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Assessment and Impact of Existing Indirect Tax to Goods and Service Tax in India

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ABSTRACT

This study mainly considers about the broad regime for indirect taxation and it is overall system change to the proposed Goods and Service Tax system. The existing Indirect Tax acted as different types of taxation and levy. Current Indirect Taxation tends to create more cascading effects and tax burden for entire investors and final consumers. It includes as such as National Excise Tax, Extra Excise Taxes, Service Taxes, and Customs duty. Apart from these Sales Taxes, Central Sales Taxes, Entertainment Taxes, Entry Taxes, Luxury Taxes, Lottery, Betting and gambling Taxes. This type of central level and state level cascading taxation will increase the commodity price and also reduces productivity. Developed country does not use this system of tax levy. While introducing Goods and Service Tax, the commodity price will be centralized in all over the country so as beneficial for the final consumer and investors. But the GST tax slap rates depends upon commodity, particularly the manufacturing sector (Textile industry) and service sector (Restaurants) has been chosen and the existing Indirect Taxation and proposed GST system was computed of both sectors that has resulted in the service sector showing negative impact on the entire role of the business transaction and the manufacturing sector has positive impact shown only for the intermediary investors and the final consumers.

Keywords: Broad Regime, Indirect Taxation, Goods and Service Tax, Commodity Price, Final Consumer, Investors, centralized.

I. INTRODUCTION

The accepted definition of tax in India, as laid down by the Supreme Court in commissioner a tax is a compulsory exaction of money by public authority for public purpose enforceable by law and is not payment for service rendered".

1.1.1 Objective of the taxation

1. Prevention of concentration of wealth.
2. Redistribution of wealth for common purpose.
3. Maintenance of welfare state.
4. Equality between persons subject to reasonable classification.

1.1.2 Ingredients

1. Tax is compulsory exaction of money by public authority.
2. Tax is used for public purpose.
3. Tax is enforceable by law.
4. Tax is not a payment, for services rendered. (Source: "TAX LAWS")

1.1.3 Existing Indirect Tax System in India

The present taxation structure in India can be broadly classified into Direct and Indirect Taxes.

1.1.3.1 Direct Tax

The Direct tax is an Income Tax those Taxes on Income from individual or group, and Wealth tax.

1.1.3.2 Indirect Tax

Indirect tax is levied by the central government and state government.

Central indirect taxation,

1. Central Excise (as per section 3 of the taxes on manufacturing of goods),
2. Custom Duties (Duties on import and exports of goods),
3. Service tax (Taxes on provision of services)

State indirect taxation,

1. Value added tax (VAT) is taxes on sales of goods. That is applied for intra state and interstate transaction.
2. Entertainment tax.
3. Stamp duties and tax revenue.
4. Purchase tax
5. Entry tax, etc.

1.1.4 Strength of the Current Indirect Tax

The present indirect taxation to make the revenue for Indian state and central government that tax helps to developing our country. This tax system basically liberalised for the business people for the motivation to increasing productivity that helps in the growth of the GDP of our country.

1.1.5 Weakness of the current Indirect Tax

Credit for service tax paid is being allowed to manufacturer but service sector to a limited extend. The state is charging VAT on the Excise Duty paid to the Central govt. Hence double taxation. Tax is being levied on interstate transport of goods with no provisions of taking input credit on CST. The States government continues with various types of Indirect taxes such as Luxury tax, Entertainment tax etc. The VAT rate are different in different states for example, VAT on mobiles is 5 % in Delhi and 14 % in Maharashtra. In order to set right the weakness in the current indirect tax structure, the government of India tried to structure by subsume and reducing the number of taxes at the central and state level in the form of Goods and Service Tax (GST).(Source: CA Hemant vastani.).

1.1.6 The Proposed Goods and Tax System in India

GST is a single tax on the supply of goods and service, right from the manufacturer to the final consumer. 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. The final consumer will thus bear only the GST charged by the last dealer in the supply of chain, with set-off benefits at all the previous stage.

1.1.6.1 GST Structure and Models of GST

The proposed Goods and Service Tax system have four models of GST that is CGST, SGST, IGST, and UTGST.

1. CGST is called Central Goods and Service Tax. It is collected by the central government.
2. SGST is called State Goods and Service Tax. It is collected by state government.
3. IGST is called the Integrated Goods and Service Tax (in short IGST), it is applicable for Interstate transaction only to collect and administer central government of India.
4. UTGST**,** GST under supply of goods and service takes place in Union Territories is accounted under UTGST. The purpose of UTGST bill is to apply a collection of tax on every Intra UT supply of goods and service.

1.1.6.2 Calculation of GST Models

1. For supply of Goods and services within a state (Intra State) CGST+SGST.
2. For the supply of goods and services within union territories (Intra-UT) CGST+UTGST.
3. For supply of goods and services across states and Union territories (Inter-state/inter-UT) IGST.

1.1.6.3 Strengths of the GST

1. Simpler tax system.
2. Reduction in prices of goods and services due to elimination of cascading.
3. Uniform prices throughout the country.
4. Transparency in taxation system.
5. Increase in employment opportunities.
6. A unified common national market to boost Foreign Investment.

7. Boost to export/manufacturing activity, generation of more employment, leading to reduced poverty and increased GDP growth.
8. Improving the overall investment climate in the country which will benefit the development of states.
9. Uniform SGST and IGST rates to reduce the incentive for tax evasion.
10. Reduction in compliance costs as no requirement of multiple records keeping.

1.1.6.4 Weakness of the GST

1. Small and Medium-sized Enterprises (SMEs) will be more burdens for GST implementation. Under the existing excise law, only manufacturing business within a turnover limit more than Rs. 1.50 crores have to pay excise duty. But the GST will be reduced to Rs. 20 lakh.
2. Changing in business software that may increases the cost of implementation.
3. Petroleum products are not part of GST yet. It Impact the petroleum products consumption will pay more tax. For example recently the Tamil Nadu Government was increased the Tax rate percentage on petroleum products. (Source: Clear tax.in).

This study mainly considers about the broad regime for indirect taxation and it is overall system change to the proposed goods and service tax system. The existing indirect tax was acted as the different types of taxation and levy. Current indirect taxation tends to create more cascading effects and tax burden for final consumers. While introducing Goods and Service Tax, the commodity price will be centralized in all over the country so as beneficial for the final consumer. Consequently, the revised tax system expecting a phenomenal increase in percentage of taxation from 17.9% to 18.9 % (in terms of percentage).

II. LITERATURE REVIEW

Mr.Debnath(2016) "**Implementation of goods and service tax (GST) in India and its control over the tax collection**" discussed about the Indian fiscal system that attempted to create the root for tax collection and segmented in fair rate then share to state and central. In this paper, the author mentioned the unified taxation system except for alcohol, tobacco, and petroleum product. The author concluded that the uniformed GST will improve the tax collection and boost the development of India's economic by breaking fraudulent activity.

Dr. Suresh and MR. T. Shiva Kumar (2016) "**overview of GST in INDIA**" the author discussed about the goods and service tax in addition to that author said about the FMCG sector, food industry, Information technology, Infrastructure sector and impact on small enterprises. The threshold limits for Empower Committee has been proposed.

Dr. Jaiseela (2016) "**Implementation of Goods and Service Tax in India2016: Challenges and Opportunities**" the professor told the historical background of the GST and she is viewed on flawless GST is designed as a consumption type destination VAT based on invoice-credit method and also justifies the central level and states level tax system. Finally she has concluded by this paper a flawless GST in the context of the federal structure which would optimize efficiency, equity and effectiveness.

Dr. R. Vasanthagopal, (2011) **"GST in India: A Big Leap in the Indirect Taxation System"** the author addressed the existing tax system and explained Dr.Vijay Kelkar, Chairman of 13th Finance Commission to suggest a rational, scientific and modern but unified system and its introduction of GST in India, pre-implementation of GST the positive impact cannot be predicted.

III. OBJECTIVE OF THE STUDY

- To study the existing indirect taxes system and its rate.
- To calculate GST in selected commodities.
- To compare existing structure and proposed structure.
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IV. RESEARCH METHODOLOGY

Methodology is designed keeping in pace with the objectives set and to address the research problem. It also tries to see the opportunities and mechanism of GST and it is probable impact. This study is centred on secondary information and fact collected from books, journals, magazines, newspaper and websites. The study is conceptual in nature and it is supported more by facts than by numerical data.

1.5 IMPACT ON MANUFACTURING SECTOR AND SERVICE SECTOR

The parliament of India, (Lok sabha) has recently passed the Goods and Service Tax Bill and it is expected to have a significant impact on every investor and the every final consumers. It also aimed at boosting the Indian economy and also reduces the tax evasions. Let us have a look a manufacturing and service sector that will be influenced by the GST.

1.5.1 Manufacturing Sector

The manufacturing sector has been an economic booster for a lot of developing nations in entire world. Our manufacturing sector has been crippled by a complex tax structure, in adequate infrastructure, tax on tax and decreasing the country's potential to perform on an international level. The government promoted "Make in India" activity. It proposed to give domestic entrepreneurs and various opportunity manufacturing in India. Like one of the proposed changes, in accordance with make in India, is the education of the Goods and Services Tax (GST). The experts said new GST will create unified indirect taxation system and it reduces cascading taxation may promote to a lower cost of production. But it is not for clear defined future tax system. The uncertainty is not only Manufacturing investors, which is also involved entire indirect tax payers like logistics, warehouses, and wholesalers, retailers and most important final consumers.

Particulars	**Amount Rs.**
Raw material cost	1000
Working and labour charge 20%	200
Prime cost	1200
Over heads	10
Work cost	1210
Profit margin 10%	121
Production cost	1331
Excise duty 1.2 %	16
After excise duty	1347
VAT 14%	189
INVOICE VALUE	1536
Logistics 1%	15
WHOLESALER TO RETAILER	1551
Wholesaler's profit @ Rs.10%	155
Total	1706
VAT 14 %	239
Retailer price	1945
Retailer profit @ Rs.10 %	194
Final consumer price	2139

1.5.1.1 The Textile Industry Using Existing Indirect Taxation Table: 1

Particulars	**Amount Rs.**
Raw material cost	1000
Working and labour charge 20%	200
Manufacturing cost	1200
CGST (6%)	72
SGST (6%)	72
Invoice value	1344
WHOLSALER TO RETAILER	
Cost of wholesaler	
Profit margin @ Rs. 10 %	1200
CGST (6 %)	120
SGST (6 %)	79 79
Invoice value	1478
RETAILER TO CONSUMER	
Cost of retailer	
Profit margin @ Rs.10 %	1320 132
Marginal cost of the product	1452
CGST (6%)	87.2
SGST (6%)	87.2
Final price to consumer	1626.23

Table: 2

Note:

The domestic textiles have not been attracting excise duty till FY2016. In the Union Budget of 2016, a concessional excise duty of 2% (with abatement of 40%), i.e. effective rate of 1.2% was applied for branded garments with MRP of greater than (>) Rs. 1000.

The table 1 is used to existing indirect tax it may show on higher product price for consumption and creates cascading effect on Goods and service.

1.5.1.2 The Textile Industry Using Proposed Goods and Service Taxation

Table: 3

Particulars	Amount Rs.
Raw material cost	1000
Working and labour charge 20%	200
Manufacturing cost	1200
IGST 12%	144
Invoice value	1344
WHOLSALER TO RETAILER	
Cost of wholesaler	
Profit margin @ Rs. 10 %	1200
CGST (6 %)	120
SGST (6 %)	79
	79
Invoice value	1478.4
RETAILER TO CONSUMER	
Cost of retailer	
Profit margin @ Rs.10 %	1320
	132
Marginal cost of the product	1452
CGST (6%)	87.2
SGST (6%)	87.2
Final price to consumer	1626.23

Note:
Input tax credit available to wholesaler will be Rs.144/-
Input tax credit available to retailer will be Rs.158.4/-

Table 2 has assumed wholesaler to retailer & retailer to consumer transaction to be local (same state). Assumed profit margin @Rs.10% for wholesaler & retailer. The table 3 has interstate transaction also gives a same consumer price but the manufacturer will pay for the tax levied on only the Central Government. So, cascading effect does not affect the manufacturer. Here the manufacturing sectors will use GST has been given positive impact on only final consumers and intermediary investors like wholesaler, and retailer especially they getting input tax credit . Because of the existing Indirect tax computed product price is greater than (>) GST computed product price (Rs.2139>Rs.1626) respectively. But the previous indirect tax system to give more subsidies for manufacturer, this proposed GST does not help directly. It should may after implementation to change the manufacturer perception.

1.5.2 Impact of Service Sector

The Service Sector provides a Service, not an actual product that could be held in your hand. Activities in the Service Sector include Retail, Banks, and Hotels, Real estate, Education, Health, Social work, Computer Service, Recreation, Media, Communication, Electricity, Gas and Water supply. Service sector slowly contribute major part of the GDP and also governments indirect tax revenue. Service sector does not only GDP contribution but attracts the foreign investment towards the Indian Economy. Currently service tax applies to all over India except Jammu and Kashmir because of that central Government has no right to collect service tax on the services rendered in that part of India but as per the Model Goods and Services Tax Law, GST will extend to all over India including Jammu &Kashmir and also which will eventually increases the Government revenue. In current tax regime, service tax is applicable at the rate of 15% on services rendered which includes 0.5% for Swatch Bharat cess and 0.5% for Krishi Kalyan Cess but it is expected that under GST regime services will be charge by higher rate of tax ranging now depends up on a product because the aerated drink should be services on hotel or restaurant the tax slap rate is 25% on GST which will make the services and works contracts costlier.

1.5.2.1 The Restaurant Using Existing Indirect Taxation

As per 2015 April food industry situated to pay 14% of service tax. The restaurant bill amount is computed and the indirect taxation of sales tax and service tax is below.

Particulars	**Amount Rs.**
Non-alcoholic drinks	1000.0
+Service charge 10%	100.0
Marginal cost price	1100.0
+VAT 14.5% on 1100	156.0
After VAT on marginal cost total	1256.0
+Servic9e tax 5.6%	70.3
Total invoice price	1326.3

Table: 4

The table: 4 are taken non-alcoholic drink for example that assumed amount is Rs.1000. Service charges at Rs.10% of the manufacturer profit margin. The marginal cost of the restaurant product and services is Rs.1100. The value added tax at Rs.14% on marginal cost amount. After adding value added tax, the service tax is been calculated from 40% of bill amount

(Rs.1256). The 14% of service tax is to be computed from the bill amount (Rs.1256) instead of the service tax 5.6 is been calculated from the 40% of service tax. All the tax included by the total invoice price is (Rs.1326.3).

Note:
The restaurant levy service tax is computed by 40% consider about bill amount and60% consider cost of material. (Source: Quora.).

1.5.2.2 The Restaurant Using Proposed Goods and Service Taxation

Particulars	**Amount Rs.**
Non-alcoholic drinks	1000.0
+Service charge 10%	100.0
Marginal cost of the product	1100.0
+CGST (12.5%)	
+SGST (12.5%)	137.5 137.5
Total invoice value	1375.0

Table: 5

Particulars	**Amount Rs.**
Non-alcoholic drinks	1000.0
+Service charge 10%	100.0
Marginal cost of the product	1100.0
+CGST (12.5%)	
+IGST (12.5%)	137.5 137.5
Total invoice value	1375.0

Table: 6

The table: 5 and 6 can also be taken as an example for restaurant with the GST model is computed within a state level transaction (Intra-State) CGST+SGST and also respectively union territories (Intra-UT) CGST+UTGST. In the proposed Goods and Service tax model gave negative result on service sector of the food industry. The existing tax payers to spend the money when buy the product Rs.1326.3/-. But The GST payers to spend Rs.1375/-. Comparatively the buyer pays more than amount of Rs.48.7/-. The price will be increases then demand will decrease. It will create revenue loss for service sector of food industries.

V. SUGGESSTION AND RECOMENTATION

The existing indirect taxation system in the service sector is 14% but the proposed GST system service tax is more than 25% and also depends upon commodity based. Manufacturer and service sectors needs to focus on the new capital formation. Execute demand based productivity and using proper production management strategies.

VI. CONCLUSION

This paper discussed and understood the existing Indirect Taxation and proposed Goods and Service Taxation. Particularly the manufacturing sector and service sector has chosen the existing Indirect Taxation and it proposed GST system was computed by both sectors. That resulted in the service sector gives negative impact on the entire role of the business transaction and the manufacturing sector has positive impact given only for the intermediary investors and the final consumers. The manufacturer has to pay exact full amount of taxation and without liberalization of any tax subsidies. So that the manufacturers need to be alert and make the strategies for how to solve the entire part of Indirect Tax payables. Still the GST council discussion processes is going on, before implementation the manufacturer problems could be solved after implementation of Goods and Service Tax in India.

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