GST and its Implication with Reference to Spar Super Market

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Abstract: The study emphasizes on making a thorough understanding of GST and tries to throw light upon the various types of GST, the benefit of GST over the earlier existing indirect taxes and the several implications of GST on the Indian economy with reference to spar super market. The research methodology involves data collection made with the help of secondary data which is collected from published sources such as websites and the study is a conceptual one which is a theoretical approach of research in which the research is conducted by analyzing already present information on the topic and it does not involve any practical experiment. It is a consumption based tax levied in our country on the supply of goods and services. GST is charged at every step in the manufacturing process, but is refunded to all parties in the chain of manufacture other than the final consumer. The tax came into effect from July 1, 2017 through the implementation of 101st Amendment of the Constitution of India by the Indian government. The tax makes an attempt to avoid existing multiple cascading taxes levied by the central as well as the state governments. Present paper aims to study the research which has been conducted on current topic till now so that the researchers can make an insight on what have been done till now.

Keywords*- Indirect taxes, Classification of GST, Turnover, Cascading effect.*

I. INTRODUCTION

GST is a comprehensive, destination and multi stage tax system where the tax is levied on consumption rather than on the manufacture of goods. The tagline of GST is One Nation, One tax. GST has subsumed several other indirect taxes such as Central excise, Sales tax, Excise Duty, Service Tax, Counter Vailing Duty (CVD), Special Additional Duty of Customs (SAD), central charges and cesses and local state taxes, i.e., Value Added Tax (VAT), Central Sales Tax (CST), Octroi, Entry Tax, Purchase Tax, Luxury Tax, Taxes on lottery, betting and gambling, state cesses and surcharges and Entertainment tax (other than the tax levied by the local bodies).etc. Petroleum products, i.e., petroleum crude, high speed diesel, motor spirit, aviation turbine fuel, natural gas will be brought under the ambit of GST from such date as may be prescribed by the Government on recommendation of the GST Council. Alcohol for human consumption has been kept outside the purview of GST.

India’s biggest indirect tax reform in the form of Goods and Services Tax (GST) has completed 2 years. A comprehensive dual GST model was introduced in India on 1 July 2017.

The following bills were passed with the implementation of GST.

- Central GST (CGST) Bill
- Integrated GST (IGST) Bill
- Union Territory GST (UTGST) Bill
- The GST (Compensation to States) Bill

France was the first country to adopt the system of Goods and Service Tax. In India though the implementation of GST was planned from a long time, it came into existence under the ministry ship of Prime Minister Shri Narendra Modi. In a very short span of time, all the states approved their State Goods and Service Tax (SGST) laws. Union territories with legislatures, i.e., Delhi and Pondicherry, have adopted the SGST Act and the other 5 union territories without legislatures have adopted the Union Territory Goods and Service Tax Act.

On the compliance front, all registered persons have to file monthly returns in Form GSTR-3B (containing a summary of outward and inward supplies) by the 20th of the succeeding month. Additionally, an invoice-wise return of outward supplies needs to be submitted in Form GSTR-1 by the 10th of the succeeding month. Taxpayers with turnover upto INR 1.5 crores can file Form GSTR-1 on quarterly basis. The Government has suspended the requirement of filing Form GSTR-2 (containing details of inward supplies) and GSTR-3 (a consolidated statement of inward and outward supplies).

GST has been a major step ahead in the Indian tax framework. It has evolved significantly from the time of its inception. It is expected that Government’s pro-active measures and industry’s active participation, will make it a truly “Good and Simple Tax” in the times to come.

II. REVIEW OF LITERATURE

Purohit (1995), in his another study, examined the structure and administration of sales taxation in India. He expressed the opinion that failure to administer the sales tax properly could defeat its purpose and threaten the canon of equity. It could create parallel economy due to increased tax evasion. He brought out the features of sales tax administration, examined its operational requirements, which included management information system (MIS) and suggested certain improvements in the operation and administration of sales tax.

Burgess et.al (1995), in their study on value added tax options for India analyzed that the pressure of aggregate revenue, the requirement of a reduced role for customs duties for the liberalization of the economy, and the complexity and strains of the current system together point clearly towards the desirability of tax reform in India.

Murti (1995), stated that a comprehensive VAT covers value added at all the three levels of business activities, i.e., manufacturing, wholesaling and retailing. He distinguished between three types of VAT, i.e., consumption VAT, net income VAT and gross income VAT; and opined that a comprehensive VAT with consumption base, the tax credit method, following destination principle to determine VAT on international and inter-state trade flows could be an ideal commodity tax structure for India.

Bagchi (1995), termed the operating sales tax system as unworkable. Different problems in the system including multiple cascading levies, numerous rates, drawing hair-splitting distinction among commodities, large number of exemptions which narrowed the tax base, 'tax wars' among the states which 38 led to bizarre results, cumbersome laws and procedures resulting in thousands of cases pending before courts, etc. did not reflect comfortable picture about commodity taxation in India.

III. RESEARCH METHODOLOGY

A. Objectives of the study

1. To understand the merits of GST over the earlier existing indirect taxes.
2. To understand the rates of classification of goods and services under GST.
3. To understand the implications of GST with reference to spar super market.

B. Limitations of the study

1. The study is limited only to secondary data and does not include primary data.
2. Since the study does not include primary data, responses cannot be obtained.
3. Since no primary data is involved, data may not be accurate.
4. Since GST is a vast subject, period for the study was not sufficient and time was a constraint.

C. Research design

The research methodology involves data collection made with the help of secondary data which is collected from published sources such as websites and books and the study is a conceptual one which is a theoretical approach to research in which the research is conducted by analyzing already present information on the topic and it does not involve any practical experiment.

IV. ANALYSIS AND INTERPRETATION

A. Benefits of GST over other indirect taxes

1. It acts as a boost to the Indian economy in the long run.
2. Subsumes indirect taxes such as Value Added Tax, Central Sales Tax, Service tax, CAD, Special Additional Duty, and Excise.
3. Reduced tax compliance and a simplified and understandable tax policy compared to the prior indirect tax structure.
4. Removal of cascading effect of taxes i.e. removes tax on tax.
5. Decrease in the production costs due to lower burden of taxes on the manufacturing sector. As a result the prices of consumer goods will come down gradually.
6. GST reduces the burden on the common man i.e. public will have to spend less money to buy the same products that were costing a higher price earlier.
7. Increased demand for goods and consumption of goods.
8. An increase in the demand will lead to increase in supply. Therefore, this will ultimately lead to increase in the production of goods.
9. There will also be a hold on the movement of black money circulation as the system normally followed by traders and shopkeepers will be put to a mandatory check and they will be monitored on a continuing basis.

B. Rate classification of goods

Exempt goods- Electrical energy, Newspapers, Milk, Duty credit scrips, Food grains

5%- Apparels valued less than Rupees 1000, Fly ash, Fishing net and fishing hooks, Aircraft engines, Bio-gas.

12%- Articles of apparels exceeding Rupees1000, Bio-diesel, Printing ink, Specified parts of sewing machine, Furniture wholly made of bamboo or cane

18%- Fork lifts, lifting and handling equipment, Electrical apparatus for radio and television, broadcasting, Chocolates, Slabs of marbles and granite.

28%- Air-conditioners, Digital cameras, Transmission apparatus for radio-broadcasting.

28%+ cess- Cars, Pan masala, Cigars

Rate classification for services

Exempt- Education, Healthcare, Residential accommodation, Hotel/ Lodges with tariff below Rupees 1000.

5%- Goods transport, Rail tickets (other than sleeper class), Economy class air tickets

12-18%- Works contract, Business Class air travel, Telecom services, Financial services, Hotel/ Lodges with tariff between INR 1000 and 7500.

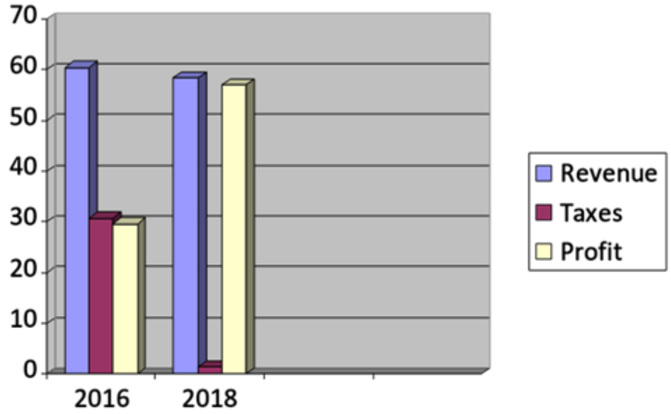
28%- Betting, Gambling, Hotel/ Lodges with tariff above INR 7500.

C. Comparative analysis of the tax breakup based on the sales made by spar super market

When a comparative study of two years, one being before implementation of GST and the other after the implementation of GST was made using the financials of the company which includes the income statement and the Balance sheet, it was found that the net profits after the deduction of taxes was clearer after adoption of GST which is post 2017. In the prior system of indirect taxation, the invoices which were issued by the company merely mentioned that the Maximum Retail Price is inclusive of taxes but it did not provide for a proper breakup of tax and the customer would not know why and how much of tax he is paying and also it would result in cascading effect of taxes. But with the implementation of GST, it proved to be beneficial for the company as well as the customer since transactions have become more transparent and clear. The company if registered under GST, can also claim for Input Tax Credit. Also the customers get to know how much of the total amount they pay is considered and deducted as tax.

	Before implementation of GST(2016) in millions	After implementation of GST(2018) in millions
Total Revenue	60.39	58.39
Taxes	30.7 (No breakup of tax)	1.43 (9% CGST and 9% SGST)
Profit	29.69	56.96

From the above table we can understand that the profit earned in 2016 is lesser than the profits earned in 2018. The major reason for this being the tax liability. In the former one (2016) where there is no proper breakup of tax, the end consumer is ending up paying higher amount as tax without his knowledge and therefore even the supplier in every chain ends up paying tax on tax which is already paid and therefore leading to cascading effect of taxes and this results in reduction of profits. But in case of the latter (2019), each and every transaction is clearly accounted for and the taxes are deducted appropriately and therefore the cascading effect of taxes is avoided and also the profit increases.



From the viewpoint of the consumer, they would now have pay more tax for most of the goods and services they consume. The major part of the regularly used consumer durables now attract the same or a slightly higher rate of tax. In addition to this, the implementation of GST has a significant cost which is called as the cost of compliance attached to it. It is also observed that this cost of compliance will be relatively high for the small scale manufacturers and traders.

Considering the long-term benefits, it is seen that GST does not just mean a lower rate of taxes, but also minimum tax slabs. There are countries where the Goods and Service Tax has helped in reforming the economy, they apply only 2 or 3 rates – one being the mean rate, a lower rate for essential commodities, and a higher tax rate for all the luxurious commodities. Currently, in India, there are 5 slabs, which consist of 3 rates – an integrated rate (IGST), a central rate (CGST), and a state rate (SGST). In addition to these, cess is also levied.

Once GST is fully implemented and bought in line with direct taxes, goods and services tax (GST) would benefit the economy in the long run, facilitate transparency, make small businesses strong, create more employment opportunities and ultimately reduce tax burden in the hands of the common man.

It's been two years since GST has been implemented in India. It all started with panic and confusion and everyone was busy dealing with the problems of this huge tax reform. The nation was under a scenario where they did not know how successful the implementation of GST would be and how efficiently it will function, be it a financial expert or a common man. The GST Council met a number of times after the implementation to consider the various difficulties that the taxpayers are faced with. These meetings held in relation to GST resulted in issuing of number of notifications by the tax department, where a few of them were in relation to relaxation of certain provisions of law and the others relating to extension of due dates for compliances. One can now say that the dust is gradually settling down, which is apparent from the clarifications made by the department by issuing notifications and circulars to deal with various issues such as application of refunds which has resulted in smooth sanctioning of such refunds. Historic implementation of e-way bill from 1 April 2018, has aided GST in meeting its idea of "one nation, one market, one tax".

GST is also called as a destination and consumption-based tax which is modelled on the concept of value addition where credit of taxes which are already paid can be availed subsequently, the benefit being called as Input Tax Credit (ITC). At the time of implementation, GST law mandated filing of various returns including 3 basic returns i.e. GSTR 1, GSTR 2 and GSTR 3. However, due to the technical glitches of the GST Network (GSTN), the government has deferred the requirement to file GSTR 2 and GSTR 3.

Also, in order to ensure timely revenue collection takes place as well as providing short-term relief to the taxpayers, the department has introduced GSTR 3B which is a monthly summary return for payment of tax liability. The government has also designed a grievance redressal portal for lodging complaints by taxpayers and other stakeholders. Also, recently an IT grievance redressal committee has been established to help the tax payers in filling of returns smoothly.

There are special rates imposed on specific products such as gold and rough and precious stones and some other semi-precious stones. An additional cess of 22% is levied on certain products such as tobacco, luxury cars, and carbonated drinks. They are taxed at a higher price since they are injurious to health. There is an expectation that the slab rates will further be rationalized and tax rates are expected to be lowered, as collections increase, thereby, reducing the overall burden or cost for the ultimate consumer.

GST has a broader tax base as compared to the earlier indirect tax laws. Under the Central Excise law, there was an exemption for small scale units (SSI) from levy of duty up to turnover of 1.5 crore. Under service tax laws, an exemption was provided if the aggregate turnover was up to 10 lakh in the preceding financial year. The threshold limit for levy of VAT varied from state to state ranging between 5 lakh to 20 lakh. Now, in the GST regime, the threshold limit for levy of GST has been fixed at 20 lakh(10 lakh for special category states). Many suppliers have taken voluntarily registration so that they can obtain as well as pass the benefit of input tax credit, and also because the large organized players are insisting on full compliance by their suppliers. In the verge of obtaining Input Tax Credit they also get themselves registered and therefore cannot escape from the payment of tax. Thus, GST law has brought under its purview, even the small suppliers. In order to ensure that there is no major compliance burden to small businesses, a relief is made available to them in the form of composition levy, especially to certain categories of suppliers.

While the overall structure of the GST is appreciable, this tax reform has brought new difficulties for MSMEs in conducting the business. The MSMEs have to take registrations in each such state from where they are making a supply. The added advantage of GST is that, though the compliance burden will increase for MSMEs, it would also result in better level of increased efficiency in the maintenance of books of accounts. This in return, would provide the MSMEs an important benefit of obtaining loans from financial institution for the expansion and diversification of business and would help them to borrow from formal sectors rather than borrowing from the informal ones. India needs strong MSMEs to create more and more employment opportunities. With the implementation of better accounting practices and compliance, gradually, MSMEs will gain strength and grow their businesses.

Before the implementation of GST, the turnover which was disclosed by the taxpayer under the direct tax law and indirect tax law varied from one another which paved way to tax evasion. The GST number is linked with PAN issued by the income tax department which has established a relationship between direct taxes and indirect taxes and since the income will be tracked with the help of PAN number linked with the Bank Account, this will help to reduce tax evasion to a great extent. GSTN has developed a very efficient IT system which provides for easy data exchange and in the long run will also ensure a better tax compliance system.

After the implementation of GST, both direct and indirect tax revenues have seen an increase.. Though India's tax to GDP ratio is lower than many other economies, it is expected that the tax-GDP ratio will see an increase of 30 basis points (bps) each in the financial years 2018-19 and in the year 2019-20, according to the medium-term expenditure framework (MTEF) statement tabled in the Lok Sabha. As direct and indirect tax data bases get linked, it only needs few data analytic tools to throw up any differences and for the revenue authorities to take necessary action based on the same. Thus, it is expected that India's tax-to-GDP ratio should improve on a growing basis in the near future. The rise in tax-to-GDP ratios would facilitate the government to reduce the rate of taxes, thereby, providing overall benefits to public without losing the revenue.

The implementation of GST has been a difficult task and is still in the process of settling down and initially it has to ace many challenges. Nevertheless, GST is expected to enormously benefit the Indian economy in the long run due to its distinctive benefits which include uniformity of taxes, elimination of cascading effect of taxes (tax on tax) and improved efficiency in the field of logistics.

Composition scheme for small businesses is made available under GST. GST also has an additional scheme of lower taxes for small businesses with turnover between Rs. 20 to 50 lakhs. It is called the composition scheme. It has now been proposed to be increased to 75 lakhs. This will bring temporary relief from tax burden to many small businesses.

It also results in reduction of tax burden on producers and develops growth through increased production. The earlier existing taxation structure, pumped with umpteen number of tax clauses, restricted manufacturers from producing to their optimum capacity which in turn led to retarded growth. GST acts as a tool in overcoming this problem by providing input tax credit to the manufacturers. Different tax barriers, such as check posts and toll plazas, lead to wastage of unpreserved items being transported. This penalty transforms into major costs due to higher needs of buffer stock and warehousing costs.

There will be increased transparency in the system as the customers will know exactly how much taxes they are being charged and on what basis they are charged, which was not the case in the earlier existing taxes. The customer would not know where and how much of much is spent by him and why it is spent. GST will increase the government revenues by extending the tax base. GST will provide input tax credit for the taxes paid by all the producers in the goods or services chain. This in a way motivates the producers to buy raw materials from different registered dealers and is hoped to bring in more vendors and suppliers under the purview of GST.

The impact of GST on the various macroeconomic indicators is expected to be more positive in the medium-term. The revenue from the taxes for the government is expected to increase with an extended tax net, and the fiscal deficit is expected to be monitored. Moreover, exports would grow on a continuing basis, and in the meanwhile FDI (Foreign Direct Investment) would also increase. The industry leaders believe that the country would climb several heights in the ease of doing business with the implementation of the most important tax reform (GST) ever in the history of India.

D. Suggestions

- All the companies must get themselves registered under GST by understanding the different benefits they reap out of it.
- Most of the dealers still do not understand the benefits of GST and therefore they must be made aware of it.
- Awareness programs and workshops must be conducted to spread awareness about GST among the masses.
- Attempts must be made to make the dealers understand what Input Tax Credit is and when they will be eligible to claim Input Tax Credit.

CONCLUSION

From the above study it can be concluded that the introduction of the Goods and Services Tax has been a very noteworthy step in the field of indirect tax reforms in India. By combining a large number of Central and State taxes into a single tax, GST over a period of time is expected to significantly ease double taxation and make overall tax calculation easy for the industries. As far as the end customers are concerned, the most important benefit will be in terms of reduction in the overall tax burden on goods and services. Introduction of GST will also make Indian products competitive in the domestic and international markets and thus help us in gaining competitive advantage. Last but not least, the GST, being highly transparent in nature, will facilitate ease of administration. Once GST is successfully implemented, the proposed taxation system holds great promise in terms of sustaining and continuous growth for the Indian economy.

Most small businesses in India do not employ tax professionals, and have traditionally preferred to pay taxes and file returns on their own to save costs. However, they will require professional assistance and advice from concerned authorities to become GST compliant as it is a completely a new system and not many would be aware of it. Also this will benefit the professionals as they are paid for the services rendered by them, again the small businesses will have to bear the additional cost of hiring such professionals and experts. Also, businesses will have to provide the required training to their employees in GST compliance, further increasing their overhead expenses incurred for training the employees.

Traders and businessmen will have to change the way they used to do their business before the emergence of GST. The tax return filing process is going digital, along with such change, the traders and the businessmen will have to upgrade themselves to the electronic means to cope up with such changes. Those who used to generate invoices digitally will have to change their IT systems to accommodate changes brought about by GST. Taxation under the new regime will be applicable only on supply of goods and services and not on supply of any goods or services outside India. In addition to this, several procedural changes have been made to ensure high compliance like reversal of input tax credit in case of failure to pay consideration for goods, self-invoicing in case of purchases made from unregistered supplier, etc. Such modifications have made it necessary for businesses to bring in significant changes in their business processes and practices. In GST, it will also become important to ensure that an invoice for input services is received at the place where credit of such services is eligible, which means the place where the supply of such service is made should be eligible for obtaining input tax credit. Therefore, businesses need to analyze procurement of services and change their contracts with service providers as needed. Similarly, contractual terms with customers will have to be rechecked and changes are to be made, if there is a need to do so. Traders will have to provide training to their employees as well as stakeholders, vendors and any other party involved in the business to make them aware about the compliance requirements imposed by GST.

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