

TRANSFORMATION IN THE INDIRECT TAX REGIME EFFECT ON MANUFACTURING AND CONSUMPTION

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ABSTRACT

Indirect taxes contribute to around 44% to the total tax revenue in India. It is extremely important to understand the implication of these taxes on the economy, since they have a direct bearing on the consumption, production and employment in the economy. The tax structure followed till July 2017 comprised of multiple taxes which had a cascading effect on the cost of goods and services. From July 2017, the concept of "One nation One tax" was introduced by the Union Government. This paper attempts to highlight how GST will bring a revolution in the way of doing business. It will also make an effort to understand the change in the expenditure pattern of the consumer. This paper will include calculations pertaining to consumption expenditure made by people on various goods or services. The paper will also highlight the flaws in the GST model.

Keywords: Indirect Tax , Cascading Effect , Consumption Expenditure

INTRODUCTION

The ideology of one nation one tax has been adopted by many nations, like Australia, Singapore, New Zealand, Canada etc. They have been following a taxation system which had fewer complications and is more transparent. India for a long time had been in the cage of multiple indirect taxes. The tax revenue has been raised by the government through taxing different activities by different states differently. This diversity in the tax charging systems affected the cost of the products and had tedious compliance procedures. It was proposed since 2002 that the indirect taxation in the country needed modification to make it more transparent and hassle free. Finally the Union government managed to implement GST from 1st July 2017 across India, bringing in the concept of one nation one tax. There is a great deal of confusion with regards to the effect of this change on the business and consumption. The discussion below will clarify how

the tax will be a revolution in the country and bring about the change.

WHAT IS GST

Goods and services tax can be said to be a comprehensive tax which will replace the multiple number of indirect taxes levied by the central and state government on goods and services. It is a broad based and destination based tax which is going to be beneficial for all the consumption based states like Bihar, Uttar Pradesh, since the taxable event will be the supply of goods or services and not the production.

GST will unify all the indirect taxes under an umbrella and will create a smooth national market. Experts say that GST will help the economy to grow in more efficient manner by improving the tax collection as it will eradicate all the tax barriers between states and integrate country, by following a uniform taxation policy across the country. GST was

first introduced by France in 1954 and now it is followed by 140 countries. India has adopted the GST in July 2017, but it has been modified as per the requirements of the Indian scenario, therefore there are six different rates which have been applied to the range of goods and services

OBJECTIVES OF THE STUDY

1. To understand the concept of GST
2. To understand the application and mechanism of fixing of various rates of GST
3. To establish the impact of GST on the various business sectors
4. To make an analysis of the impact of GST on consumers
5. To know the flaws in the GST model as adopted in India which may dilute the positive impact of GST .

IMPACT OF GST ON BUSINESS AND MANUFACTURING SECTOR

Production and consumption are two main economic activities that keep the economy going and growing. The Indian scenario has always been a learning experience for many foreign lands which have witnessed the manner in which the Indian economy sailed out of the economic crisis of 2008. With the change in the indirect tax structure, a change is also expected in the pattern of business also. Along with the complexities in the past indirect tax structure, corruption, inadequate infrastructure and lack of skills make the Indian business segment suffer and therefore, it could not match with global scales. For decades together, the contribution of manufacturing sector has been almost constant at around 16 % to GDP, which is a cause of concern for a simple fact that a lot many policy have been framed to promote this sector ,but no major breakthrough in terms of competency and contribution has been achieved. With the GST regime the following benefits are expected:

- The manufacturing sector will get the most important advantage of reduced cost of production which will be a result of input tax credit availability and avoidance of multiple taxes
- There will be a reduction in the procedures of supply of goods ,especially with respect to interstate trade where the barriers and checkpoints on the state borders used to unnecessarily enhance delays .Since the GST will unify the Indian market and will be consumption based so the supply trade will reduce and increase competitiveness
- The less complicated and transparent tax rules will help the business in easy compliance
- The benefit of reduced cost can be attained by eliminating the unnecessary or extra level of warehousing in the supply chain
- The conversion of the market into one strengthened national market will give a boost to foreign trade also, by enhancing the competitiveness Moreover with the zero rated export goods, no GST will be levied on exports because of which input credit of exporter will not be affected and input credit can be used in future.

IMPACT OF GST ON CONSUMERS

The government has always followed the principle of socialism in taxation. The goods and services are divided into various categories ,before slabs of tax rates are decided .Some of the products which fall under necessities are consumed by the population at large whether they are poor or rich , they are kept as nil rated under GST .Almost 17 types of indirect taxes have been substituted by the GST This reduces the cascading effect, that influences the cost of goods and services . The various tax slabs are decided by the government on two basic principles:

- Principle of revenue Neutralization

- Principle of Equivalence

Both these principles indicate that the consumer should not face any drastic change in the tax structure over a particular good or service and at the same time the

tax rate should be such that it should not have a drastic impact on the revenue generated by the government. The various tax rates have been roughly designed as follows

Table 1.1 Comparative rates of tax in current and past tax structures

Slab	GST rates	Previous Rates	Products (eg.)
1	5	Upto 9 %	Tea Coffee etc
2	12%	9% to 15 %	Processed foods etc
3	18	15- 21 %	Soaps oil etc.
4	28%	Above 21 %	Luxury cars ,Aerated Drinks etc

Source: Self Assessed Table

Taking this into consideration some goods would become expensive while some will not .But in a nut shell with the revolutionary GST regime the consumer will be aware of what they are paying for, and there will be transparency in the price that they pay without the hidden taxes that they used to pay earlier. Given below is a rough estimation of how a

consumer will be effected by the GST, if he has to buy a good which is currently taxed at 18 % and is passing through a set of middlemen. In the Table 1.2 below, we can see that the consumer is roughly saving Rs.47 under the GST as compared to the previous scheme of taxes.

Table 1. 2 .Impact on Consumer’s Pocket

	Manufacturer	
	Before GST	After GST
Basic Price	1000	1000
Add : CENVAT 12.5	125	-
ADD GST @ 18%	-	180
Total Price	1125	1180
	Wholesaler	
Cost of goods	1125	1180
Less Input GST Credit	0	180
Add value addition	500	500

Basic Price	1625	1500
Add VAT 12.5%	203	0
Add GST	0	270
Total Price	1828	1770
	Retailer	
Cost of goods	1828	1770
Less GST Credit		270
Less VAT credit	203	
Add Value Addition	200	200
Basic Value	1825	1700
Add VAT or GST	228	306
Total Price paid by consumer	2053	2006
Saving	47	

Source: Calculated Figures.

The problem of multiplicity of taxes and variation from one state to another was also a big challenge for the consumer. For instance, the entertainment tax was different across the states. With the GST this disparity has ended and there is now uniformity in prices across all states.

At the same time the GST has also made provisions for no tax on the necessities which would further reduce cost of the consumers belonging to the lower income group. In the light of the above discussion it is clear that the entire country will have one common market, benefiting the consumers and giving them ease of consumption at the same time increasing the competitive strength.

ADVANTAGES OF GST

1. Simple and Board based tax : Indirect tax structure was very complicated with multiple taxes being levied without any declaration or clarity if these taxes. This structure of GST is relatively simple and will be clearly charged on large number of goods and services.
2. Transparency: Since the cascading effect and multiple taxation has been excluded from the GST system, it has made the indirect tax system very transparent and understandable by all so there is less chance of customers not being aware of

what they are paying and how much is the tax content in the price of a good or service. Moreover, there is a provision of keeping and reporting all transactions in electronic form which will ensure further accuracy and transparency in the reporting and accounting procedure. This will help in controlling tax evasion.

3. **Strengthening the Indian Market:** The Indian market currently is very diverse with respect to the prices charged and the kind of selling practices, which creates a weak and disintegrated market, non-competitive and fragmented across states. With the GST, the one nation one tax and one market ideology will seep in making the market more unified and strong.
4. **Impact on business :** The manufacturing business will be benefitted by the GST, it will not only improve their production cost but will also save them from multiple taxes. Apart from this the input tax credit is available to the manufacturers which will help them in reducing tax burden. The entire supply chain is affected since the retailers and wholesalers who were the middlemen, had to pay multiple taxes are also relieved from all the formalities.
5. **Lesser Compliances :** The procedures and compliances required in GST are minimum. The returns to be filed are more than the previous tax regime, but they are very simple and easy to comply with since all are to be submitted electronically and the traders have to only provide the details of sales made by him.

FLAWS OF THE GST MODEL

GST has been in the pipeline since 2002, since then the modifications are going on in the GST laws. Finally the launch of GST in July 2017 was a landmark in the history of Indian economy. Although a lot of care is taken in making the GST model beneficial to

all the segments of the economy, but still there are many issues which need to be addressed.

The government has not given one single blanket rate as is the case with many countries, instead six different rates have been specified for different commodities. Even after this, there are several items left to the discretion of the states and the Centre. The biggest revenue generating items, such as petroleum and alcohol – that contribute more than 40 percent of the state revenue – are outside the purview of the GST. The states will continue to levy taxes as per their whims. Here it is important to note that the prices of petrol determine the cost of all other items transported across states. Therefore, petroleum can be classified as a very important commodity, but still not covered by GST.

- Extensive use of technology is involved in the compliances related to GST. For instance, more than 30 returns in the year which have to be filled online. This may be a problem for those small business, who do not have enough knowledge about the online systems and are not familiar with the technology and neither do they have the resources to hire expert services. Hence this may cause some problems to the non users of technology.
- If the business is dealing with new customers and suppliers, it cannot be sure whether input tax credit will be made available to them or not, this uncertainty may cause problems for small business, who are working on thin margins or deficient cash. The situation will also pose a problem with respect to the amount of working capital maintained by the business all the time, for furnishing their tax liabilities and returns.
- The real estate business is also not made a part of the GST regime. Although from the view point of transparency, it is extremely important to make the transactions of this industry visible and taxable to reduce the accumulation of black money.
- Some items which were earlier taxed at a lower rate will now become expensive in the new regime, for eg clothes and garments will

become more expensive .Similarly travelling by air has also become expensive since the tax rate has now increased from around 6 % in the past to around 15% in the present GST structure

CONCLUSION

The discussion above has thrown light on the various aspects of the new indirect tax structure of India ,which has given a lot of fuel to the political commercial and the economical vehicle of the country .The introduction of this scheme has brought about a lot of positive and negative changes in the production and consumption pattern of the country . But for a developing country like India it is very important to unify and strengthen the national market. This economic unification will bring India at par with the global players in trade and commerce .With a more efficient and transparent tax regime, it will become easy for the authorities to keep a check on the transactions and prevent the buildup of the black economy .Since the economic structure is very dynamic and changes with the change in the business environment ,the various flaws of the GST can be eradicated in the time to come ,and India will be able to establish a tax structure which can promote not only balanced social justice but a also enhance trade within and outside the nation .

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