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# "Impact of Goods and Service Tax with special reference to Tamilnadu in India"

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**Abstract**

Goods and Service Tax as it is known is all set to be a game changer for the Indian economy and GST is intended to include all these taxes into one tax with seamless ITC and charged on both goods and services. Thus excise duty, special additional duty, service tax, VAT to name a few will get repealed and will be added into GST. Further, the base for taxation for both has to be the same. The exemptions, abatements etc. under GST need to be common for both centre and all states to avoid litigation. Further exemptions/exclusions should be minimum to avoid break of credit chain. The law needs to provide for single point compliances, absence of multistate audits etc. for the assessed. It is expected to generate revenue for the country as the tax base will increase as the GST rate will be somewhere around 27% with both goods and services

covered. It is also expected to make exports from India competitive and India a preferred destination for foreign investment since GST is a globally accepted tax.

**Key words:** game changer, excise duty, taxation, exemptions, compliances, generate revenue

## I-Introduction

Goods and Service Tax or GST as it is known is all set to be a game changer for the Indian economy. The Finance Minister in his budget speech of Budget 2015 has announced time and again that the tax will be introduced on 1 April, 2016. VAT or Value Added Tax was first introduced in France somewhere in 1954.

The concept of VAT is applying a tax only on the value added by each person at each stage; by allowing the person input credit of taxes paid upto his stage of procurement. Thus the tax is expected to reduce the concept of 'tax on tax', increase the gross domestic product of the economy and reduce prices. Overall it is known to be beneficial to both the consumer, business and the Government. In India, there are different indirect taxes applied on goods and services by central and state government.

GST is intended to include all these taxes into one tax with seamless ITC and charged on both goods and services. Thus excise duty, special additional duty, service tax, VAT to name a few will get repealed and will be added into GST. For this, GST will have 3 parts – CGST, SGST and IGST. The central taxes like excise duty will be subsumed into CGST and state taxes like VAT into SGST.

For the introduction of GST in the above form, the Government needs to get the Constitution Amendment Bill passed so that the proposed objective of subsuming all taxes and allowing states to tax subjects in Union list and vice versa is achieved. Without these powers it is not legally possible to move towards GST.

Thus going forward on all transactions of both goods and services, only one tax will apply which is GST comprising of CGST and SGST. IGST would be applied instead of SGST for interstate transactions. Input credit of all these taxes will be available against all the respective outputs.

For successful implementation of GST, it is necessary that the Government at both centre and state levels, agree to merge all their taxes into CGST/SGST. Further, the base for taxation for both has to be the same. The exemptions, abatements etc. under GST need to be common for both centre and all states to avoid litigation.

Further exemptions/exclusions should be minimum to avoid break of credit chain. The law needs to provide for single point compliances, absence of multistate audits etc. for the assessed. Conceptually GST is expected to have numerous benefits like reduction in compliances in the long run since multiple taxes will be replaced with one tax.

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It is expected to bring down prices and hence the inflation since it will remove the impact of tax on tax and enable seamless credit. It is expected to generate revenue for the country as the tax base will increase as the GST rate will be somewhere around 27% with both goods and services covered.

It is also expected to make exports from India competitive and India a preferred destination for foreign investment since GST is a globally accepted tax. To this goal, in 2012 the Government introduced the Negative list regime of taxation and Place of Provision of Services Rules, 2012. They have also recently circulated the draft Place of Supply Rules towards GST which has certain drastic differences from the earlier rules. Even in the Budget of 2015, the Government has shown its intention of moving towards GST by increasing the excise rate to flat 12.5% and service tax rate to flat 14% and removing the applicable cesses.

Thus once the Constitution Amendment Bill is passed the much awaited GST will be introduced. Financial service industry – specifically financial institutions like Banks and NBFCs are the backbone of any economy. They are the drivers of the economy and contribute approximately 6% of the indirect taxes. Thus they are a significant player and an adverse impact on the sector impacts the economy.

Further, Banks currently operate only in the service sector and are covered by Service Tax @ 12.36% currently. Going forward with GST, they will have to pay approx. 27% GST. Further since all major Banks have multistate operations they would While the lower Goods and

Services Tax (GST) rates may lead to a decline in inflation, economic growth may not improve significantly in the short term even though it will benefit both India Inc and the government in the medium term, experts say.

Most economists forecast inflation to come down as GST rates for most goods have been fixed at a lower rate. India Inc will have to reorganize their businesses as the country switches to the GST regime, which will bring in more small companies into the tax net.“It’s not optimal, but let the best not be the enemy of the good.

Even with its imperfections, it could usher in significant benefits, especially through a quantum leap in transaction trails and logistical efficiencies,” DK Joshi, chief economist of Crisil, wrote in a report.But most say the Reserve Bank of India is unlikely to cut policy interest rates at the next policy review on June 6-7, as it will assess the monsoon situation as well as the way the new tax regime pans out, says Sunil Sinha, chief economist of India Ratings.Here are five impacts GST will have in the near term:

**II- Shaking up corporate operations**

The new tax regime will force many companies to restructure their operations. Companies will now insist vendors and suppliers to furnish invoices as GST will make it impossible for firms to evade taxes. Big companies stand to benefit as they have a supply chain in order and can offset taxes paid on inputs.

Smaller firms may end up spending more as compliance cost will rise."While the impact on companies varies following existence of production units in the excise exempted zones, implementation of GST should result in cost savings in the supply chain network and expedite a shift from unorganized to organized trade," foreign brokerage firm Jefferies said in a note

**III- Passing on the benefit of lower tax**

While the GST Council, headed by finance minister Arun Jaitley, will keep a close vigil on whether companies are passing on the benefit of lower taxes to consumers, experts expressed doubt on the implementation of anti-profiteering norm."We believe that while corporates would pass on the direct benefits of GST (like a lower tax rate), they would aim to retain partly (if not fully) the indirect benefits from the saving in logistics costs, streamlining of business processes and the seamless flow of input credits," Nomura said in a report. While GST laws include anti-profiteering measures—the benefits of the reduction in the tax rate and input credit shall be passed on by a commensurate reduction in prices—such measures are difficult to implement and would be a retrograde step, similar to price controls, if implemented in haste, Nomura added.Companies may use the savings from tax outgo under the GST regime to improve profit margin to some extent and invest the rest in building new capacities.

**IV- Inflation may remain low**

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Analysts have no doubt that inflation will remain low as GST rates on essential goods such as food grain, household consumer items and essential services have been either exempt or kept lower.However, assuming that GST does have the intended effect of increasing tax compliance, the tax burden would increase, Morgan Stanley said in a note. This could lead companies to pass the costs of higher tax compliance on to the consumer at a later stage, it said.Most of the services are not accounted in the consumer price CPI inflation basket and hence the higher GST rates may not get reflected on the retail price movement as measured by the government data.

"Services sector component in CPI is around 20%, whereas they account for almost 50% of the total consumption basket in the economy," says Soumya Kanti Ghosh, chief economic adviser at State Bank of India.There are services like health, education, miscellaneous segment, transportation are outside the ambit of GST. "Hence, GST implementation on CPI impact will be minimal. We estimate that GST will have neutral impact on headline CPI," he said forecasting the average inflation at 4-4.5% during 2017-18.

**V- RBI may not cut rates in June**

While inflation is expected to ease further with GST rollout from a record low of 3% in April, analysts expect RBI may not immediately lower policy interest rates."RBI will watch out for the monsoon progress as also how the GST pans out," said Sinha of India Ratings. In the last policy review, RBI had flagged concerns that the "one-off" impact GST may be inflationary. The central left policy rates unchanged in April.SBI's Ghosh says the RBI will most probably pause on June policy review.

## VI-Economic growth may not jump immediately

Economists are not sure of the immediate impact of GST and some even say it may impeded growth in the short term as big companies reorganize their businesses and as small firms lose revenue."The GST implementation will be disruptive as there will be a major change in the supply chain," India Ratings' Sinha said but added the tax reform will be beneficial to the economy in the medium to long term. Most analysts forecast the economy to grow close to 7.4% in 2017-18, the first year of GST rollout, which is slightly higher than 7.1% in 2016-17, but lower than 7.9% of 2015-16.While GST is unlikely to be a "positive" for economic growth in the short term, Crisil's Joshi said the reform will improve the ease of doing business, bolster investor sentiment and lure more foreign investment in coming years.

## VII- Conclusion:

Goods and Service Tax or GST as it is known is all set to be a game changer for the Indian economy. And the tax is expected to reduce the concept of 'tax on tax', increase the gross domestic product of the economy and reduce prices. Overall it is known to be beneficial to both the consumer, business and the Government.

In India, there are different indirect taxes applied on goods and services by central and state government. For the introduction of GST in the above form, the Government needs to get the Constitution Amendment Bill passed so that the proposed objective of subsuming all taxes and allowing states to tax subjects in Union list and vice versa is achieved. Further exemptions/exclusions should be minimum to avoid break of credit chain.

The law needs to provide for single point compliances, absence of multistate audits etc. for the assessed. Conceptually GST is expected to have numerous benefits like reduction in compliances in the long run since multiple taxes will be replaced with one tax. It is expected to bring down prices and hence the inflation since it will remove the impact of tax on tax and enable seamless credit.

It is expected to generate revenue for the country as the tax base will increase as the GST rate will be somewhere around 27% with both goods and services covered. It is also expected to make exports from India competitive and India a preferred destination for foreign investment since GST is a globally accepted tax.

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Financial service industry – specifically financial institutions like Banks and NBFCs are the backbone of any economy. They are the drivers of the economy and contribute approximately 6% of the indirect taxes.

Thus they are a significant player and an adverse impact on the sector impacts the economy. Further, Banks currently operate only in the service sector and are covered by Service Tax @ 12.36% currently. Most economists forecast inflation to come down as GST rates for most goods have been fixed at a lower rate.

The new tax regime will force many companies to restructure their operations. Companies will now insist vendors and suppliers to furnish invoices as GST will make it impossible for firms to evade taxes. Big companies stand to benefit as they have a supply chain in order and can offset taxes paid on inputs.

Smaller firms may end up spending more as compliance cost will rise."While the impact on companies varies following existence of production units in the excise exempted zones, implementation of GST should result in cost savings in the supply chain network and expedite a shift from unorganized to organized trade," foreign brokerage firm Jefferies said in a note

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