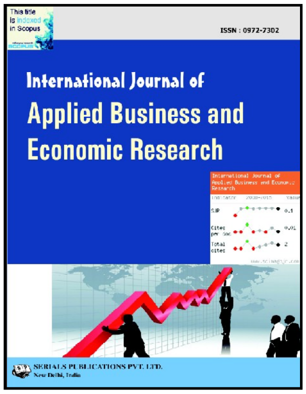

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Goods and Service Tax (GST) A Tax Reform Encouraging Entrepreenurship in India

N. Ahmad[1] and Anjani K. Singh[2]

[1] *Research Scholar Amity Business School Amity University Uttar Pradesh*
[2] *Associate Professor Amity Business School Amity University Uttar Pradesh*

Abstract: Goods and service tax is vital tax reform of indirect taxes in Indian history after independence. A numbers of indirect taxes being levied by the central and state governments will be subsuming to dual tax structure. This study investigates that the proposed goods and services tax will be a game changer of the entrepreneurship eco system in India. The research concludes that ease of doing businesses, simplicity of tax structure and reduction of cost would promote the industrial and entrepreneurial growth in India.

Keywords: GST, CGST, SGST, IGST, VAT, ITC, GSTR, Eco System

INTRODUCTION

Almost 25 years ago Indian government had open the economy for bringing the change in business ecosystem of the country. Still we have very unstructured taxation system. But there was big debate started to realizing the need for improvement in tax structure in India. The introduction of value added tax (VAT) was a step forward in this direction. However, the value added tax remained limited to make reforms and even the tax credits for interstates sales on central sales tax basis could not be allowed. The other state and local bodies levies taxes like octroi, entry tax, work contract tax, etc. could not be integrated with value added tax. In other way the need of bringing uniformity and simplification in tax structure remained in question. With the adoption of constitutional amendment bill (122nd), the goods and services tax is going to become reality in India. In the goods and services tax a number of central and state taxes are getting amalgamated into a dual tax structure, which will reduce the cascading effect of tax on taxes to a greater extent and may pave the way for common national market. There will be overall reduction *in* tax burden to consumers. The Indian products will become more competitive in the domestic as well as in international market.

Goods and services tax is primary based on value added tax principle where taxes on inputs are allowed to be credited and adjusted against the tax payable on outputs, but conceptually it is a destination based tax on consumption of goods and services. This implies that the revenue will accrue to the states where the consumer resides and not where the products and services originate contrary to the existing origin based tax structure where the revenue is accruing to manufacturing states.

The goods and services tax is levied on supply of goods and services, which has a wider impact and it includes the supply of goods and services with or without consideration from one taxable territory to another. It is going to replace a plethora of taxes like customs duty on import of goods, excise duty on manufacture of goods, VAT/CST on sales of goods, entry tax on entry of goods into local area, service tax on services rendered and work contract tax on works etc. There will be dual tax structure under goods and services tax, central government would levied central goods and services tax (CGST) and the state governments would levied state goods and services tax (SGST) on every supply of goods and services within a state. The integrated goods and services tax (IGST) would be levied on all inter-state supplies by the central government and then the same will be transferred to the destination state. There is also a provision for seamless flow of credit under goods and services tax. Under this proposed system central goods and services tax would be allowed to be set-off against central goods and services tax and integrated goods and services tax. Similarly, the state goods and services tax will be allowed to set off against state goods and services tax and integrated goods and services tax. However, central goods and services tax will not be allowed to be set-off against state goods and services tax and vice versa.

Though goods and services tax is an indirect tax reform, but it is going to impact every economic activity, whether the activity relates to procurement or supply. It is also going to impact the logistic chain, the pricing pattern and the working capital requirement in every business activity. A number of business decisions based on tax implications needs to be relooked or reviewed in goods and services tax scenario for the economic benefit and entrepreneurial developments.

GOODS AND SERVICES TAX GLOBALLY

Around 160 countries are having goods and services tax like regime with tax rates ranging from 5percent to 27percent. This taxation scheme is becoming very popular to governments across the world mainly due to the fact the collection cost is very less and it eases out the complication involved in administering the taxation.

The goods and service taxes rates are 10 percent in Australia, 5 percent in Canada and 15percent in New Zealand. These countries had experienced a sharp rise in inflation post goods and services tax scenario but the inflationary trend faded away when the real impact of goods and services tax achieved after a year.

Brazil has had a mixed experience from goods and service taxes implementation owing to multiplicity of rates and weak coordination between the central and state levels.

Malaysia also implemented goods and services tax from April'2015 and witnessed a sharp rise in tax collections but it also encountered with rise in inflation which impacted the consumption and growth after goods and services tax implementation.

METHODS

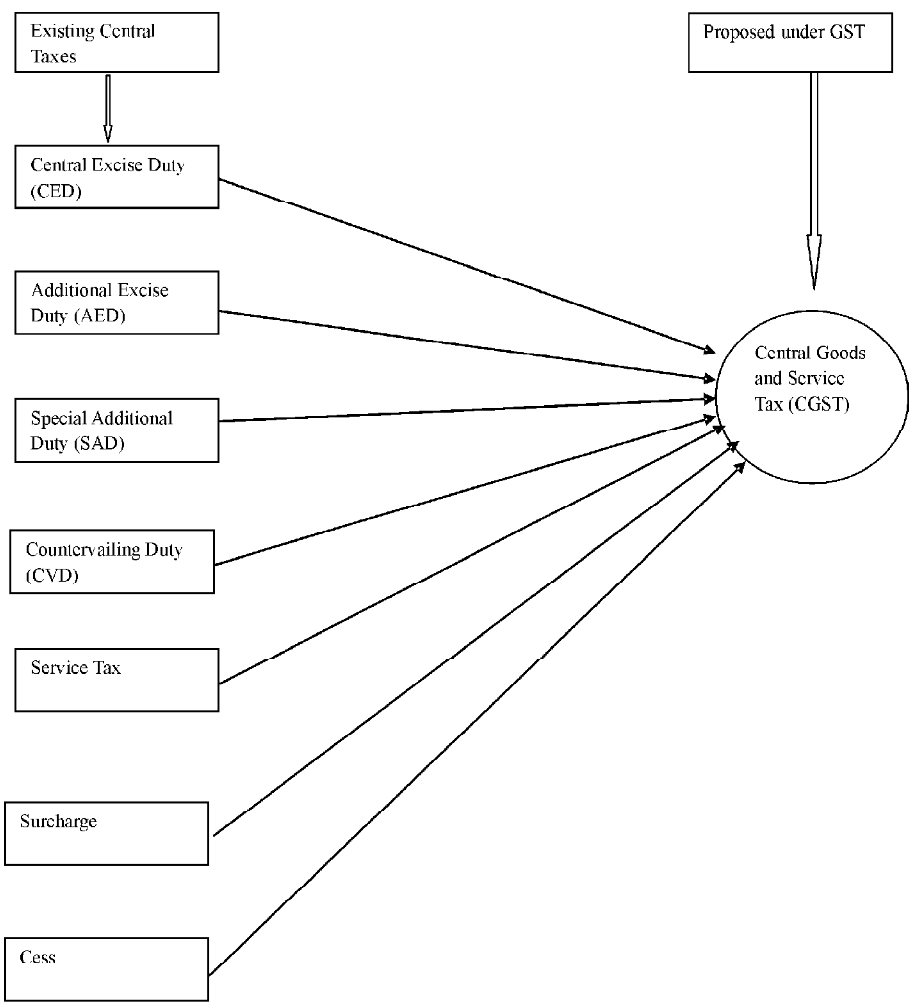
The aim of this research paper is to understand goods and services tax (GST). This study also explores the tax repercussions under new tax regime and its implication to entrepreneurial eco-system and benefits to new businesses and existing businesses.

The research is exploratory in nature, where an attempt has been made to study the integration of existing tax system with that of proposed tax structure under goods and services tax. A model was developed by the subsuming of various central taxes to central goods and services tax and state taxes to state goods and services. The comparative analysis of existing tax structure with that of proposed goods and services tax has been tabulated.

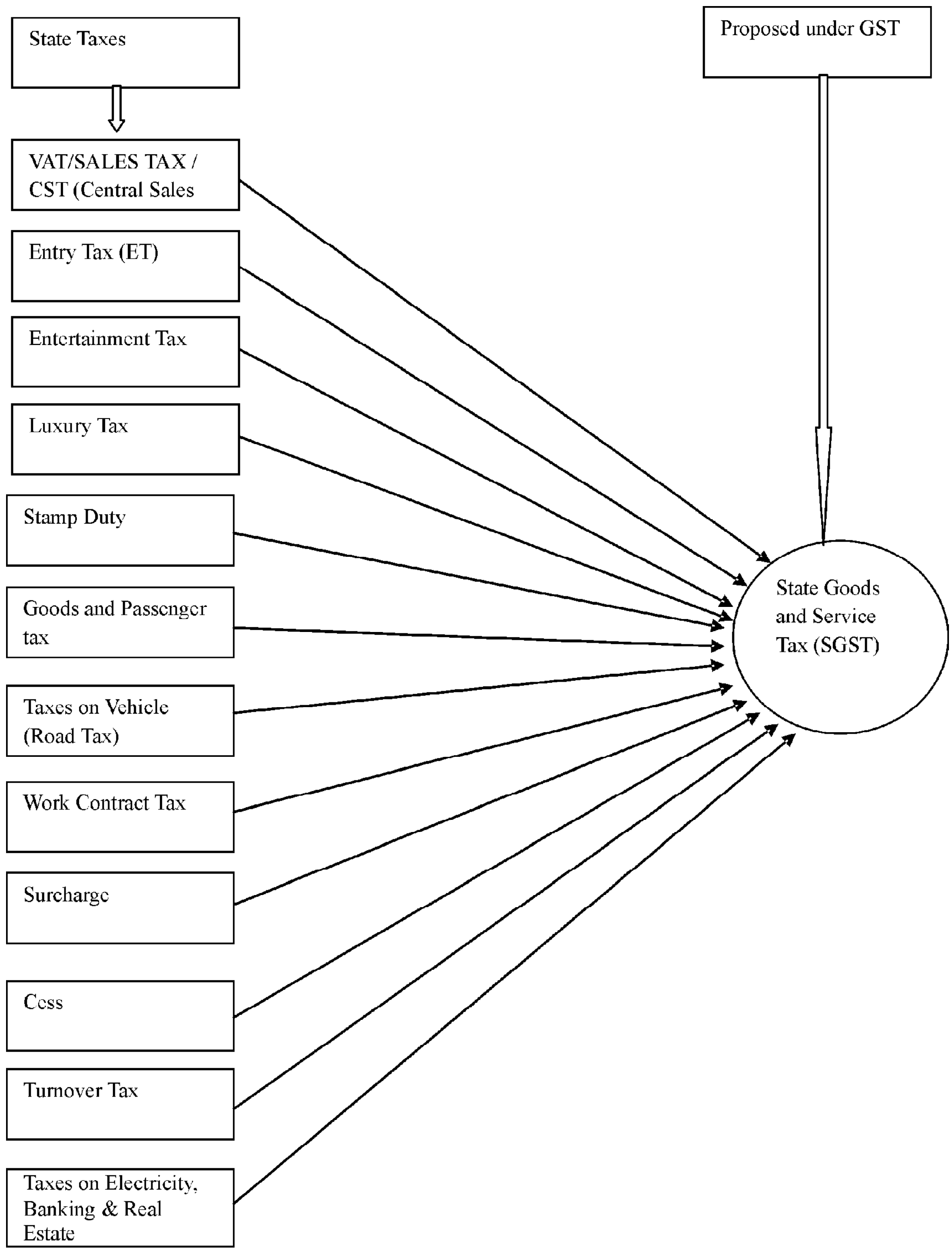
ANALYSIS AND DISCUSSION

The existing indirect taxes are central taxes that is are levied by the central government and it includes the taxes like the customs duty of import of products, excise duty on manufacture of goods, service tax on services rendered and central sale tax on sales of goods on interstate basis. State taxes are levied by states in the federal structures and it includes the VAT / Sales Tax on sales of goods, etc. After introduction of goods and services tax all types of taxes will be submerged into dual tax structure i.e CGST and SGST. The central taxes will be subsumed in Central GST (CGST) and the State taxes will be subsumed in State GST (SGST). Further the in case of import or interstate movement of products and services the Integrated GST (IGST) equivalent to CGST plus SGST shall be levied.

Model-I: Showing subsuming of all central taxes into CGST



Model-II: Showing all State Taxes subsuming to SGST



COMPARATIVE ANALYSIS

Table 1.1
The comparative study of current tax structure vs the proposed GST

Existing Tax Structure	*GST Structure*
Number of taxes are being levied	The entire plethora of taxes will encapsulate to dual GST
Assessable value or the base values for different taxes are different.	The assessable value or the base value is the same.
Tax on Tax i.e the CENVAT.	The tax on tax will be eliminated
The cascading effect of taxes not eliminated completely.	The cascading of taxes will be eliminated to a greater extent
The cross utilization of input tax credit are not allowed.	The cross utilization of tax credits are allowed
Value-added transaction chains in the distribution trade, below the manufacturing are not being captured fully.	It will be taken care as all the transaction trails shall be captured.
The taxable event is different for different taxes.	The taxable event is the only "Supply" of goods and services.
There are different authorities for different taxes	Here the only two authorities
Difficulties in filing compliance and documents with different authorities at various point of time.	Documents will be reduced to a great extent.
Separate format and declaration are required while raising invoice	One set format of invoice
There are too many returns under different statute	In GST common format is being proposed for returns.
It is difficult to manage the annual returns for compliance under various laws.	It will be manageable to a greater extent.
Compliance cost for a number of statutes is high.	Since all indirect tax are coming under one umbrella the compliance cost will be less

TAX IMPLICATION UNDER GST

The goods and services wise tax rates are yet to be decided by the goods and services tax council but the four tier tax rate i.e 5 percent, 12 percent, 18 percent & 28 percent has been agreed in goods and services tax council. While the essential items including food will be taxed at a zero rate.

The goods and services tax implication on sale and purchase of goods and services are being illustrated in **tables 1.2, 1.3 & 1.4**. In these tables the incidents of goods and services tax considering purchase, import and sale have been analyzed assuming goods and services tax rate at 20 percent (i.e 10 percent CGST & 10 percent SGST).

Table 1.2
In this table the incidence of GST on sales in the local market (within same political state/ tax territory) are being depicted

Sale in the local market					
Description	*Amt. Rs.*	*CGST*	*SGST*	*IGST*	*Total*
Purchases GST Rare		10 percent	10 percent	20 percent	
Raw Material A	100	10	10	-	120
Raw Material B (Imported)	100	-	-	20	120
Total on input of material	200	10	10	20	240
Value addition	100				100
Sale Price (including margin Rs.60)					400
Output Tax Liability	400	40	40		480
ITC Adjustment		30(CGS+IGST)	10		40
Tax payable		10*	30*		40

* The tax payable on sale of final product in local market comes to Rs. 40 after adjusting the credits for GST Rs. 40 already paid on input of materials from the total tax payable Rs. 80 on final product.

Table 1.3
The incidence of GST on sales of products through interstate market (in different political state / tax territory) is being illustrated

Inter State Sale (IGST)					
Description	*Amt. Rs.*	*CGST*	*SGST*	*IGST*	*Total*
Purchases GST Rare		10 percent	10 percent	20 percent	
Raw Material A	100	10	10	-	120
Raw Material B (Imported)	100	-	-	20	120
Total on input of material	200	10	10	20	240
Value addition	100				100
Sale Price (including margin Rs.60)					400
Output Tax Liability	400			80	480
ITC Adjustment				30(CGS+IGST)	30
Tax payable				50*	50
ITC credit carried forward			10 #		10

*In this case the GST payable comes to Rs. 50 after adjusting tax credits Rs. 30 already paid on input of materials from the total tax Rs. 80 on sale of final products under GST

The un-utilized credit of tax for SGST shall be carried forward and adjusted on another sale in local market where SGST is applicable.

This is depicts in table1.3 that at every stage the credit of tax paid on input is allowed to be adjusted against the tax payable on output or sale of final products. In other way it can be concluded that the net tax impact is based on value addition only.

Table 1.4
Comparative study for retail selling price

Amount (in Rupees)

Descriptions (A)	*Existing Taxes (B)*	*GST ©*	*Difference (D=B-C)*
Manufacturing Cost	1000.00	1000.00	-
Excise Duty @ 15%	150.00	-	22.50
VAT @ 15%	172.50	-	
GST @ 30% (CGST-15%+SGST-15%)	-	300.00	
Wholesale Price excluding wholesale margin and tax	1322.50	1300.00	22.50
Wholesale Margin @ 10%	132.25	130.00	2.25
VAT on Wholesale margin @15%	19.84	-	0.34
SGST on Wholesale Margin @ 15%	-	19.50	
Wholesale Price including wholesale margin and tax	1474.59	1449.50	25.09
Retail margin 20%	294.92	289.90	5.02
VAT on Retail Margin @ 15%	44.24	-	0.75
SGST on Retail Margin @ 15%	-	43.49	
Retail Selling Price inclusive of retail margin and tax	1813.75	1782.89	30.86
Total Taxes	386.58	362.99	23.59

Assuming that the manufacturing cost Rs. 1000.00, rate of margin (Wholesale margin 10% & Retail Margin 20%) and rate of taxes (like Excise Duty 15%, VAT 15% and similar CGST 15%, SGST 15%).The analysis in table1.4 resulted that the retail selling price is getting reduced by Rs. 30.86 due to elimination of cascading effect of taxes which is around Rs. 23.59 and balance Rs. 7.27 wholesale and retail margins on taxes.

CHANGE IN ENTREPRENEURIAL ECO SYSTEM

The entrepreneurs convert the scare resources efficiently into productive use for goods and services by adding value in it for utility and consumption. Simplifying the tax structure, eliminating the cascading effect of tax on tax, bringing in the efficiency, transparency and competiveness in business activity are fostering the entrepreneurial ecosystem and economic growth.

Table 1.5
Change in entrepreneurial ecosystem

S.No.	*Present*	*Proposed*	*Outcome*
1.	No. of registration required	One registration	Ease of starting business
2.	The exemption is up five lakh	The exemption is up to Rs 20 lakh.	Increase the tax exemption
3.	Many formalities to many tax	dual tax structure	Simplification of tax structure
.4.	Different tax rates on different tax	There will be dual tax	Uniform tax rates
5.	Distinguish between sales and services	No distinguish between sales and services	One time calculation
6.	Logistic get delayed during movement across states	One market	Reduction in logistics

LIMITATIONS

The cascading effect has not been completely eliminated as the cross utilization of ITC not fully permitted in case of CGST & SGST and vice versa. There is also dual control of central government as well state government on the businesses having annual turnover of Rs. 150 crore or more as agreed by GST council. (GST Council decision taken till now) (Council, 2016)All dealers will not be registered under GST and exemption has been provided for dealers having annual turnover of Rs. 20 lakh or less in India except North Eastern States where the limit has been specified for Rs. 10 lakhs. No credits for ITC will be available for any purchases from such dealers. Similarly, credit of ITC for any purchases from compounding dealers is also not available as such dealers will be having option to pay a percentage of their turnover and shall be issuing composite invoices under GST.

CONCLUSION

The good and service tax is a radical shift in Indian business scenario. The smallest change in the tax chain leads to a domino effect, affecting the entire structure from the top to the bottom. The credits of taxes paid on inputs are always available for adjustment against tax payable on output of products till the last leg. Further any utilized ITC credits is also allowed to be carried forward and adjusted against another transaction. Furthermore, this tax reform will be bringing down the retail selling prices of goods due removal of cascading effect of taxes. This tax structure is likely to be truly path-breaking in streamlining taxes in India, removing interstate barriers, arbitrary exemptions and making businesses simpler and tax-compliant. Businesses, particularly startups, need to brace up for the changing tax regime. The business enterprises need to spend on training of employees for processing invoices and filing returns as per the new tax model. The companies will also have to modify their existing accounting software presently being used to generate invoices and accounting.

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