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Indirect Tax Reform and It's Sectorial Impact

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Abstract

We are on the threshold of metamorphosis from multiple indirect tax regime to one nation one tax system. This paper focuses on the historical development of indirect tax system like VAT, Custom, Duty, Excise Duty, Service tax etc. into a unified indirect tax system termed as GST having the component as CGST, SGST, IGST and UTGST. The paper focuses on the benefit of GST and its unique inbuilt ability to tap every member in the tax net in the entire value chain ranging from supplier to customer. This is going to eliminate tax evasion. The ultimate beneficiary will be consumer (who have to pay lower prices)and the government who will collect the tax revenue. This paper exclusively discusses the impact of GST on consumer products (FMCG, Durables), Telecom companies and equipment manufacturer, Transportation sector (Airline travel, Bus transportation), Demerit or luxury goods ,Agricultural Commodities, Essential Commodities, Gold etc. The compliance procedure and system is quite easy for tax payers. The complexity of the present tax system is going to be simplified by adopting GST. This paper highlights and explains the important jargons of GST like Input tax credit (ITC) and Goods and Service Tax Network (GSTN). The paper lucidly explains the advantage of ITC. The anticipated obstacle we may be facing during the implementation of GST is mentioned in terms of challenges.

Keywords: GST, IGST, GSTN, ITC, Sectorial Impact.

Introduction

Tax is derived from the Latin word 'taxare' meaning to estimate. "Tax is hard earned income extracted from individual or social welfare of the society or economic enhancement by the government i.e Central government, State government and union territory.

As per Justice Holmes "We can purchase civilization by paying tax to the government." Revenue can be collected by paying tax regularly. This collected revenue is utilized for socio –economic development. Revenue is of two types

Revenue

Tax Revenue — Non-Tax Revenue

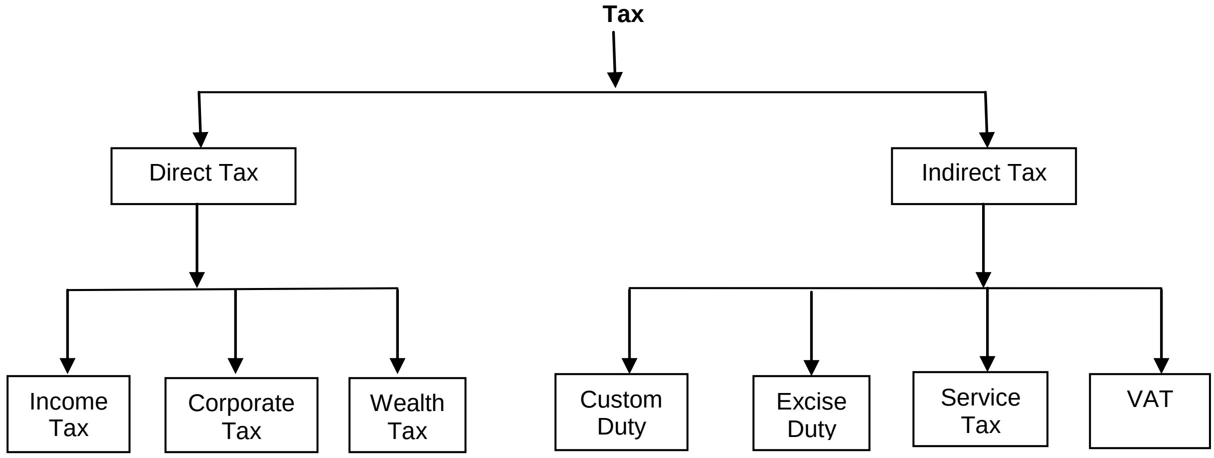
Tax Revenue

Money collected by the government through payment by public, imposed by law.

Non Tax Revenue

Revenue of government raised through instrument other than taxes such as fee/ user charges, dividends fund, profit of public sector enterprise, penalty or fine. All these can be the sources of fund for government.

Now the tax is categorized into two parts i.e.



Direct Taxes

Those taxes for which, the burden of the taxfalls on the entity that is being taxed or cannot be shifted the tax burden.

Indirect Taxes

Those taxed for which the tax burden can be shifted or passed on to other person later through business transaction of goods/ services.

Direct Taxes

Income Tax

When the tax is collected by the government from individual or businessman.It is levied by the central government.

Corporate Tax

This tax is levied on the income of registered companies and corporations in the country (whether national or multi-national).

Wealth Tax

The tax which was levied on non-productive assets in the business imposed by central government but now it is abolished in 2015-16 and replaced by Additional surcharge to be paid by the super rich tax i.e. (40%).

Indirect Taxes

Custom Duty

It is that type of tax imposed by government on goods imported or exported. This is done to protect domestic manufacturer. Another reason is to collect revenue utilized for the welfare of the citizen of the country.

Excise Duty

It is levied on manufactured goods. It is paid by the manufacturer to the government is passed on the customer. It is imposed by the Central government and collected by state government.

Service Tax

It is a tax levied by the central government of India pertaining to those business houses providing services. This tax is governed by the service tax rule 1994, either service provider or service receiver or any other person made so liable. The service tax rate now is consolidated rate at education Cess and secondary educations Cess are subsumed with 2%.

From June 1st 2016, Service tax rate has been increased to consolidated rate at 14%+0.5%+0.5%=15% of value of services provided or to be provided. It is imposed by central government and collected by state government.

Sales Tax

It is a Tax levied at the point of purchase and charged as a percentage total value of the product.

VAT

It is multistage tax, levied only on the 'value added' at each stage of the supply chain and not on the entire value of the sales.

Review of Literature

Telcos,Mathew (22 May 2017) said are likely to seek the panel's early intervention through suitable corrective measures since the higher GST rate could hurt bottom lines, increase balance sheet stress levels and undermine the overall ability of the Telcos to repay their mammoth dues.

Hitesh K. Prajapati (2016) in his paper on challenges and implementation of GST in India talked about the challenges in implementation of GST like IT sector is not boomed, threshold limit of turnover for dealers under GST is another bone of contention between the government and the Empowered Committee.

Dr. Shakir Shaik, Dr. S.A Sameera, Mr. Sk.C. Firoz (2016) in their paper on "Does Goods and Services tax(GST) leads to Indian economic development?" state in conclusion that GST in the Indian framework will lead to commercial benefits which were untouched by the VAT system and would essentially lead economic development. Hence GST may usher in the possibility of a collective gain for industry, trade, agriculture and common consumers as well as for the central government and the state government.

Kumawat, Paliwal (2015), studied "Emergence of Goods and Service Tax in India", paper also presented the background, salient feature and impact of GST in the present tax scenario in India. It also gave details of taxes that should be subsumed with the implementation of GST.

Legislative brief the constitution (122nd) amendment bill 2014 (GST)(2015). This report was furnished by PSR legislative research. It gives brief detail on GST.

Gupta, N.(2014) studied "Goods and Service tax : Its impact of Indian Economy" the author has made an attempt to study concept of goods and services tax and its impact on Indian Economy, shortcoming in the current taxation system in India, working of GST in India.

Girish Garg (2014) studied " The concept and feature of goods and service tax in India" found that GST is comprehensive indirect tax reform in our country since independence.

Nitin Kumar(2014) studied "Goods and Service tax–A way forward" concluded that implementation of GST in India help in removing economic distortion by indirect tax system and with respect to mechanism of GST exemption, comparison between current indirect tax and GST comparison between bill passed in the year 2014 with the bill passed in the year 2011.

Taqvi (May 2013) studied "Challenges and Opportunities of goods and service tax in India" it gave a brief introduction to GST and also explain the objective features, opportunities, challenges, benefit of the GST.

Dr. R. Venkatgopal (2011) studied " GST in India , a big leap in the indirect system" concluded that switching seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy. Success of GST will leave to its acceptance by more than 160 countries in the world and a new preferred form of indirect tax system in Asia also.

Ehtishan Ahmed and Satya Poddar(2009) studied " The goods and service tax reform and the intergovernmental consideration in India" found that GST introduction will provide simpler and transparent tax system with increase in output and productivity of economy in India but the benefit of GST are critically dependent on rational design of GST.

Indirect Tax Reform

1974	Report of L.K.Jha Committee suggested VAT.
1986	Introduction of restricted VAT called MODVAT.
1991	Report of chellah committee recommends VAT/GST and recommendations accepted by government.
1994	Introduction of service tax.
1999	Formation empowered committee on State VAT
2000	Implementation of uniform floor sales tax rate. Abolition of tax related incentive granted by states.
2003	VAT implemented in Haryana in April 2003.
2004	Significant progress towards CENVAT.
2005-06	VAT implemented 26 more states.
2007	First GST stuffy released by Mr. P. Shome in January.
2007	GST phase out starts in April 2007
2007	Finance Minister announces for GST in budget speech.
2007	Joint working group formed and report submitted.
2008	Empowered committee finalize the view on GST Structure in April 2008.

Objective of the Study

1. To make India more tax friendly
2. To make the tax system less complicated
3. To rationalize and restructure indirect tax
4. To minimize the tax evasion by imposing single tax instead of multiple tax

Research Methodology

This is an explanatory research based on secondary data of Journals, articles in newspaper and magazines. Considering the objective of study descriptive type research design is adopted to have more accuracy and through analysis research studied

Objective of Imposing GST in India

1. It is anticipated to simplify a complicated tax system
2. To aid seamless movement of goods across state boundries
3. To curb tax evasion
4. To simplify the compliance procedures
5. To boost revenue
6. To enhance growth
7. To promote Foreign Direct Investment
8. Making investment in India easier and a lucrative opportunities
9. Creating a common Indian Market
10. Reducing the cascading effect of tax i.e tax on tax which in turn reduces the price of goods and services

Goods and Service Tax (GST)

The tax system prevailing earlier focused on imposing taxes and duties on the manufactured goods and services as well as on sale of goods and services but GST is entirely a different and pragmatic approach to tax system. It state that "The tax we levied on the supply of goods and services rather than manufacturing of goods and services." It is levied at all points of the supply chain from raw material stage to manufacturing state to finished goods stage. In order to have a consistency of federal structure the country is going to have GST at national level termed as Central GST (CGST) and at State level termed as SGST. The tax will be levied when there is movement of goods across the two states.. The GST is destination based tax rather than manufacturing /Consumption based tax.

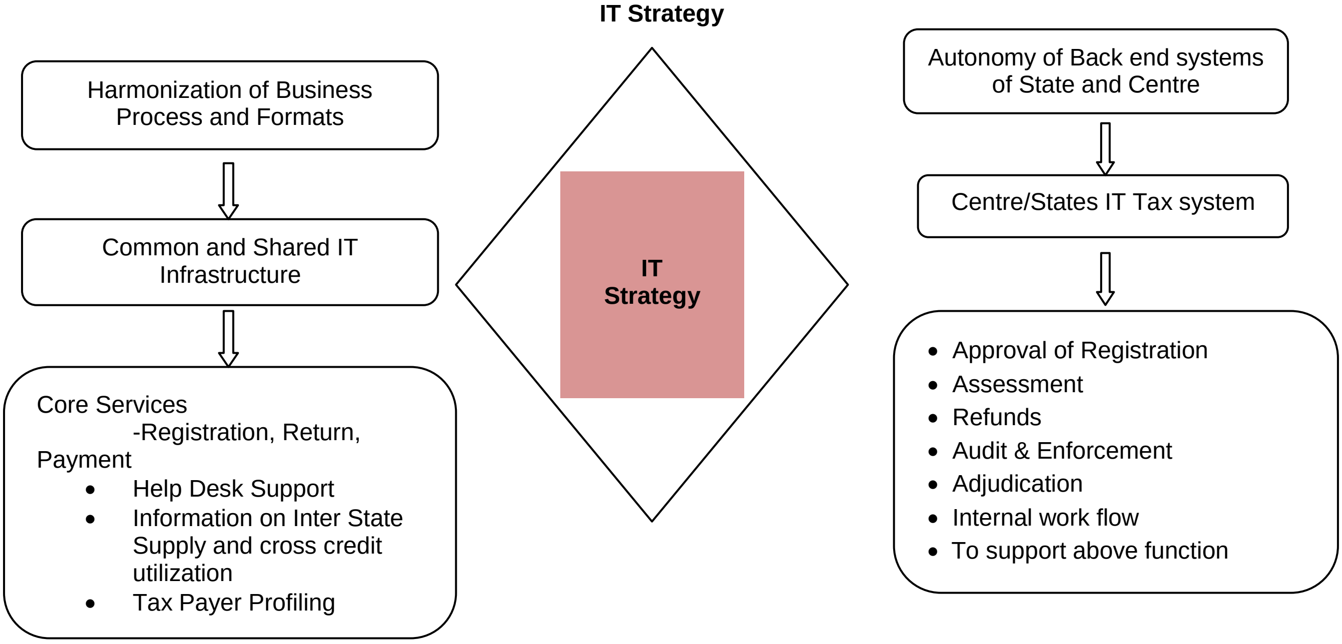
Integrated Goods and Services Tax (IGST)

When goods are imported or exported the government levies tax in the form of IGST. The total revenue collected by imposing IGST is shared equally between centre and state. Let us take a hypothetical case where 18% IGST is levied on goods imported or exported then 9% of its part will go to central government in the form of CGST and 9% will go to state government in the form of SGST. The government has decided not to impose GST on interstate transportation of passenger like busses carrying passenger from Delhi to Lahore or Kolkata to Dhaka (Bangladesh). But when goods are transported from one state to another IGST will be levied. If busses, Truck, Tankers, Trailers or Container are imported then these are exempted from IGST. This move will be beneficial for transportation and construction industry. The spare parts import will also be exempted from IGST. IGST payment can be claimed when paying CGST and SGST. The Input tax credit benefits accrue at this juncture and therefore cascading effect of tax is eliminated.

Goods and Service Tax Network (GSTN)

GSTN can be term as back bone of implementation part of GST. Without which we cannot realize the dream of smooth and efficient functioning of GST system. It is anticipated that total number of return file in a year is going to be 37 i.e three monthly returns and one yearly. It is expected that with this voluminous returns per entity, we will be having more than 3.2 million returns filed per month which big chunk of data. So it should be supported by a robust IT infrastructure. For this to make happen we are having empowered group of IT infrastructure for GST(EG-IT) was formed in 2010 comprising of members of Central Board of Excise and Custom (CBEC), members of State Finance Ministry, Commissioner of State commercial tax department etc. EG-IT was formed to establish requisite IT infrastructure for facilitating roll out of proposed GST. The EG-IT suggested a suitable blue print and direction for Special Purpose Vehicle (SPV) namely GSTN as a exclusive nodal agency for enabling IT infrastructure for smooth introduction of GST. GSTN was incorporated on 28th March 2013 under section 25 of the Companies Act-1956 promoted jointly by Central and State government. GSTN has self supporting revenue model based on levy of user charges on tax payers and tax authorities availing its services

IT Strategy



GSTN has been set up with following objectives act as a pass through interface for dealers.

1. Integration of common GST portal with the existing administration system of the Central/State government and other stakeholder.
2. Facilitation, Implementation and set standard for providing services to the tax payer through common GST portal State government and other stakeholder.
3. Build efficient and convenient interface between with tax payers to increase tax compliance.
4. Carryout research, study best practices and providing training to the stakeholder.

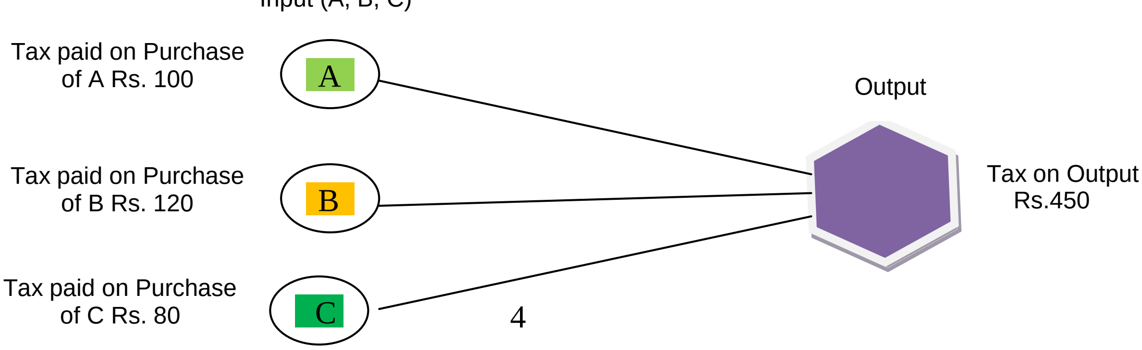
Input Tax Credit (ITC) or VAT Credit

Input Credit means at the time of paying tax on Output, we can reduce tax we have already paid on Inputs.

Example

For a manufacturer – tax payable on output (final product) is Rs. 450, tax paid on input (purchases) is Rs. 300, now we can claim input credit of Rs. 300 and we only need to deposit Rs. 150 in taxes.

Fig.-1



Tax to be paid by manufacturer=Rs. 450 less tax paid on inputs (Rs.100+Rs.120+Rs.80)=Rs.150
Input Credit=Rs.300
Source-www.Cleartax.com

Input Tax Credit is a credit manufacturers received for paying input taxes towards input used in the manufacturing of products. Similarly a dealer is entitled to input tax credit if it has purchase goods for resale. All dealer are liable for output tax on taxable sale done in the process of his business. Output Tax Credit is the tax charged or chargeable by registered dealer for the sale of goods in the course of business, whether the sales is made locally or outside the state.

Initially, the Input tax credit (ITC) was set at 40% which the council is considering to raise this limit. It could be charged at a higher rate of 50% to 60%. According to draft transition law companies can get credit of up to 40% of their CGST, liability against excise duty all ready paid on stock lying with stockiest, distributors and dealers. The business houses are lobbing to increase the ITC. The multiple taxes levied by Centre and State is going to be replaced by one indirect tax in the new tax regime. It would be convenient for both businesses and consumers. The destocking of goods at the distributors or dealer and is a loss of revenue for the government. If the ITC limit is increased it will be great relief for businesses when the GST rate for the product is 28%. It would minimize the impact on sales in the last month before the introduction of GST. It is based on condition of transition rules that business houses will be given benefit of ITC when they have all ready paid CGST and provide the proof of purchase of these goods
Source – Times group.com

Benefit of Goods and Service tax to Government, Public and Society

Government

1. GST is end to end IT enabled tax system is expected to bring buoyancy to government revenue.This will happen because of attraction input tax credit will benefit by purchasing goods from registered dealers. It will incentivize everyone in the tax net.
2. The prime benefit of GST is that India will become one market one tax. Multiple tax rates in different State will not prevail. Uniform tax rate in different States will be maintained.
3. When goods are imported there is a levy of Counter Veiling Duty (CVD) which is equivalent to excise duty for the domestic manufacturer. In some cases the CVD is exempted making domestic goods dearer. Under GST all the exemptions will go away.
4. The present systems of tax structure attract Excise duty and Value added tax apart from that. Whereas all the imported goods attract only 4% additional special duty (ASD). These systems of tax structure protect the interest of domestic manufacturer. The implementation of GST will provide a level playing ground for domestic manufacturer and imported goods. Here the goods which are imported has to pay full GST in the form of State and Central GST i.e IGST.
5. GST is end to end IT enabled tax system is expected to bring buoyancy to government revenue.This will happen because of attraction input tax credit will benefit by purchasing goods from registered dealers. It will incentivize everyone in the tax net.

Public

1. Some of the taxes like Octroi or Entry tax will be abolished. This will be beneficial for trade and industry as they will not have to pay multiple taxes to the government.
2. The prices of goods and services will come down because of elimination of cascading effect of taxes and availability of seamless tax credit across the value chain.
3. Also there will be reduction in refund frauds or input tax frauds because of invoice wise matching of B to B transactions.
4. Presently the dealers don't pay the taxes which they are suppose to pay but selling the product at a price which is tax paid .But under the regime of GST they will have to pay taxes and so the government revenue will increase even if consumer pay lower taxes .
5. GST will encourage greater formalization of the economy. The creation of Value addition chain will also at as a check on the black money creation.
6. Input Tax Credit will depend not allowing value chain to be broken.

Society

1. It is expected that inflation will fall by 2% on the implementation of GST and will create buoyancy in the economy.
2. The reduced tax rate on the product will increase the consumption of product which in turn will enhance the standard of living of people.
3. The reduced tax rate on the product will increase the share prices of the companies which in turn will increase total market capitalization which will be bonus point added to the already attained a land mark 2 trillion US dollar market capitalization.

Draw Back or Limitation of GST

1. GST have any market laws like the one on anti profiteering. This can unleash an inspector raj across state been brought in. There is no clarity on whether interstate documentation has been completely done away with either.
2. Antiquated socialist era principles have been found their way in GST. If a hotel room cost less than 1000 rupees and another room cost 2500 rupees and so on a total of four GST rate will apply to hotels and in extension to restaurant. Multiplicity of rate encourage gaming the system.
3. There is little disagreement on their system between centre and state government to allow single registration for PAN India service provider and to the extent assesses base is to be shared across centre and state taxman.

4. The GST regime will spur consumption only when in the future tax rate are brought down. It is difficult to get government to agree on. Lower rate are more likely when tax rates are brought down, while these happens once tax collection rise. It is difficult to get government to agree lower rate more likely collection rise.
5. Interstate tax arbitrage a thing of the past, firms will no longer plan their warehouses on this basis. It will be logistics that will drive warehouse location.

Challenges of GST

1. The government authorities have calculated that if all tax payer are registered and file their return timely then there will be 3.2 million transactions every month. For this, we need a strong portal to handle the transaction of this magnitude. The portal should also help tax payer in meeting GST compliance requirements.
2. With the implementation of GST from July 1st, India will join the league of 160 nations who have already implemented GST. In our nation it covers 1200 goods and 500 services which are put under four slabs of 5%, 12%, 18% and 28%. Within one sector all these four rates are applied for different price slabs. These things aggravate the complexity of the tax structure which is difficult to administer. Application of varying rate of Cess for certain items add to the already this vexed problem.
3. The modus opperandi of different administration varies at the centre and state level and it also differ from one state to another.
4. Presently the levying and collection of indirect taxes is done by excise department and custom department. With the implementation of GST, some of the man power in these departments will be idle because of imposition of single tax. Managing this idle man power and deploying them productively needs efficient skills on the part government.
5. The device of levying taxes exemption and other benefits are different at centre and state level.
6. Some of the new coined tax terminology like IGST, CVD, SPV, and ITC is an enigma for tax payers. We need to take steps to educate these masses and take them in confidence.

Sectorial Impact of GST

IT Companies

It is the boom time for the IT major like SAP, Oracle or Microsoft are providing consulting and software patches that help their clients to manage transition to GST. Microsoft has collaborated with the tax firm Earnest and young (EY) to offer digi GST, a cloud based solution while HP has linked with KPMG to sale GST Laptop within two years. According to an estimate 5 billion invoices will be handled monthly which is huge and it require robust IT infrastructure. The state of art IT infrastructure is crucial for successful implementation of GST. According to an estimate by total number of companies filing GST from 1st July is 6 million.

Gold Gems and Jewelry

The centre wants to lower the tax rate on gold to check smuggling and state wants approximately 5% tax to boost addition revenue. The traders want to have a tax of 2% where as gems and Jewelry federation wants 1.25% GST. Bullion traders want the tax to be halved on metal. 99% of the total gold consumption is imported every year and a custom duty of 10% is imposed which is around 20,000 crore. The next transaction is from nominated agency to the jewelers and bullion traders to refiners. The third level of transaction is from jewelers to consumers and from bullion traders to jewelers and refiner. Finally 2% of the tax is imposed on recycled gold which fetches a revenue of 4000 to 6000 crore.

It is said that if a custom duty of 3-4 % is imposed then it discourages smuggling in which tax revenue would be up to 7000 crore. In the second stage of transaction that is from nominated agencies to jewelers, refiners and bullion traders should be kept 5% GST. As it will lower the prices and will result in increase in sales. It is proposed that in the third level of transaction that is from jewelers to consumer and from bullion traders a tax rate of 5% should be imposed only for the work done on the gold. If gold is exported some rebate should be given in tax so that the effective rate comes down to 2-3% which encourages export. The recycled gold should not be taxed so that the private gold holder should get out bring the gold into circulation. In the wake of recent development regarding GST rates on metal gold, a lot of uncertainty is prevailing which has resulted in buying and inventorying of gold in large quantity before the roll out of GST. But the demand is not matching with the large inventory carried by jeweler and bullion traders. This will result in the decrease in the demand of gold 40% lower than the 5 year average for the second half of the year.

Fast Moving Consumer Goods (FMCG) Product

The huge market size of FMCG Product 2.5 lack crore is attractive enough for the FMCG companies. The distributors or wholesaler are destocking goods to overcome the problem they may face with varying tax rates on the goods in the inventory while transition. This attitude of distributors is going to reduce the sales revenue of FMCG companies because half of the revenue comes from the distributor. So as to give fillip to the sales the company is using Push strategy by giving attractive commission rates to the distributor. The companies are not cutting their production level in May but keeping in view the current situation in the month of June for demand and take action accordingly. Grocery product like hair oil, toothpaste and soap have been clubbed under 18% tax slab which is lower as compared to existing rate of 22-24% benefiting companies like CP, Marico and dabur. Some other FMCG majors like HUL as a mixed bag as lower tax rate on tea, soap and toothpaste will be compensated by higher tax rate on skin care product and detergent. Aerated soft drink like PepsiCo and Coca-cola has been put in the tax slab of 28%. The distributors are willing to enter the transition period with zero

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inventory. The Motilal Oswal Financial services report pin point towards a major transformation in the Indian retail market shifting from unorganized sector to organized sector. The companies are demanding higher Input Tax Credit up to 40% so, that the tax liability is reduced post transition period.

Table-1

Product Categories Where Tax Incidence Has Decreased

Product	GST Rate (%)	Current Rate (%)	Companies Impacted
Soap	18	24-25	HUL,GCPL,Jyothy labs,Patanjali
Hair Oil	18	24-25	Marico, Emami, Bajaj Comp.,Dabur
Toothpaste	18	24-25	Colgate, Palmolive, HUL, DUL, Patanjali
Tea	5	5-12	HUL,Tata, Global, Beverages
Dish Wash	18	22-24	HUL, Jyothy labs
Aerated Water	18	25	Varun Beverages, Parle Bisleri

Source: Financial Express, June 3, 2017

Table-2

Product Categories Fetching Higher GST Rates

Product	GST Rate (%)	Current Rate (%)	Companies Impacted
Detergent	28	23	HUL,P &G Jyothy labs,
Shampoos	28	24-25	HUL,P &G , Dabur , Patanjali
Sanitary Napkin	18	10-11	P&G,Health & Hygiene
Skin-Care	28	24-25	HUL,Dabur, Patanjali
Paints	28	25-26	Asian-Paints, Kansai Nerolac, Berger Paints, Akzo Nobel
Deodrants	28	23-28	ITC,HUL,Emami,Marico
Cornflakes	18	8-15	Kelloggs,Patanjali
Cheese	12	4-6	Britannia,Prabhat Dairy,Parag Milk, Food
Agarbatti	12	6	ITC
Coffee	5	5-10	Tata Global beverage, Hul, Nestle
Ethical Ayurvedic Medicine	12	7-8	Dabur, Emami, Patanjali
OTC Ayurvedic Medicine	12	10	Dabur, Emami, Patanjali
Carbonated Softdrink	40 (28+12)	36-37	Varun Beverage

Source: Financial Express, June 3, 2017

Food Products

If the buyers are buying directly from farmer, then it does not attract any GST. But the gvernment has imposed 5% GST on branded essential foods items lie rice and lentils. Trader claim that simple packaging of rice in the packet should not attract GST because it is not processed foods with little value addition. All the agricultural commodities have been free from net of taxes. The government has also imposed 5% tax on sugar which has never been taxed in the past.

Telecom Companies and Telecom Equipment Manufacturer

The proposed GST for telecom sector (Service provider and equipment manufacturing companies) are demanding at the rate of 5% which has been decided for essential goods and services. Telecom sector is advocating that with the present drive of digital India, the tax rate kept at lower rate of 5% rather than 18%. It will give fillip to digital India campaign and increase the penetration of smart phone to realize this dream. Reliance Jio which is already giving voice and data services will be heavily burdened with this decision. The other telecom operator who have slashed their tariff rates to compete with Reliance Jio, The same otherwise have to incure heavy losses in terms of market share and profitability

We are close to imposing 10% basic custom duty to make imported mobile handset expensive and protect the domestic manufacturers like Foxcon and Wistron that have invested heavily in India. This step is going to enhance the revenue of domestic hand set manufacturer. Although, the commerce department had recommended to impose 10% on smart phones and 15-20% on other electronic gadgets.

Demerit Goods or Luxury Goods

The demerit goods includes panmasala, tobacco, coal, aerated drinks, motor vehicle has approved the rate compensation Cess for luxury or demerit items. The proceeds form the Cess will go into compensation fund if the tax rate falls short of desired target. The goods will be taxed at the rate of 28% except coal which attract the Cess of 400 Rs per tone. Product made of tobacco including cigarette will be charged Cess of 61% and there may be higher upper limit for other tobacco product. Demerit goods have been kept as the major source of revenue by charging higher rate of cess for compensation fund. The compensation fund will accrue approximately total 90,000 crore after GST implementation which was 55,000 crore a year ago

Demerit Cess

Table-3

Items	Ceiling	Approved Cess Range
Pan Masala	135% as Valorem	60%
Tobacco	Rs.4,170/ thousand	5%+(1591- 4170) Rs./Thousand Stick
Coal	Rs.400/Ton	Rs. 400/Ton
Aerated Drink	15% Ad valoram	12%
Motor Vehicle	15% Ad valoram	1-15%

Source-Financial Express, 20 June 2017

Essential Goods

The government (i.e GST council) has considered the option of cutting GST rate on essential commodities used by the household before the final roll out from 1st July making standard by getting approval key set of rules for audit and account. Commodities like pickles, insulin, sauces, fruits preserves, cashew nuts, school bag, coloring books, note books, printer, cutlery, Tractor Tyre and Cinema Tickets has attracted a low tax slab of 5%, 2% and 1%. Restaurant, manufacturers and trader having turnover of up to 75 lacks can avail this slab. The outsourcing job work in the manufacturing and textile will be levied under GST at the rate 5%. Bleaching and cleaning of human hair is exempted from hair. The essential item mentioned above will levied at the rate 18% GST if these products are from companies having turnover more than 75 lakh.

Airline Travel

The Airline travel is going to be expansive after GST is levied, because of increased cost of operations. The spare part procured for aircraft will be levied IGST. In fact the Airline industry operates on wafer thin margin. It may drive fares higher. The economy class travel will be levied at 5% and it will be having the benefit of ITC. The premium travel will be taxed at 12% with the benefit of full reclaim of ITC. The revenues of no frill carriers like go air, indigo, spice jet will be dented. Under this new tax regime direct international fight will be expensive for long hauls but it will be bit cheaper if there is a connecting flight from another destination.Because GST will be charged on the first leg on only, where as for direct long hauls the GST will be charged on entire ticket.

Car

The rate for the small car has been kept at lower level to promote India as a hub of small car manufacturing centre and export base. The tax on the hybrid car has been set at 43% (28%+15%cess), which as at a higher level. The reason assigned is that these cars are eco friendly and more fuel efficient and having higher sales volume. So, it should not be taxed at par with the luxury petrol and diesel cars (28%). Small petrol cars will attract additional Cess of 1%, small diesel cars an additional Cess of 3% and larger vehicles a Cess of 15%.The car, manufacturing companies are slashing their price to lure customer. The car manufacturing companies are given 60%. ITC on the stocks lying with them till 30th June.The companies are providing incentives to customer i.e if the price of car reduces in the post GST regime, the customers will be given the refund and if the prices of car increase after 1 July (The roll out date of GST) the customer will not be changed anything. So the companies are trying their best to pass on the incentive like free insurance policy, price benefits and lower interest rate to lure customer.

Conclusion

The transition phase from July, 1st 2017 will be crucial for the development of the Indian Economy. This is the biggest tax reform in India since the time of Independence. The years of pain staking work of our policy makers have fructified in the form of GST. GST is going to eliminate the cascading effect of taxes. The revenue sharing of the tax collection is going to be shared equally between centre and state in the form CGST and SGST. Its implementation is going to provide level playing ground for domestic and multinational companies and thus promote a healthy competition. The government is going to add Cess on some of the product like demerit goods or luxury goods to increase revenue for the compensation fund. The tax structure has been rationalized to create right impact on the different sector who will contribute in phenomenal way to boost the government revenue. With this smart move the country will join the club of 160 nations where one nation one tax system is prevailing. It is going to be welcome by foreign direct investors. There will be positive buoyancy in the stock market and we will be able lure foreign direct investor and institutional investor. The dealers and retailer who were the main culprits of tax evasion will not be spared under the system of GST. So, the government tax collection will increase even if the consumers pay lower prices. By Implementation of GST there will be more formalization of economy as the retailer from unorganized sector will shift toward formal organized sector. There will be more transparency in transaction across the value chain. This is going to inculcate a sense of discipline and onus in the tax payers and we hope that it will be proved as panacea pledging the economy.

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