



GST: Impact On Consumers

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Abstract:

In this Research paper let us understand what is Goods and Services Tax and its importance. What are the benefits of GST Bill to common man & consumer? What are the disadvantages and challenges? How the ordinary consumer would be impacted by Goods and Services Tax. Economists and tax experts see it as the biggest tax reform in independent India. But what does it mean for a common man? In this article, we strive to achieve better understanding of the impact that the GST will have on ultimate customers.

The present structure of Indirect Taxes is very complex in India. There are so many types of taxes that are levied by the Central and State Governments on Goods & Services.

We have to pay 'Entertainment Tax' for watching movie. We have to pay Value Added Tax (VAT) on purchasing goods & services, and there are Excise duties, Import duties, Luxury Taxetc....

1. What is GST?

It has been long pending issue to streamline all the different types of indirect taxes and implement a "single taxation" system. This system is called as GST (*GST is the abbreviated form of Goods & Services Tax*). The main expectation from this system is to abolish all indirect taxes and only GST would be levied. As the name suggests, the GST will be levied both on Goods and Services.

GST was first introduced during 2007-08 budget session. On 17th December 2014, the current Union Cabinet ministry approved the proposal for introduction GST Constitutional Amendment Bill. On 19th of December 2014, the bill was presented on GST in Loksabha. The Bill will be tabled and taken up for discussion during the coming Budget session. The current central government is very determined to implement GST Constitutional Amendment Bill.

The Lok Sabha has finally passed the Goods and Services Tax Bill and it is expected to have a significant impact on every industry and every consumer. Apart from filling the loopholes of the current system, it is also aimed at boosting the Indian economy. This will be done by simplifying and unifying the indirect taxes for all states throughout India.

Let us have a look a few things that will be influenced by the GST.

- The current tax structure does not allow a business person to take tax credits. There are lot of chances that double taxation takes place at every step of supply chain. This may set to change with the implementation of GST.
- Indian Government is opting for Dual System GST. This system will have two components which will be known as

Central Goods and Service Tax (CGST) and
State Goods and Service Tax (SGST).

- The GST is being rolled out in 140 countries but only two countries have dual (Central & state level) GST. India is going to be the third country after Australia and Canada to have such a dual GST system.

2. Objective of the study

The paper based on past literature from respective journals, reports, newspapers and magazines covering wide collection of academic literature on Goods and Service Tax. According to the objectives of the study, the research design is of descriptive in nature. The objectives of the paper are:

1. To study about Goods and Service Tax and its impact on the consumers.
2. To examine benefits and opportunities of Goods and Service tax.

3. The benefits of Goods and Service Tax (GST)

1. Easy compliance

A robust and comprehensive IT system would be the foundation of the GST regime in India. Therefore, all tax payer services such as registrations, returns, payments, etc. would be available to the taxpayers **online**, which would make compliance easy and transparent.

2. Uniformity of tax rates and structures

GST will ensure that indirect tax rates and structures are common across the country, thereby increasing certainty and ease of doing business. In other words, **GST would make doing business in the country tax neutral, irrespective of the choice of place of doing business.**

3. Removal of cascading

A system of seamless tax-credits throughout the value-chain, and across boundaries of States, would ensure that there is **minimal cascading of taxes**. This would reduce hidden costs of doing business.

4. Improved competitiveness

Reduction in transaction costs of doing business would eventually lead to an improved competitiveness for the trade and industry. World Bank believes that the implementation of the Goods and Service Tax (GST), combined with dismantling of inter-state check-posts, is the most crucial reform that could improve competitiveness of India's manufacturing sector.

5. Gain to manufacturers and exporters

The subsuming of major Central and State taxes in GST, complete and comprehensive set-off of input goods and services and phasing out of Central Sales Tax (CST) **would reduce the cost of locally manufactured goods and services**. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports. The uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cost.

6. Simple and easy to administer

Multiple indirect taxes at the Central and State levels are being replaced by GST. Backed with a robust end-to-end IT system, **GST would be simpler and easier to administer** than all other indirect taxes of the Centre and State levied so far.

7. Better controls on leakage

GST will result in better tax compliance due to a robust IT infrastructure. Due to the seamless transfer of input tax credit from one stage to another in the chain of value addition, there is an in-built mechanism in the design of GST that would **incentivize tax compliance by traders**.

8. Higher revenue efficiency

GST is expected to **decrease the cost of collection of tax revenues of the Government**, and will therefore, lead to higher revenue efficiency.

9. Single and transparent tax proportionate to the value of goods and services

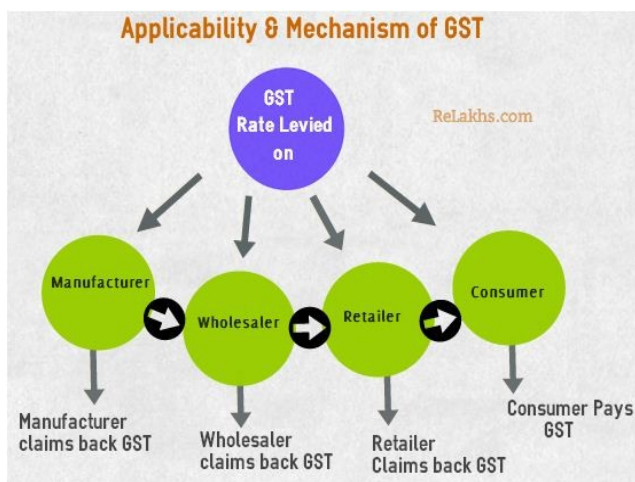
Due to multiple indirect taxes being levied by the Centre and State, with incomplete or no input tax credits available at progressive stages of value addition, the cost of most goods and services in the country today are laden with many hidden taxes. Under GST, there would be **only one tax from the manufacturer to the consumer**, leading to **transparency of taxes paid to the final consumer**.

10. Relief in the overall tax burden

Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a **tax only on value addition at each stage**. Because of **efficiency gains and prevention of leakages**, the overall tax burden on most commodities will come down, which will benefit consumers. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages.

4. Disadvantages of GST Bill

- The Service Tax in India is now 15% but the proposed GST is about 18-20%. All the services will be Costlier and this one of the Disadvantages of GST Bill on Common Person.
- There are some retail products where the Tax rate is only 4 percent but with GST it will be costlier like Garments and cloths.
- The control on business will be of state and central government so it may be some complex for businessman.
- All credits will be online and some penalties are like criminal activity. So it is threatening for small businessman who are now free from Taxes.
- GST is also having three type of taxes and all have to be maintained and this not going too easy for small Businessman.
- Since the mechanism is still complicated ,it cannot completely eliminate black money and tax evasion.



5. What will be expensive?

5.1 Eating Out

Dining out will be expensive. Here's an example explaining how –

In a restaurant, say a consumer spends Rs.100. Currently you pay an average of 18.5% as service tax and VAT. So apart from the service charge, you usually shell out Rs 118.5.

Now, according to GST, it's expected that the rates can be fixed at 18 to 20%.

Accordingly at 20% approximate tax rate, your bill will be 120 rupees.

5.2 Phone Bills

Suppose on a bill of Rs 100 on which consumer pays service tax of 15 % and finally pays Rs 115 as total amount to his service provider.

After GST, if the tax rate is fixed at 18 % then he will have to bear the brunt of Rs 118.

After implementation of GST, internet packs and call rates are likely to get higher.

Rajan Mathews, Cellular Operators Association of India told India Today, "Under the GST, the tax rate is bound to go up and the telecom operators will have to pass it on to the consumers, we can look at internet packs and call rates getting higher."

5.3 Jewellery

The yellow metal too is all set to become **expensive**. At this point of time, only 2% tax is paid by the buyers, but sadly though, according to GST at least 6 % is expected to be paid by buyers. This will impact jewellery sales.

5.4 Online Shopping

Buying bags, shoes, and electronics online will be getting more expensive as the e-commerce industry comes into a tax net and will have to pay tax deducted at source for every purchase from its sellers. So e-commerce companies which will see shrinking of profit margins & increase tax compliance net could slash discounts & freebies that they offer. "E-commerce will see revision of its tax compliance and its time we understand the industry in India. But consumers can benefit from lower logistical cost and faster delivery. Overall tax collection will be a challenge, Harishankar Subramaniam, National Leader, Indirect Tax, EY.

5.5 Banking & Insurance

Services offered by banks are taxed at 14.5% currently which under GST regime are likely to become **costlier at standard rate of 17-18%**.

Several services by bank to a customer are centralized or localized. These complexities add to compliance costs, making it expensive for consumers.

5.6 Travelling

Air tickets to will become expensive post the implementation of the GST.

Service tax on airline fares ranges between 6%-9%. GST will pump the taxes up further to 15%-17%.



6. What will be cheaper?

6.1 Buying a car

The luxury of a car will now seem reachable for the common man.

Buying a car will be hassle free in different states with same prices everywhere.

For example, a Rs 5 lakh car attracts excise duty of 12.5 per cent, and along with VAT roughly comes to Rs 6.25 lakh. Now under the GST it is expected to go down as much as Rs 35,000 if the rate is fixed at 18per cent, so for you the price will be Rs 5.9 lakh rupees.

"We will see more tax competitive rates and will reduce prices for consumers. We are looking forward to the GST", Roland Folger, CEO, Mercedes-Benz India told India Today.

6.2 Televisions

Currently a buyer shells out Rs 20,000 for a basic LED TV plus 24.5 % tax making the total cost rise to Rs 24,900.

As GST will be around 18 to 20 %, the buyer will now approximately pay Rs 23,600.

6.3 Movie Tickets

Entertainment Taxes are likely to reduce by 2-4%.

Multiplex chains will increase revenues as current high rate of entertainment tax will be uniform in all parts of the country. Lower the ticket price, higher the ticket sales. Even film producers will benefit from this advancement.

6.4 Processed Foods

Companies manufacturing processed food pay various taxes summing up to 24%-25%. With GST, it'll sum up to 17%-19%. Such great savings from the taxes may issue a decrease in prices of products, making it cheaper for end consumers.

6.5 Cement

Tax for cement is 25%. With GST it will become 18%-20%. With logistics cost also decreasing, cement depots will also decrease. Overall cost will also decrease.

If implemented well, GST can help boost India's economy and help make the process of levying indirect taxes more streamlined.

7. Conclusion

The proposed GST regime is a half-hearted attempt to rationalize indirect tax structure. The government of India should study the GST regime set up by various countries and also their fallouts before implementing it.

Several consumer products and white goods may become cheaper when the goods and services tax is rolled out because effective tax on most items will be down at least 2 per cent under the multi-layered tax structure finalised by GST. But, GST which is likely to be inflationary would hit people in the lower income group hardest as they currently pay little or no income tax at all. However, a number of considerations suggest that the impact would be moderate. Sales tax and service tax component are already hidden in the prices of all commodities and basic items would be largely exempted from GST. Other necessities such as fuel and power, public transport and medical care are concerned, there is sufficient already. Government need to intervene to ensure that the poor is protected from GST effect.

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