

Impact of GST on Consumers in India

Abstract

GST also known as the Goods and Services Tax is defined as the giant indirect tax structure designed to support and enhances the economic growth of a country. More than 150 countries have implemented GST so far. However, the idea of GST in India was mooted by Vajpayee government in 2000 and the constitutional amendment for the same was passed by the Lok sabha on 6th May 2015 but is yet to be ratified by the Rajya sabha. However, there is a huge hue and cry against its implementation. It would be interesting to understand why this proposed GST regime may hamper the growth and development of the country.

Keywords: Goods and Service Tax, Indian Economy.

Introduction

GST is the value added Tax (VAT) proposed to be comprehensive indirect Tax levy on manufacture, sale and consumption of goods as well as services at the national level.

In simple term, GST is a tax that people need to pay on supply of goods and services; any person who is providing or supplying goods and services is responsible to charge GST. It is a consumption based tax. It is based on destination principle. Goods and service tax is imposed on goods and services at the place where final/ actual consumption occurs. These taxes include entertainment tax for watching film, Value Added Tax (VAT) for purchasing goods and services by consumer. Other taxes are excise duties, import duties, Luxury Tax, Central Sales Tax, Entry Tax and Service Tax. GST would have impact on the household items which you buy. Hence this would impact your pocket.

Aim of Study

Aim of the present study is to find out the advantages and disadvantages of GST and its impact on consumer.

Why GST needed?

Currently there are different VAT laws in different states. This creates problems, especially when businesses sell to different states. Also, most businesses have to pay and comply with 3 different taxes- excise, VAT and service tax.

GST will bring uniform taxation across the country and allow full tax credit from the procurement of inputs and capital goods which can later be set off against GST output liability. This reform gives equal footing to the big enterprises as well as SMEs. The aim of GST is thus to simplify tax hurdles for the entire economy.

Impact of GST on consumer

India will implement the Canadian model of Dual GST, i.e. both the Centre and State will collect GST. There will be 3 types of GST:

CGST- Collected by Centre

SGST - Collected by State

IGST - Applicable on inter-state sales. It will help in smooth transfer between states and the centre.

As and when a new reform or bill comes and a new law is imposed. It surely leaves its impact especially on the common man. It is ultimately the common man who is directly or indirectly affected by the implementation of any new tax. And this time too there's no exception the common man has to get ready for the implications. The common man includes not only the final consumer of goods but all the small traders and services providers who shall be directly affected after the introduction of GST.

Increased cost of services means, an add on to your monthly expenses. You will have to reschedule your budgets to bear the additional services cost. Businessmen and service providers are still learning about the new laws. This will increase reliance on tax experts and professionals and further add to your business expenses. Being a new tax, It will take



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some time for the people to understand it completely. Its actual implications can be seen after a certain period of time.

The government announced that GST would be applicable in four taxes rates – 5%, 12%, 18% and 28%. Few items have been kept out of GST. The states are interested in keeping few things out of the field of GST. Which are sensitive to their states like UP wants puja material out of tax net while few want cotton and silk yarn out. All the goods and services would be charged with any of the mentioned rates as decided by the GST council. Nearly 81% of items have been kept under 18% tax slab and only 19% of the goods will be taxes above 18%.

Now, let us categorize all house hold expenses in to 5 buckets i.e. Food, Entertainment, Personal Care, Transportation and Communication services.

Food Items

Earlier tax 12.5%- New tax under GST- 5%.

Entertainment

Earlier tax 30% - New tax under GST-28%.

Transportation

Earlier tax 15%- New tax under GST-18%.

Personal Care

Earlier tax 28%- New tax under GST- 18%.

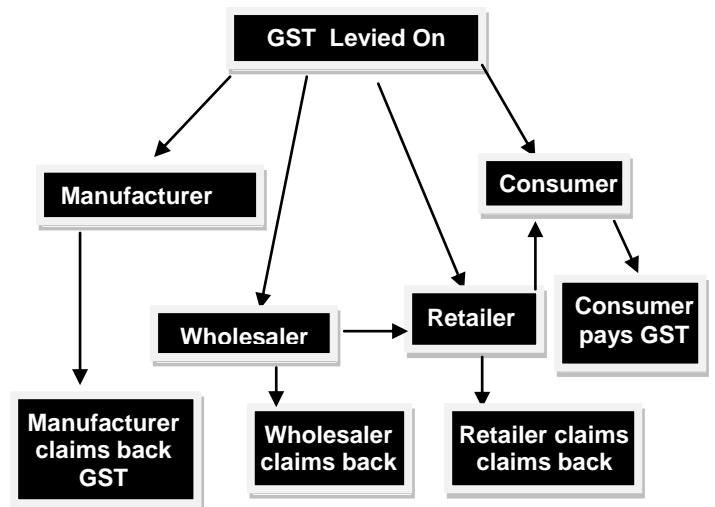
Communication (Mobile and Internet Services)

Earlier Taxes 15%- New tax under GST-18%.

The following are the rates of few items that are of use for a common man.

1. Sugar, tea, coffee (not instant) and edible oil to fall under 5% slab.
2. Cereals and milk have been exempted from GST.
3. Capital and intermediate goods would be taxed at 18 %, which is expected to be a goods boon for the industrial growth.
4. Coal is kept in 5% tax slab which is currently 11.69%.
5. Toothpaste, hair oil and soaps will be taxed at 18% instead of 28% current rate.
6. Common man items have been kept under 12% and 18% slab.
7. Indian sweets and mithai in 5% slab.
8. All raw food items including food grains are exempted from GST.
9. Processed food of daily needs to be in 5% slab.

GST is accumulated on value added goods and services at each stage of sale or buying in the supply chain. GST paid on the obtaining goods and services can be set off against that payable on the supply of goods or services. The producer or wholesaler or retailer will pay the applicable GST rate but will claim back through tax credit mechanism.



GST will be charged on the place of consumption of goods and services. It can be levied on following:

1. Intra state supply and consumption of goods & Service.
2. Interstate movement of goods.
3. Import of goods & service.

Advantages of GST

1. A unified tax system removing a bundle of indirect taxes like VAT, GST, Service Tax, CAD, SAD, Excise etc.
2. A simplified tax policy as compared to earlier tax structure. However, it is not as simple as it seems to be.
3. Removes cascading effect of taxes i.e. removes tax on tax.
4. Due to lower burden of taxes on the manufacturing sector the manufacturing costs will be reduced hence prices of consumer goods likely to come down.
5. Due to reduced costs some products like cars, FMCD etc. will become cheaper.
6. This will help in lowering the burden on the common man i.e. you will have to shed less money to buy the same products which were earlier costly.
7. The low prices will further lead to an increase in the demand/ consumption of goods.
8. Increased demand will lead to increase supply. Hence, this will ultimately lead to rise in the production of goods.
9. It will curb circulation of black money. This can happen only if the "Kacha Bill" system, normally followed by traders and shopkeepers is put to check.
10. A unified tax regime will lead to less corruption which will indirectly affect the common man.
11. Most importantly, experts hope to see a positive impact of GST on Indian economy in the long run.

But, this is possible only if the actual benefit of GST is passed on to the final consumers. There are various other factors also like the sellers profit margin that determine the final price of goods. GST alone does not determine the final price of goods. The anti

profiteering clause has been inserted in the GST Act to protect the interest of the consumers.

Disadvantages of GST

1. The first and the foremost point of concern: All small traders and service providers dealing in interstate supply of goods or services need to get registered, pay GST and file GST returns also irrespective of the sales/income they generate (whether high or low).
2. The number of GST returns that you need to file i.e. you has to file 3 monthly returns this amounts to total of (3x12) 36 returns plus 1 annual return. Filling 37 returns in a year moreover, this applies to one state. If you function in different state. You need to register in each state separately and file the respective returns. Isn't that too much for a small trader or service provider or an online service provider who has just started working?

Conclusion

GST will be paid by all manufacturers and sellers. It will also be paid by service providers such as telecom providers, consultants, chartered accountants etc. However, being an indirect tax, GST will be ultimately borne by the end consumers, just like in the current process.

Due to dissilient environment of Indian economy, it is demand of time to implement GST. Consumption and productions of goods and services is undoubtedly increasing and because of multiplicity of taxes in current tax regime administration complexities and compliance cost is also accelerating. Thus, a simplify, user -friendly and transparent tax system is required which can be fulfilled by implementation of GST. Its implementation stands for a coherent tax system which will colligate most of current indirect taxes and in long term it will lead to higher output, more employment opportunities and flourish GDP by 1-1.5%. It can also be used as an effective tool for fiscal policy management if implemented successfully due to nation-wide same tax rate. It execution will also results in lower cost of doing business that will make the domestic products more competitive in local and international market. No doubt that GST will give India a world class tax system by grabbing different treatment to

manufacturing and service sector. And finally it will be beneficial for the consumer.

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