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Positive and Negative Impacts of Implementation of GST

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ABSTRACT

One of the biggest transformation in the indirect taxes reforms is the implementation of GST (Goods and service Tax) in India. A new tax regime GST has become effective from 1st July 2017. The New taxation policy has transformed all the previous indirect taxes of state and central government into GST. GST removes the burden of all the different indirect taxes and introduces “One Nation, One Market, One Tax”. It is a comprehensive dual GST aspect as the Centre and the State simultaneously levying it.

It is true to say that implementation of GST has brought some major advantages and a few disadvantages also. The purpose of this study is to understand the shortcomings of the older system and also to know the various positive and negative impacts of implementation of GST.

Keywords: GST, Indirect Taxes, Impacts

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http://heb-nic.in/cass-studies	Quick Response Code:
Received on 20/02/2019 Accepted on 25/02/2019 © HEB All rights reserved	

I. INTRODUCTION

From 1st July 2017, a new taxation system has emerged known as GST(Goods and Service Tax). Introduction of GST has replaced all the previous taxes levied at the time of manufacturing, sale, consumption of services etc. Transformation of older taxation system in to GST has faced many hurdles for its implementation but government has successfully solved all and GST was implemented.GST is based on a single tax system applicable on Supply of Goods and services. It is a multistage indirect tax that is levied on every value addition to the goods.

The major impact of GST implementation is the continuous chain of input tax credit from the manufacturer till the retailer as in previous system credit of excise duty paid by manufacturer was not allowed at the time of sale of goods. In the pre-implementation period, decentralized systems were used for credit mechanism process but post-implementation period has given rise to centralized system for availing input tax credit from the manufacturer level to the retailer's level.

II. OBJECTIVES OF THE STUDY

1. To understand the shortcomings of the previous taxation system.
2. To analyze the positive and negative impacts of implementation of GST.

III. LITERATURE REVIEW

Vasanthgopal(2011) studied GST in India: A Big Leap in the Indirect Taxation System and concluded that Before implementation of GST its necessary to analyze the various positive impacts of implementation of GST. He also stated that the benefits from GST are dependent upon its design and GST will work as a motivation for Indian's economy change.

Kour et al.(2016) studied the impact of GST after its implementation and concluded that GST will reduce the compliance burden in future as it will be a single tax in place of all different present taxes and there will not be any distinction between the tax rate on imported goods and domestic goods. Its implementation will play a dynamic role in the growth and development of the country.

Elavarasan&Jagadeesan (2018) studied the impact of goods and service tax on Indian industries with reference to FMCG sector and concluded that some products have higher GST rate then previous and some products have lower GST rate as comparison to previous one. In FMCG sector some companies will "gain" with lower taxes and distribution costs, and thus may respond by increasing product volume and lowering prices, while others may "lose" with higher taxes, and thus need to compensate by increasing prices.

Sajjan (2018) studied the impact of GST on service sector and concluded that the implementation of GST is not effectively planned and structured. Amendments are necessarily required for giving a

structured way out. Services has both kinds of effects positive and negative as for some cases tax rate will be charged at higher rate and vice versa.

IV. METHODOLOGY

The present research paper is the study of “Positive and Negative impacts of implementation of GST”. It has been carried out with the help of secondary data collected from published research papers, websites, journals etc.

V. ANALYSIS

GST is one of the biggest fiscal reform in taxation history as it replaced the variety of taxes in to single unified form. In older system power to levy taxes were in three hands i.e. Central government, State government and Local bodies. That creates a lots of hurdles in regular working of taxation, which are necessarily to be removed. Short comings of older system are:

Cascading effect: It is the system of Taxation over taxes. It is due to the previous taxation system in which both central and state levy tax separately on the same goods and make them costly. Centre government levy tax on manufacturing of goods, whereas the state government levy VAT on sale of very same goods. The value of second tax was calculated on the value comes after adding the first tax in the value of transaction. It is tax on tax. State government does not permit credit of excise duty paid by manufacturer to the dealer on sale of goods.

No clear distinction between goods and services:

In the older taxation system, there are number of transactions where it is difficult to judge whether the particular transactions entered into between two persons for the specific commodities amount to sale transaction or service transaction. Therefore, in many cases, Business persons used to levy both sales tax and service tax and that would have resulted as double taxation

Value addition subsequent to manufacture-does not attract excise duty

Previously, Excise duty was charged on the manufacturing of goods. It was levied at the time of first point price of sale as the price is the sole consideration of sale and buyer is not the related person. But in some circumstances, there is a need of further value addition even after first point of sale and then again the product was sold. On such kind of subsequent sale by the buyer no excise duty was levied, even if the further process if any carried out by the buyer amounts to the process of manufacturing.

No cross verification of availed ITC:

In the older system of taxation, it was very difficult for the department to make the cross verification of the Input Tax credit availed by the assessee and to know whether the proper invoice has been issued by the supplier or not. The department has internal system of verification, but in offline verification system it will become difficult to verify accurately.

Dual GST model :

GST is adopted as dual GST model. It means GST is levied by both central and state government simultaneously. When the transaction of supply of goods and services is carried out within the state then CGST (collected by Central Government) and SGST (collected by State Government) is charged. But when the transaction is carried out amongst the state then IGST (collected by Central Government) is charged. It is a destination based tax where taxes are collected by the state where goods are consumed. GST is a biggest reform of India and any reform is bound to have some positive as well as negative impacts:

Positive impacts of implementation of GST:

Elimination of cascading effect: The first and foremost change after implementation of GST is the elimination of cascading effect. GST allows the input tax credit as a chain system. In New taxation reform only single type of tax is charged and each transaction is allowed to take the benefit of GST paid earlier. Implementation of GST removes the tax on tax system.

Composition schemes for small business : Applicability of GST has subject to some threshold limit and for small businessmen an optional composition scheme is introduced. Businesses with annual turnover up to Rs. 1.00 crore can opt for such scheme. A composition dealer is required to pay the taxes at specified rates only and he is not allowed to take input tax credit.

More transparency to software industry : Before the implementation of GST, Software industry was in very big dilemma with respect to the applicability of VAT or Service tax. They charged both on selling the software package and in some cases they even charged excise duty. From July 2017, they got a path for their destination as only single tax would become applicable.

Chain of input tax credit : New taxation regime has provided a chain of set off of input tax credit continuously from the producer/service provider till the retailer in a very simplest way. All the 3 types of taxes can be set off against each other except payment of CGST cannot be set off with the available input tax credit of SGST and vice-versa as CGST relates to central government and SGST relates to State government.

Equality for all states : Earlier a variety of different rules were there for respective states. GST comes as a simplified solution for all the states. The older system of taxation has not included the Jammu and

Kashmir under its powers and it was a disadvantage for other. Now GST has covered the whole country at a very same level with the same taxation rules and provisions.

Negative impacts of implementation of GST:

Exclusion of petroleum products: Government of India has not included the petroleum products such as petrol, high speed diesel, motor spirit, natural gas, and jet fuel under GST provisions. If petroleum products will come under the provisions of GST then India would charge the same prices of petrol and diesel in all the states.

Increase in cost of some commodities: For some of the commodities tax rates has been increased and such increased would cause to the increases in the operating cost of the goods and services. Rates of various goods and services from various sector have been increased in post implementation period.

Double control: GST is based on a dual model in which both central and state both are involved. It is referred as a single tax system but dual tax is charged. On any intra-state transaction, two taxes i.e. CGST and SGST are charged. CGST is charged and collected by the central government on the other hand SGST is charged and collected by the State government. Due to dual control credit of CGST cannot be used for the payment of SGST and Vice-versa.

Software modification: In pre-implementation period for filling of VAT, Excise and service tax returns, some accounting software were used. These software were used for computing and filling of returns. Post implementation period has forced for the adoption of software modification or purchase of new software. It will lead to increase in expenses.

Increase in operating cost for small businesses: Usually all small businesses do not have computerized system. In the new tax regime filling of returns online and payment of taxes online required proper computerized system. Setting up of computerized system will lead to increase in cost. Another problem in front of small business is to hire professionals or to take consultancy from them as GST is new for all of them.

VI. CONCLUSION

Change in anything is surely not an easy task. Implementation of GST is one of the biggest change since independence. For the same reason, July 1 was celebrated as Financial independence day in India. It is an appreciated tax regime because it abolished the multiple taxes and allows to continue at a single rate. However, there is an oversupply of changes before the government for making its successful and government is continuously putting efforts for improving the structure and working of GST.

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