13. Impact of GST on Traders and Manufacturers

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Abstract

The Goods and Services Tax (GST), implemented on July 1, 2017. GST was planned to be implemented in April 2010, but was postponed due to political issues. The primary objective behind development of GST is to subsume all sorts of indirect taxes in India like Central Excise Tax, VAT/Sales Tax, Service tax, etc. and implement one taxation system in India. The principle used in GST taxation is Destination Principle. It is levied on the value addition and provides set offs. As a result, it avoids the cascading effect or tax on tax which increases the tax burden on the end consumerThis paper highlights advantages, objectives and history of GST & study on the concept of goods and service tax and impact on Indian economy.

Key words: VAT,GST

Introduction

The Goods and Service Tax (GST) have changed the whole scenario of current indirect tax system. GST helps the Indian economy to grow in more efficient manner by improving the tax collection as it is charged via single tax rate around the whole country. GST is a comprehensive indirect tax on manufacturer consumption and sale of goods and service throughout the India to replace taxes levied by central government and state government. GST would be levied and collected at each stage of sale or purchase of goods and services. GST is applied on goods and services at the place where actual consumption happens. By merging a large number of Central and State taxes into a single tax, GST is expected to significantly ease double taxation and make taxation overall easy for the industries. For the end customer, the most beneficial will be in terms of reduction in the overall tax burden on goods and services.

Objective of Study

1. To study the impact of GST on Traders & Manufacturers.
2. To study ensure the availability of input tax credit across the value chain.

Research Methodolgy

The present research study uses the most recent available published secondary data. Secondary data is also collected from the various National and International Research Journals

which are related to Commerce, Management. Secondary data is also collected from various websites.

Literatural Review

Tripathi, (2011) The authors have discussed the concerns faced in India post the implementation of VAT, the learning we could take from it, the effects on the social order in India. All this is discussed in the background of the impending GST in India. The authors have discussed the various issues around VAT, how it impacts the different sections of society. VAT is present in all goods produced and GST would be present in all goods and services produced making it a tax payable by all sections of the society. Thus it is a tax which though good to increase the revenue impacts even the poorer sections of society. **Sundar, (2013)** Value Added Tax is a tax which is all-pervading in goods and services and thus affects every individual and business. The authors have studied the significance of VAT in the context of the Indian economy and effect of VAT on the common man and industry in India using secondary data made available by the Government. One of the recommendations of the authors is to achieve more transparency in VAT compliances in India.**Tamizi, (2013)** The authors examine the advantages and complexities of the VAT system implemented in Iran during 2009-2012. The study is split into two parts; the first examines the difficulties in implementing VAT in Iran given the political scenario there. The second part examines the benefits/disadvantages of the said implemented VAT system. The study is conducted using T Value on data collected using questionnaire.

Meaning of GST

The main reason to implement GST was to abolish the cascading effect on tax, with GST there is only simplified and cost saving system as procedural cost reduces due to uniform accounting for all types of taxes. Only three type of account; CGST, SGST & IGST have to be maintained. GST implications are observed on almost all sectors, through this blog we would be looking into the Impact of GST on Trading Sector.

The salient features of GST are as under

1. GST would be applicable on sale of goods and services as against the present concept of tax on the manufacture of goods.
2. GST would be destination based tax as against the present concept of origin based tax.
3. It would be a dual GST. The GST levied by the Centre would be called Central GST (CGST) and that to be levied by the states would be called State GST (SGST).
4. An Integrated GST (IGST) would be levied on inter-state supply of goods or services. This would be collected by the centre.

5. GST would replace the following taxes currently levied and collected by the Centre:
   a) Central Excise Duty (including additional Duties of Excise)
   b) Service Tax
   c) CVD (levied on imports in lieu of Excise Duty)
   d) SACD (levied on imports in lieu of VAT)
   e) Central Sales Tax (CST)
   f) Excise Duty levied on Medicinal & Toiletries preparations.
   g) Surcharges and cesses.
6. State taxes that would be subsumed within GST are:
   a) VAT/ Sales Tax
   b) Entertainment Tax
   c) Luxury Tax
   d) Taxes on Lottery, betting and gambling.
   e) Surcharges & Cesses.
7. GST would apply to all goods & services except Alcohol for human consumption, Electricity and Real Estate.
8. The list of exempted goods & services would be kept to a minimum and would be harmonised for the Centre and States as far as possible.
9. The credit would be permitted to be utilised in the following manner:
   a) ITC of CGST allowed for payment of CGST & IGST in that order.
   b) ITC of SGST allowed for payment of SGST & IGST in that order.
   c) ITC of IGST allowed for payment of IGST, CGST & SGST in that order.

What are the components of GST?

There are 3 taxes applicable under this system: CGST, SGST & IGST.

- **CGST:** Collected by the Central Government on an intra-state sale (Eg: transaction happening within Maharashtra)
- **SGST:** Collected by the State Government on an intra-state sale (Eg: transaction happening within Maharashtra)
- **IGST:** Collected by the Central Government for inter-state sale (Eg: Maharashtra to Tamil Nadu)

Positive Impacts of GST on Traders

1. No dispute good Versus Service

In present regime of tax structure, the big issue is whether the transaction amount to sale of good or service. Though this dispute still may arise from view of time/place of supply from

good or time/place of supply of services as both are separately given. However, net impact is neutral, on either of them needs to pay GST.

2. Composition levy Increased

In current regime of taxation the limit under Composition Scheme is 40 lakhs where as under GST it is increased up to 50 Lakhs. It is beneficial as 10 lakhs in turnover is a big thing from trader point of view.

3. Credit of Excise Duty and Service tax

In current regime of taxation then a trader is not eligible to take credit of input service as well as the Excise duty. However, in GST regime he will be eligible to take all credits and it will make positive impact on trader.

4. No Margin to Disclose

Currently a trader who wants to pass on the CENVAT Credit of excise duty needs to obtain dealer registration and have to disclose the margin. But now this is no more relevant as trader is eligible to take credit as well as no requirement of separate dealer registration.

5. No Reversal of Credit on goods sent for stock transfer

Currently as stock transfer is not liable to Vat as well as CST hence, credit pertains to goods sent to stock transfer needs to be reversed. However, in GST Regime stock transfer got made taxable, hence No reversal of credit is required.

Negative Impacts of GST on Traders

1. Stock transfer made taxable

In current regime of tax, stock transfer is not taxable on being made available "Form F" where as in current regime stock transfer made taxable. Due to this Warehouse decision to be taken more appropriately.

2. No Form "C"

In current regime of tax, on being made available the Form C, CST rates charged at the rate of 2% instead of 14.5% which is local tax rate, however in GST regime interstate will be taxed at standard rate i.e. IGST.

3. Goods sent to job work are taxable

In current regime of tax, the goods sent for job work are not liable to CST on being made available of Form "H" whereas in Current GST regime it became taxable.

4. Increased burden of Compliances

Instead of 4/12 Returns (state wise vary), now a trader needs to file 37 returns in year and much more compliances.

ositive Impacts of GST on Manufacturers

1. One Tax

In present structure of tax, there is various kind of taxes such as excise duty, Service tax, VAT, Entry tax, Central Sales Tax etc. But in GST regime there is only one tax i.e. GST however, there will be three parts such CGST, SGST, IGST. This is measure relief for the manufacturer.

2. Rate of tax

In current tax regime the consumer pays approximately 25-26% more than the cost of production due to excise duty (at 12.5%) and value added tax (almost 14.5%).In GST, goods may become cheaper marginally which a good sign for manufacture to compete with international market. The Impact of rate of tax depends on industry wise, but mostly it is eneficial.

3. Reduction in Cost

In GST regime there will be reduction in cost of production as credit will be eligible of tax on purchases made from interstate purchases and no cascading effect. Hence, a manufacturer need not take the decision regarding purchase from point of view of tax implication as credit is eligible on all purchases.

4. Minimization of Classification issues

In current regime of tax there are numerous issues on classification of goods due to separate rates on different goods and exemptions on certain goods. But in regime of GST there shall be minimization of classification issues due to uniform rate and less expected exemptions.

5. CENVAT Credit

In regime of present tax, the manufacturer is unable to utilize the credit of Central Sales ax and VAT provided output is charged under Composition Scheme, which becomes the cost for him. But in Regime of GST, a manufacturer will be eligible to take Credit of SGST (VAT) as well as IGST (CST) on the purchases. There will be seamless flow of Credit in GST.

Negative Impact of GST on Manufacturers

1. Time of Supply

In current regime of tax the time of duty on manufacture attracts at the time of removal where as in GST regime it will earliest of the four such as (Date of Issue of Invoice, Date of Payment, Date of Removal, Debit in the books of Receiver).

2. Increase in Working Capital

In GST regime of tax, stock transfer has been made taxable, which requires the huge working capital because the realization of tax going to be on final supply tills that It may block the capital.

3. No Credit of Petroleum Product

Petroleum Product has been kept out of GST hence; the tax paid on Petroleum Product is not eligible as credit and same became the cost. Each industry requires the Petroleum Product such as Fertilizer Industry, Power Sector, and Logistic Sector etc.

4. Introduction of Reverse Charge on Goods

In current regime of tax structure there was reverse charge on specified services but in case of GST even the reverse charge will be applicable on goods.

5. Post supply Discount

If the discount has to be given post supply than it must be known to both the parties at the time of supply or pre-supply and the proof of being known is the clause of discount must be there either in contract or agreement or offer etc.

Challenge of GST

Challenges for Small trading manufacturers

A sizeable portion of SMEs are of the opinion that GST is not all good for the sector and their fears may not be totally vacuous. The tax neutrality that the SMEs enjoy may be one of the prominent benefits. However, reduction in duty threshold is one of the key concerns that has led them to be wary of the GST bill. Under the existing excise tax, no duty is paid by a manufacturer having a turnover of less than rupees 1.50 crores. But, post GST implementation; the exemption limit will get significantly lowered. During a speech at a news conference, Finance Minister, Arun Jaitley said, the estimate limit can be as low as rupees 25 lakh. As a result, a large number of SMEs and start-ups will be mandated to come under the tax net and will have to pay a large chunk of their earnings towards tax. Furthermore, there are other flipsides to the proposed tax neutrality. GST regime won't differentiate between luxury goods and normal goods; this will it hard for the SMEs to compete against large enterprises. GST that is ultimately levied on supply will not be available for input credit. This will lead to an increase in the cost of the products for businesses that supply directly to end users

1. **Blockage of Working Capital**

Liquidity crunch is another challenge for small businesses and particularly exporters. In GST, funds will be maintained in the form of an electronic credit ledger with the tax department. This credit ledger will keep a record of all your tax liabilities. In the case of services' sector, the

rates have been increased from 15% to 18%. This will force the taxpayers in the sector to face some blockage of working capital. Government is currently working on a solution to this problem as working capital is very important, particularly for smooth functioning of small and new businesses. For the exporters, the government is working on an 'e-wallet' system that will be created for each exporter by April 1, 2018 to ease the process of refunding their returns. Till then, the exporters will have to pay a nominal GST of 0.1%. Exporters will also receive refunds from 10th October, which would help in resolving cash flow issues.

1. **All the necessary GST compliances have to be done online**

This is proving to be a very difficult task for the small and medium businesses as most of them lack the necessary technical resources for the same. There are many ASPs that will help the small businesses ensure end-to-end GST compliance without the requirement of a continuous internet connection. To overcome this, taxpayers can opt for ASPs which can integrate with simple book keeping options, as basic as Microsoft Excel. This way, businesses can easily document details of all their transactions. An internet connection will be required for just 5 minutes so that they can upload the excel sheet on the respective ASP's platform and file their returns. The internet connection will help push the excel data from the ASP to GSTN.

2. **Goods Transport Agencies (GTAs) having trouble providing services to the unregistered persons**

In order to help the GTAs in this aspect and ease their GST compliance, the GST council decided that the services provided by a GTA to an unregistered person will be exempt from GST. Furthermore, the implementations of TDS/TCS provisions, e-way bill have also been postponed. The provision of reverse-charge also was resulting in a bias against the small service providers. The proposal to defer reverse charge compliance is also a very important and necessary relaxation as it will benefit small businesses and substantially reduce their compliance costs.

3. **Prior to the recent GST council meeting, the small dealers and manufacturers were required to pay GST on advances received**

This was proving to be very burdensome for the businesses in this sector. In order to ease their hardships, the GST council has decided that the taxpayers having an annual aggregate turnover up to Rs 1.5 crores shall not be required to pay GST at the time of receipt of advances on account of supply of goods. The GST on such supplies shall be payable only when the supply of goods is made.

Conclusion

By merging a large number of Central and State taxes into a single tax, GST is expected to significantly ease double taxation and make taxation overall easy for the industries. For the

end customer, the most beneficial 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. Last but not least, the GST, because of its transparent character, will be easier to administer. Once implemented, the proposed taxation system holds great promise in terms of sustaining growth for the Indian economy.

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