax burden on the tax payer compared to present system where the tax payer's burden is high. Presently the tax is at two points i.e., when the product moves out of factory and other at the reatil outlet. But GST is to be levied at final destination of consumption and not at various points. This brings transparency and corruption free tax administration.

India is amongst the fastest growing economies of the world, with retail trade contributing an estimated $600 billion+ to the economy. The impact which GST, the unified indirect tax structure introduced by the Government of India on July 1 2017, brings on such a major economic lever will be highly significant.

Further, the implications of this new taxation procedure on the trader will vary on the nature of the trade, i.e., wholesale or retail. In this blog, we explain the opportunities within the new tax reform that traders can leverage, and discuss how they can prepare themselves from a GST perspective. Read on to know the effects of this latest indirect tax reform for:

**1.Wholesalers**

The wholesale market is fundamental to extending the reach of goods and services to the interiors of the country, especially the rural markets. Most wholesalers operate in cash transactions because of which there is a good chance that some transactions are not accounted for, which was previously a concern but ceases to be one under GST.

Given below are the main advantages that GST brings to wholesalers.

- **Transparent tax management:** The introduction of technology into the taxation system can be a blessing in disguise, an opportunity to bring about transparency in tax management. Rather than relying on cash transactions, wholesalers will now get an opportunity to go digital. They will also be able to avail the facility of input tax credit. Input tax credit is where the businessman will be able to claim tax on all input goods and/or services. For example, if a wholesaler is renting a tempo for transport of goods, going ahead they will be able to claim the tax paid on the rental and receive it as input credit. They will thus be able to reduce the final market price of the transported goods by making up for that amount.
- **Financial streamlining:** Because the entire supply value chain including tax flows will be on GST records, wholesalers will be better connected to retailers and suppliers. For example, the payment for a consignment will reflect in the accounting records of the supplier company as well as the wholesaler, leaving no ambiguity about payables and receivables. This will make it easier to process payments and get tax returns in a timely manner, thereby improving the cash flows of traders. A reliable positive cash flow will help build confidence in the new regime, by making working capital available and aiding opportunities to grow the business.
- **Reorganization of supply chain:** GST will enable high visibility and streamlining of the supply chain, providing wholesalers with a transparent view of supply movements. For example, taxation at the "place of supply" is already mobilizing FMCG companies establish fewer warehouses, the sizes of which will be larger than before. This will aid business efficiency in the long run. However, in the initial transition phase, many wholesalers may undergo de-stocking since they would have already paid VAT on their current stocks, and would like to avail of the input tax credit on the basis of the GST rules.
- **Ease of borrowing through digital lending:** Because financial and tax transactions will now be recorded in the GST system, even small traders will have digital records of their company finances and credit status. These digital records will act as a ready reckoner of information when a trader opts for a loan. Financial institutions and online lenders like Capital Float can now easily assess the loan eligibility of small traders such as Kirana owners by accessing this data, and provide them quick and easy loans. Borrowing funds online and doing business will now be easier.

**2. For Retailers:**

Almost 92% of the retail sector in India is unorganised, operating in cash payments. They are, essentially, the tangible representation of FMCG multinationals to end-consumers; yet they are challenged by chronic issues such as the lack of technology enablement and low operating margins. A majority of the retail market consists of "kirana stores", which are often the smallest link of the trade chain.

Here are the benefits of the new taxation system for retailers.

- **Input tax credit facility:** As mentioned for wholesalers, retailers too would be able to claim taxes paid for input products and services availed. This will present a cost advantage to retailers. For example, under the previous tax regime, if a retailer purchases a refrigerator to store perishable goods, they were not able to claim credit for tax paid on it. Under GST, they will be able to claim the tax paid on the new refrigerator when they file their taxes. This will be possible due to tax connections reflecting in the GST value chain at each stage of the transaction. Availing input tax credit means financial gain.
- **Ease of entry into the market:** The market is expected to become more business-friendly due to the clarity of processes related to procurement of raw materials and better supply logistics. This is a good opportunity for new suppliers, distributors and vendors to enter the market. The registration process has also become very clear under the GST, aiding entry into the market.
- **Retailer empowerment through information availability:** Small retailers often do not have complete visibility into their stock receipts, payments, etc. and are forced to blindly rely on the word of the supplier. GST will streamline these supply and cost challenges and empower the retailer with readily available information through digital systems. For example, when different types of bills like invoices, credit and debit notes, etc. are stored digitally as proposed by GST using accounting software, these will provide retailers with real-time reports on sales, stock information and live balance sheets, in addition to performing error checks before placing an entry into ledgers.
- **Better borrowing opportunity:** The retailer scope for business growth can be increased by increasing the retailers' access to finance. This is where Fintech lenders like Capital Float step in – they can ease their passage to the new tax regime. Capital Float recognises the financial challenges these small business players face and strives to bridge this gap by financing them with small ticket loans. As "kiranas" move onto GSTN, Capital Float will be able to better serve this micro-entrepreneur segment, helping them overcome upcoming challenges by leveraging the GST-enabled digital footprint.

However, like any new reform, there are certain challenges that need to be addressed. We see that both retailers and wholesalers must manage the following eventualities of GST implementation.

**! Higher costs of input services:** Input services such as manpower, legal, professional services, auditor services, travel expenses, etc. will now be taxed at 18% as against the earlier bracket of 15%, leading to higher costs to the wholesaler.

**! Additional costs to upgrade technology:** Many wholesalers, especially rural ones, are not technology-savvy and will need to rely on help from their supplier companies to undergo a technological transformation. This means that supplier companies may need to increase commissions for wholesalers— an added cost to the company, or wholesalers and retailers themselves will need to invest in new systems, incurring additional expenses.

**3. For Importers and Exporters**

According to the financial reports of 2016, India is the 16th largest export economy in the world with the net value of exports contributing to one-third of the GDP. The subsuming of various local state level taxes will have a direct impact on imports and exports, a critical component of trade. For example, the Countervailing Duty (CVD- an additional import duty levied to offset the effect of concessions or subsidies, currently 0% or 6% or 12%) and Special Additional Duty (SAD- a special kind of customs duty paid on imported goods currently at 4%) have been done away with under the new GST regime. However, Basic Customs Duty continues to be applicable and importers will need to pay it as per previous rates.

we take a stock of GST as of today, we need to acknowledge the efforts taken by government in making it much simpler from the time first model GST code was released in June 2016 to today when we are at the brisk of 200 days post its implementation. While we take a deeper dive in understanding the advantages and disadvantages of GST, we need to appreciate the fact that this being a transactional tax its advantages and disadvantages cannot be equated for all. For instance, it is possible that one sector or industry is largely benefitted due to implementation of GST while other sector or industry has taken the exactly opposite position.

With the introduction of GST regime, the trade and industry sector may encounter the following advantages and disadvantages:

**Advantages of GST to the Trade/Industry:**

- Single tax system would subsume multiple taxes.

For instance, the direct-to-home (DTH), film producers and multiplex players will be saved from levy of multiple taxes such as high rates of service tax and entertainment tax. It may also lower the average ticket price, and increase the footfalls in multiplexes;

- This single tax system would solve the issue of cascading/double taxation;
- This system would help to create a single unified national market;
- The one nation one tax system would facilitate companies to generate savings in logistics and distribution costs as there would be free movement and supply of goods in every part of the country without the need to depend on multiple sales depots across the country.

For instance, companies manufacturing mobile handsets may no longer need to set up and invest in specific entities and warehouses state-wise and transfer goods and stocks to them. This will not only yield ease of doing business for the companies, but also reduce the handset prices across the states. Manufacturers may also pass on the cost benefits, to the consumers, which they would get from consolidating their warehouses and efficiently managing inventory.

- The tax transparency and ease of doing business, as resulted from the implementation of GST, is expected to lead to increased tax compliance and attract more foreign direct investments across sectors.
- This simpler tax regime will levy fewer rates of tax and allow fewer cases of exemptions.

**Disadvantages of GST to the Trade/Industry:**

- The companies which enjoy concessional rate of excise may see increase in effective tax.
- The tax collection at source (TCS) guidelines in the GST regime may discourage doing business in India as it will burden the ecommerce companies with increased administration and documentation workload. According to the GST regime, an ecommerce operator has to collect tax at source in respect of each and every supply of the supplier; therefore, such operator will be burdened with the tracking of each supply of goods/services against each of the sellers, state-wise which will be voluminous in nature.
- Imposition of high rates of GST in certain sectors like aviation may result in services becoming expensive.

The implementation of GST across the country will have diverse effects on various stakeholders including trade and industry. Therefore, public outreach and knowledge sharing programs for all the stakeholders will be conducted by Central Board of Excise and Customs (CBEC), a part of the Ministry of Finance, to popularize and familiarize GST to the trade and industry who are the crucial stakeholders in successful implementation of this reform.

**Conclusion:**

Having discussed various advantages and disadvantages of GST, we need to acknowledge the government's efforts in bringing GST and the seriousness that is being shown in simplifying the same. At this juncture, we need to realize that everything has its pros and cons and taxation system is no exception to it but those businesses which prepared and planned the transitional phase of GST well have been able to reap the benefits of advantages and trimmed down the dis-advantages to the minimum.

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