

GST - Impact on primary consumer

Dr K.C. Sathya Latha¹

¹M.Sc, M.Phil, Ph.D, Department of Physics, PVKN Government College, Chittoor, Andhra Pradesh, India

Abstract- The Goods and Services Tax (GST) is a value-added tax levied on most goods and services sold for domestic consumption. GST is a vast concept that simplifies the giant tax structure by supporting and enhancing the economic growth of a country. GST is paid by consumers, but it is remitted to the government by the businesses selling the goods and services. In effect, GST provides revenue for the government. It would enhance the position of India in both, domestic as well as international market. The tax rate under GST are set at five major slabs - 0%, 5%, 12%, 18% and 28% for various goods and services, and almost 50% of goods & services comes under 18% tax rate. So GST is stated to be one of the biggest tax new reforms in India. When any new reform comes, it assuredly has an impact on common man. This article discusses the types of GST implementation, the GST rates and it's impact on common man in India.

Keywords: Indirect tax, economic growth, VAT (value added tax), CGST, SGST, UTGST, IGST.

I. INTRODUCTION

GST is a Value added Tax (VAT) proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level¹. It was first introduced in France in the year 1954 and subsequently more than 160 countries had implemented the GST law like Germany, Italy, UK, South Korea, Japan, Canada, Australia, etc. The idea of GST in India was proposed by Atal Bihari Vajpayee in 1999 and a committee was set up under the leadership of Asim Das Gupta the then finance minister of West Bengal to design a GST model. It was supposed to be implemented from 1st April 2010 under flagship of P Chidambaram, the finance minister of UPA government but it did not come into force due to political issues and conflicting interests of various stakeholders. In May 2016 the constitutional amendment bill for GST was passed by Lok Sabha and deadline of 1st April 2017 to implement GST was set by Arun Jaitley the finance minister of India. Goods and service tax was launched at midnight on 1st July 2017 by the president of India, Pranab Mukherjee and Prime minister of India, Narendra Modi.²

Goods and Services Tax would be governed by the GST Council whose chairman would be the Union Finance Minister of the Indian Republic. It will replace all indirect taxes levied on goods and services by the Indian Central and state governments. GST is expected to bring greater transparency, improve compliance levels and create a common playing field for businesses by amalgamating a host of central and local taxes. It would change the current tax regime of production-based taxation to a consumption-based system. It would also enhance the position of India in both, domestic as well as international market. GST is stated to be one of the biggest tax new reforms in India, which would not only impact the businesses but also the common man. 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. It is applicable on supply of goods and services. It will replace the current taxes of excise, VAT and service tax³. At the consumer level, GST would reduce the overall tax burden, which is currently estimated at 25-30%. 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. Before we discuss the impact of GST on primary consumer in India, it is essential to understand types of GST implementation and the GST rates.

II. TYPES OF GST AND GST RATES

2.1. Types of GST Implemented in India:

- The GST collected by Centre: CGST
- The GST collected by State: SGST
- The GST applicable on inter-state sales to facilitate smooth transfer between the Centre and the State: IGST

Most of the countries had adopted unified GST while some countries like Brazil, Canada follow a dual GST system where tax is imposed both by central as well as by state government. India had adopted the dual system of GST as CGST and SGST.

2.2. GST Rates range over 5%, 12%, 18% and 28% plus luxury cess:

GST was established to subsume various indirect taxes levied at different levels, with the idea of reducing red-tape, plugging leakages and paving the way for a transparent indirect tax regime. After a lot of deliberation, the GST council has finalised the rates for all the goods and major service categories under various tax slabs and the GST is




expected to fill the loopholes in the current system and boost the Indian economy. The government has categorised items in five major slabs - 0%, 5%, 12%, 18% and 28%.





GST Rate Slabs	New GST rates	Previous Rates	Products
1	0%		Food grains used by common people ie., items like jute, fresh meat, eggs, milk products, fruits, vegetables, etc
2	5%	Up to 9%	Items of mass consumption including essential commodities ie., items like Coffee, tea, edible oil, spices, pizza bread, kerosene, coal, medicines, etc.,
2	12%	9% to 15%	Goods (Apparel above Rs 1000) ie., Processed food, animal fat, computers, electronic items, ornamental articles, etc.,
3	18%	15% to 21%	Most items are under this tax slab ie., Shaving sticks, oil, soaps, steel products, printed circuits, camera, speakers, etc.,
4	28%	21%	Luxury goods such as tobacco, high-end cars, aerated drinks, dishwasher, weighing machine, washing machine, ATM, etc.

III. IMPACT OF GST ON CONSUMER

3.1. Impact of GST in prices of goods and services

The newly implemented indirect tax regime (GST) is influencing the common people living in all sections of the society⁴. The primary impact of GST felt by the consumers is change in prices of goods and services. In terms of impact in prices, while services are more expensive in the initial phases, impact on prices of goods could be a mixed bag. In the long run, once the benefits of GST are expected to increase in terms of higher input credits and reduction in cascading effect, it is anticipated that the inflationary effect will come down and prices in general will come down and stabilize. GST, being a nationwide tax could lead to possibly higher inflation in the first few years of its introduction but would gradually increase the overall Gross Domestic Product (GDP). For the people living below the poverty line, there might not be a direct impact of the GST on them as such since basic necessities like food are unlikely to attract the GST but increased collections of the GST with a larger tax base should provide an impetus to the government to allocate more money for social and poverty alleviation programmes. Thus, the GST should benefit all sections of the society. In services, the tax rate has increased from 15% to 18% as shown below due to GST. The 3% increase could potentially mean an increase in the price of services by 3% for the common man, in the short run.

EXPENSES	EXAMPLES
 <p>RESTAURANT BILLS</p>	<ul style="list-style-type: none"> ▶ A customer visits a restaurant & purchases a meal for ₹1,000 in Delhi ▶ Under earlier regime, VAT @ 12.5% and service tax @ 6% was charged. Thus, the customer used to pay ₹185 as tax ▶ Under GST, a meal at an air-conditioned restaurant shall attract 18%. Thus, the customer pays ₹180 as tax ▶ Effectively, no substantial impact on restaurant bills
 <p>AIR TRAVEL</p>	<ul style="list-style-type: none"> ▶ A customer travels in domestic economy class on a ticket of ₹1,000 ▶ Under earlier regime, service tax at 6% was levied – amounting to ₹60 ▶ Under GST, economy class is taxable at 5%. Thus, there would be minor savings in economy class ▶ In case the customer travelled business class, GST rate has increased to 12% from 9% under service tax. ▶ Thus, business class would be expensive.
 <p>HOLIDAYS</p>	<ul style="list-style-type: none"> ▶ A customer stays in a hotel which has tariff of ₹8,000 a night ▶ In pre-GST regime, the gross indirect tax rates (service tax + luxury tax) ranged from 19% to 25%, depending on rate of luxury tax in a state. Thus, total tax could be between ₹1,520 and ₹2,000 ▶ Under GST, for tariff above ₹7,500, tax would be applicable at 28%, resulting in tax incidence of ₹2,100. Thus, higher tier hotels are going to be more expensive under GST ▶ The lower tier hotels could be cheaper under GST, since tariffs between ₹1,000 and ₹2,500 would have GST of 12%, and between ₹2,500 and ₹7,500 would have GST of 18%

CAB EXPENSES 	<ul style="list-style-type: none"> ▶ A customer takes an Ola or Uber and the ride costs ₹100 ▶ There is a marginal saving since cab facilities would attract GST at 5% as compared to 6% service tax
BANKING AND INSURANCE 	<ul style="list-style-type: none"> ▶ These services will primarily have a 3% increase in rate (from 15% service tax to 18% GST). Thus, these services will be more expensive
OTHER HOUSEHOLD EXPENSES 	<ul style="list-style-type: none"> ▶ Food items have been kept in the range of 0-5% under the GST regime. Food prices are unlikely to go up ▶ FMCG products like packaged food, shampoos, soaps, tissue papers, toothpaste, pharma products, electronic items like TV and coolers etc. to become cheaper ▶ Services like salon, dry cleaning and telecommunications to become more expensive due to 3% increase in tax rate
REAL ESTATE 	<ul style="list-style-type: none"> ▶ A customer buys under-construction property for ₹1 crore. ▶ Under earlier regime, rate of around 5.5% was levied (both VAT and service tax), but varied from state to state. Under GST, a rate of 12% will be levied resulting in inflation in initial period ▶ Prices of ready-to-move-in apartments with completion certificates would remain steady as these are out of GST ambit

3.2. Advantages and disadvantages

When any new reform comes, it assuredly has both advantages and disadvantages. In turn there will be definitely positive & negative impacts on the common man also in all aspects.

Positive Impact or advantages of GST on the Common man:

- GST is a unified tax system eliminating a bundle of indirect taxes like VAT, CST, Service Tax, etc. It also removes cascading effect of taxes i.e. removes the tax on tax.
- It is a wider tax base, necessary for lowering the tax rates and eliminating classification disputes.
- The entire process of GST (from registration to filing returns) is made simple and online procedure. This has been beneficial for start-ups especially, as they do not have to run from pillar to post to get different registrations such as VAT, excise, and service tax.
- GST has less tax agreement, a simplified tax policy, rationalization of tax structure and simplification of compliance procedures as compared to the earlier tax structure.
- Harmonization of center and State tax administrations, which would reduce duplication and compliance costs. It improves efficiency of logistics.
- Due to a lower burden of taxes on the manufacturing sector, the manufacturing costs will be reduced, prices of consumer goods likely to come down. For example, the rates of ready-made garments have been reduced to 12% from an existing 18.16% which will make them cheaper.
- Under GST regime in India, food prices fall within 0% to 5% tax, thus food prices are not likely to increase. FMCG products (toothpaste, soaps, tissue papers, shampoos, packaged food, pharmaceutical items, coolers, television etc.) have the potential to become cheaper.
- The low prices will further lead to an increase in the demand/consumption of goods. Increased demand or will lead to increase supply. Hence, this will ultimately lead to a rise in the production of goods.
- GST will control the circulation of black money. This will lead to less corruption and affect the common man indirectly.
- GST will help to boost the Indian economy in long run.



Negative Impact or disadvantages of GST on the Common man:

- Though GST is considered to be a historical tax reform in India, it also has some demerits. For the Common Man, Some items (food, cars, electronics etc.,) and services (such as dry cleaning, saloon, and telecommunication, etc.,) are costlier due to increased taxation as per GST.
- GST in India would impact negatively on the real estate market. The GST rate for an under-construction property is 18% but the effective rate on this kind of property will be around 12% due to input tax credits the builder will avail of.
- Service tax rate @ 15% is presently charged on the services. So, if GST is introduced at a higher rate which is likely to be seen in the near future, the cost of services will rise. In simple words, all the services like telecom, banking, airline etc. will become more expensive.
- Increased cost of services means, add on to monthly expenses and need reschedule in the budgets to bear the additional services cost.
- There will be no GST for hotel stay ,if room tariff is less than Rs 1,000, but anything above Rs 5,000 will attract 28% tax. Further dining at five-star hotels will be charged at 18% GST rate and the Non-AC restaurants will be charged 12% and a 5% GST will be charged from small hotels.
- GST rate for sporting events (ie., IPL) is 28% which is higher than the earlier 20%.rates. This will increase the price of your tickets.
- People travelling by local trains or in the sleeper class will not be affected, but first-class & AC travellers will have to pay more.
- Under the GST, tax rate for economy class for flight tickets is set at 5% but the tax for business class tickets will have a higher tax rate of 12%.
- The gold investment becomes slightly expensive due to 3% GST on gold & 5% on the making charges. The earlier tax rate on gold was around 2% in most of the states and the GST is increased from the existing rate to around 2% to 3%.
- If an actual benefit is not passed to the consumer and the seller increase his profit margin, the prices of goods can also see a rising trend.
- Although, a large number of officers are being trained and systematic IT software is being developed for the successful implementation of GST. But, it will take some time for the people including the manufacturers, the wholesalers, the retailers or the final consumers to understand the whole process and apply it correctly.
- Goods and Services tax is a long-term strategy planned by the Government and its positive impact shall be seen in the long run only. So at present it imposes over tax burden on consumers.

IV. CONCLUSION

GST has been envisaged as a more efficient tax system, neutral in its application and attractive in distribution. GST has changed the earlier tax regime of production-based taxation to consumption based system and Online process of GST (ie., registration, filing returns, etc.,) is beneficial for start-ups in India. On the other hand, the common man, being the final consumer of goods, shall be directly or indirectly affected by the implementation of GST. But in long-run the common man would be benefited from GST in terms of infrastructure and economic growth of the country. To overcome this, GST is to be introduced at a nominal rate to reduce the overall tax burden on the final consumers. The rate of GST and how effectively GST is introduced in all the States and at the Centre also plays a crucial role in deciding the actual impact of GST on the common man.

V. REFERENCES

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