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Impact of GST on Pricing of Products: Positive and Negative Effect

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Abstract -- GST is abbreviation for Goods and Service Tax. GST is also known as Value Added Tax (VAT) in few countries. To uphold a country's political and economic stability, governments often implement policies. There are many different types of policies that a government would implement to stabilize their country. As we know however, one significant policy that almost every country uses is tax (i.e. Direct or Indirect tax).The Goods and Services Tax is considered as a biggest tax reform since 1947.As we know that day of midnight session of India's Parliament are reserved to ring in events of great significance, beginning with India's Independence on August 15, 1947. For the NDA to choose a special mid night session to roll out its landmark GST signifies the enormous symbolism best owed on this biggest of tax reforms. GST will free India of its archaic, multi layered tax structure with a regime that will create a single market across the country. It will unify all the states with single tax rate & reduce the interface with tax inspectors, setting the stage for a new normal, as union finance minister Sri Arun Jaitley puts it. In anticipation of the new normal are anxious traders and businessman, who are grappling with the fine print of the new tax, the prospect of anti-profiteering agency and an electronic system that will now rate tax payers on how promptly they upload their invoice, pay taxes and file returns. Considered India's most significant tax reform since independence, GST comes after 17 years of deliberations & dithering. It is considered transformational as it not only envisages a "One Nation One Tax" policy that makes life simple for the common man, but also builds transparency & accountability in the tax collection process. It aims to curb tax evasion in a country where small traders / business routinely evade tax by not creating invoices for goods sold. It is also transformational because what seems on economic decision took intense political mono curving bringing, states on board with a give & take negotiations that has arguably diluted the bill in the process. GST is expected to be as disruptive as the recent demonetization move money but ended up hurting the country growth in final quarter (e.g. it falls from 701% to 6.1% of financial year 2016-17). Once GST comes into effect, all central- and state-level taxes and levies on all goods and services will be subsumed within an integrated tax having two components: a central GST and a state GST. The government has successfully implemented GST from 1st July 2017 and for this efforts are made continuously. The main expectation is that India to compete with World Trade. Under it, there will be tax only on value addition at each stage, with the producer or seller at every stage able to set off his taxes against the central or state GST paid on his purchases. The end-consumer will bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages. Under GST a lot of underground transactions will come over the ground. Single tax for one India proves to be a game changer in a positive way and proves to be beneficial not only to the common man, but to the country as a whole. It is our expectation that impact of GST will be positive and will bring positive effect to Indian GDP.

Index Terms: Goods and Service Tax (GST), GDP, Tax Slabs, GST Rate.

I. INTRODUCTION

Goods and Service Tax (GST) is a comprehensive tax levy on manufacture, sale and consumption of goods and service at a national level. To uphold a country's political and economical stability, governments often implement policies. There are many different types of policies that a government would implement to stabilize their country. However, one significant policy that almost every country uses is tax.GST was first introduced by France in 1954 and now it is followed by more than 160 countries. In Indian idea of GST was mooted by BJP Govt. in year 2000 and constitution amendment for same was passed by the "LokSabha" on 6th May, 2015. The constitution amendment bill for Goods and Services Tax (GST) has been approved by the President of India Sri Pranav Mukhargee (Rajya Sabha on 3rd August 2016 and LokSabha on 8th August, 2016). The Government on India was committed and successfully replaced the indirect taxes on goods and services tax on 1st July 2017.India is now 3rd largest economy so GST is most significant tax reform since Independence. It will increase revenues and growth stimulates investment and makes investment doing business in India easier. According to Finance Ministry GST will increase India's GDP by around 2%.

At Present Central Government levies tax on manufacture i.e. Central Excise Duty, provision of services i.e. Service Tax, states levy tax on retail sales i.e. VAT, entry of goods in the State i.e. Entry Tax, Luxury Tax, Purchase Tax, etc. It can be said that different variety tax laws and different tax rates divides the country into separate economic atmosphere. In addition, the large number of taxes arise high cost for the tax payers. GST is proposed to be a dual levy where the central government will collect Central GST (CGST) and the State will levy and collect State GST (SGST). The Centre will also collect Integrated GST (IGST) for inter-state supply of goods and services. That's why it is the appropriate time that there should be one tax to solve number of these problems to a large extent. GST is proposed to be a dual levy where the Central Government will levy and collect Central GST (CGST) and the State will levy and collect State GST (SGST). The Centre will also levy and collect Integrated GST (IGST) for inter-state supply of goods and services.

II. GST COUNCIL

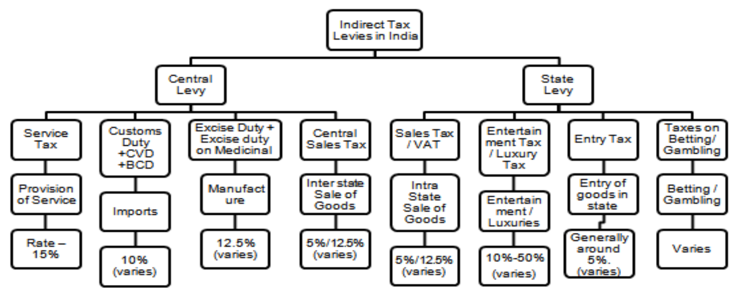
Setting up of GST Council was a major big development. It is an apex body including Centre and the State for GST. It has the power to finalize nitty-gritty of GST and to resolve disputes Union Finance Minister is the head of the Council while the Union Finance Minister of State (In- charge of revenue) and the Minister in charge of finance or taxation or any other Minister nominated by each State Government will be members. The council will have two members including the Chairman from the centre and one member each from 29 States and the 2 Union Territories (with legislature) taking the total strength to 33. The Union Revenue Secretary will be Ex- officio Secretary to the GST Council while the Chairperson, Central Board of Excise and Customs (CBEC) will be a permanent invitee (non-voting) to all proceedings of the Council. The Council will make recommendations to the Union and the States on important issues related to GST:

a) Goods and Services that may be subjected or exempted from GST.
b) Model GST laws.
c) Principles that govern Place of Supply, threshold limits.
d) GST rates including the floor rates with bands
e) Special rates for raising additional resources during natural calamities / disasters.
f) Special provisions for certain States, etc.

Every decision of the Council will be taken at a meeting, by a majority of not less than three-fourths of the weighted votes of the members present and voting. The vote of the Central Government will have a weightage of one-third of the total votes cast, and the votes of all the State Governments (including the Union Territories with legislatures) taken together shall have a weightage of two-thirds of the total votes cast.

III. TAXES THAT WILL BE SUBSUMED IN GST

GST would be levied on all the transactions of goods and services made for a consideration. This new levy would replace almost all of the indirect taxes. In particular, it would replace the following indirect taxes:



However, there are few other indirect taxes that may or may not be subsumed under the GST regime as there is no consensus among States and Centre & States

*Land and properties (neither goods nor services)

*Stamp Duty

*Other Entry taxes and Octroi

Sub-summing of Existing Taxes:-

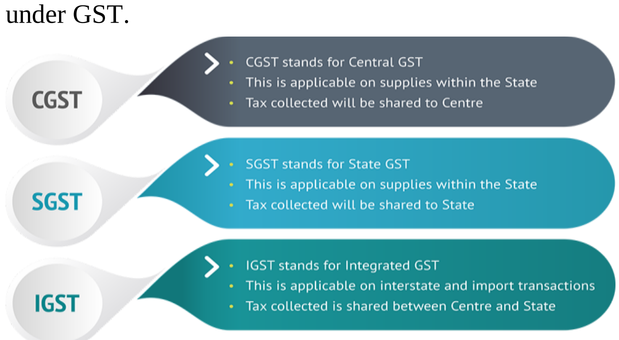
The sub-summation should result in free flow of tax credit in intra and inter-State levels so that unrelated taxes, levies and fees are not be subsumed under GST.

source:-Financial Express epaper (03 June 2017)

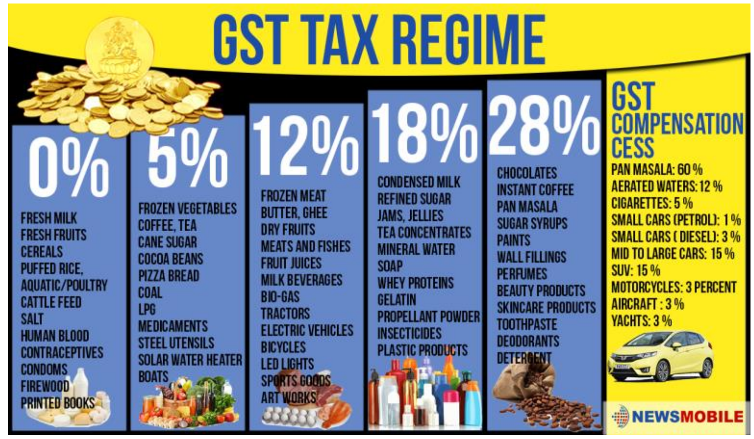
Fig 1. CGST (central GST), SGST (state GST) & IGST (Integrated GST)

Type of levies & Impact of GST on pricing of products as compared to current system: -

In this figure we find that there are three type of levies under GST.



This figure shows the GST tax rate for all the items shown below:



Let us we should take an example to understand how to calculate current levies and the new GST.

Table 1. Current System Vs GST Comparisons

	Current System (Cascading Taxes)	GST (Avoidance of double taxation)
1	Product sold from Sitamarhi to Muzaffarpur price is Rs. 10,000=00	Product sold from Sitamarhi to Muzaffarpur price is Rs. 10,000=00
2	VAT is @ 12%= Rs. 10,000*12%= 1200	CGST is @6%= Rs.10,000*6%=600 and SGST is @6%= Rs.10,000*6%=600
3	Product sold from Muzaffarpur to Lucknow cost is Rs. 10,000+1200(i.e. VAT)= Rs. 11,200	Product sold from Muzaffarpur to Lucknow cost is Rs. 10,000+(600+600 i.e. CGST and SGST)= Rs. 11,200
4	Profit = Rs 10,000	Profit = Rs 10,000
5	Sell price = 11,200+10,000=21,200	Sell price = 11,200+10,000=21,200
6	CST is @ 12%= Rs. 21,200*12%=2,544	IGST is @12%= Rs. 21,200*12%=2,544-(600+600 i.e. CGST and SGST)= 1344
7	Total Cost of Product Rs. 21,200+2,544= 23,744	Total Cost of Product Rs. 21200+1344=22,544

In the above example we can conclude that the tax paid on sale within state can be claim against tax paid on sale outside state in GST system, which is not in present tax system. The credit of CGST cannot be taken against SGST and credit of SGST cannot be taken against CGST but both credit can be taken against IGST.

IV. POSITIVE EFFECTS OF GST

There will be positive effects of implementation of GST in India without any doubt. Dr. R. Vasaathagopal (2011) , "GST in India : A Big Leap in the Indirect Taxation System" and concluded that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy. Success of GST will lead to its acceptance by more than 160 countries in world and a new preferred form of indirect tax system in Asia also.

Some positive effects may be as follows:

i. At present we pay service tax and vat both, but after implementation of GST eating out would be cheaper as there will be a single tax.

ii. As the GST reaches its final stages, the historic legislation promises to unify the tax system for the nation and increase the GDP by about 2 per cent.

iii. Nowadays, Goods are typically taxed at 12.5 per cent (excise duty) plus 5-15 per cent (VAT) which is invariably passed on to the end customer. The standard rate of GST is capped at 18 per cent, there exists a scenario where prices of goods can significantly reduce for the customer. This is because procurement costs will also go down for a business and some of the profit can be passed on to the end of the chain.

iv. The GST will definitely take the Indian economy to the next level for the better.

v. Greater use of IT sector in GST will reduce human interface between the taxpayer and the tax administration, which will go a long way in reducing corruption.

vi. It will boost export and manufacturing activity, generate employment for common man in India.

V. NEGATIVE EFFECTS OF GST

There may be some negative effects also

i. As the states are expected also to decide service tax rates, our phone / mobile bill could see escalation of taxes Services consumed by a common man such as telecom, rail, transportation, banking, air travel, etc. may become expensive.

ii. Buying from online will be getting more expensive as the ecommerce industry comes into a tax net and will have to pay tax deducted at source for every purchase from its sellers.

iii. Some essential items in a household are actually subject to about 5-18 per cent tax because of exemptions. The rate hits 28 per cent, then goods go up in pricing, wobbling the entire structure.

iv. Health insurance and diagnostic centers, which are mainly service-oriented, may fall under higher tax rates, thereby making such services more expensive for consumers.

It can be said that the real success of GST depends upon the impact on the common Indian consumer. The essence of GST is that all goods and services be taxed at moderate rate. Single tax for one India proves to be a game changer in a positive way and proves to be beneficial not only to the common man, but to the country as a whole.

VI. CONCLUSION

GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. GST is leviable on all supply of goods and provision of services as well combination thereof. All sectors of economy whether the industry, business including Govt. departments and service sector shall have to bear impact of GST. All sections of economy viz., big, medium, small scale units, intermediaries, importers, exporters, traders, professionals and consumers shall be directly affected by GST. One of the biggest taxation reforms in India -- the Goods and Service Tax (GST) -- is all set to integrate State economies and boost overall growth. GST will create a single, unified Indian market to make the economy stronger. Experts say that GST is likely to improve tax collections and Boost India's economic development by breaking tax barriers between States and integrating India through a uniform tax rate. Under GST, the taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions.

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