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Transition in GST and Sector Wise Impact of GST

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Abstract:
Goods and Service Tax (GST) would be a very significant step in the field of indirect tax reforms in India. However In 2002, the Vajpayee government formed a task force to recommend tax reforms. In 2005, the Kelkar committee recommended rolling out GST as suggested by the 12th Finance Commission. The Government GST regime seeks to replace excise duty, import duties, VAT and service tax regulations, along with other cess and surcharges, with three separate legislations namely CGST, SGST and IGST. GST would be applicable to all transactions of goods and service, and it to be paid to the accounts of the Centre and the States separately. By amalgamating a large number of Central and State taxes into a single tax and allowing set-off of prior-stage taxes, it would mitigate the ill effects of cascading and pave the way for a common national market and support economic growth of a country. Other countries experience in GST has proven to be an efficient tax collection system. The implementation of GST generates more revenue as it broadens the tax base and erodes the tax evasion. Therefore, this paper will focus on Transitions in GST and Impact of GST on various sectors in India.

Keywords: Goods and service tax, Transitions, Indian Economy, Impact.

Introduction

GST is a significant reform in the field of indirect taxes in our country. Multiple taxes levied and collected by the Centre and States would be replaced by one tax called Goods and Services Tax (GST). GST is a multi-stage value added tax on consumption of goods or services or both. As GST seeks to consolidate multiple taxes into one, it is very essential to know about GST's impact on different sectors of Indian economy and have transitional provisions to ensure that the transition to the GST regime is very smooth and hassle-free and no ITC (Input Tax Credit)/benefits earned in the existing regime are lost. The transition provisions can be categorized under three.

1. Input Tax Credit
2. Refunds and Arrears
3. Other Cases : Job Work, Input Service Distributor, Composition Scheme, TDS deducted on VAT.

Input Tax Credit

Provisions have been made to carry forward the ITC earned under the existing law. Such credit available under VAT, Excise Duty or Service Tax should be permissible under the GST law .However a registered dealer opting for composition scheme will not be eligible to carry forward ITC available in previous regime.

Following are some of the cases where ITC transition provisions will be applicable:

1. Closing balance of credit on Inputs:

The closing balance of ITC as per the last return filed before GST can be taken as credit in the GST regime.

The credit will be available only if the returns for the last 6-months i.e. from January 2017 to June 2017 were filed in the previous regime (i.e. VAT, Excise and Service Tax returns had been filed).

Form TRAN 1 has to be filed by 27th December 2017 to carry forward the Input Tax Credit. TRAN 1 can be rectified only once.

2. Credit on Capital Goods:

The amount of un-utilized credit available on the capital goods can be carried forward to GST by entering the details in Form TRAN 1

3. Credit on Stock:

Service provider or a manufacturer who has the Closing Stock on which duty has been paid can take the credit of the same. Provided,

1) Dealer has declared the stock of such goods on the GST portal
2) Dealer should have the invoices for claiming this credit
3) And the above invoices should be less than 1 year old

Manufacturer or service provider who doesn't have invoices cannot claim credit under the GST regime. Only traders can claim credit in case invoice is unavailable, subject to the following conditions:

- The stock should be identifiable separately.
- The credit can be taken by the trader only if the benefit of the same is passed on to the final consumer.

4. ITC on Goods Sent Before 1st July

Input tax credit can be claimed by the manufacturer/dealer for those goods received after the appointed day, the tax on which has already been paid under previous law. Above credits would only be allowed if the invoice/tax paying document is recorded in the accounts of such person within 1st August 2017. A thirty-day extension may be granted by the competent authority on grounds of sufficient cause for delay.

Refunds and Arrears

Any claims/appeals pending for the refund on the due amount of CENVAT credit, tax or interest paid before 1st July shall be disposed of according to the previous laws.

Any amount found to be payable under previous law will be treated as arrears of GST and be recovered according to GST provisions.

Other Cases

1. Job Work

If Inputs, semi-finished goods removed for job work for carrying certain processes and returned on or after 1st July, no tax is payable provided following conditions are satisfied:

- Goods are returned to the factory within 6 months from 1st July (extendable for a maximum period of 2 months).
- Goods held by job worker Is declared in Form TRANS-1
- Supply of semi-finished goods is done only on payment of tax in India or the goods are exported out of India within 6 months from 1st July (extendable by not more than 2 months).

Taxes are not applicable if finished goods were removed before 1st July for carrying certain processes and are returned within 6 months from 1st July. **Input tax credit will be recovered if the goods are not returned within 6 months**

2. Credit Distribution by Input Service Distributor:

Transition provisions will apply in cases where the service was received prior to appointed date and the invoices received on or after appointed date. Input Service Distributor will be eligible to distribute input tax credit under GST.

3. Composition Dealer

Taxpayers who paid tax at fixed rate or fixed under the existing law but are working under normal scheme under GST can claim credit on their input stock, semi-finished and finished stock on the appointed date, subject to following conditions:

- The Input are used for taxable supply

- Registered Person is eligible for ITC under GST
- Registered Person is in possession of the invoice or other duty payment documents
- Such invoices are not more than twelve months old on the appointed date.

4. TDS deducted in VAT

If invoice was issued before the appointed day on which supplier has made any sale of goods, and tax was required to be deducted under VAT Act, however the payment was made on or after the appointed day. In such cases, no TDS under GST is to be deducted.

SECTOR WISE IMPACT OF GST:

Telecom Sector:

Under the GST regime, telecom services will be taxed at 18 per cent as against 15 per cent earlier. The sector sees it as a bigger impact though and there is a lot of hue and cry for the increased 3%. It is expected that the call charges and data rates will go up.

Automobiles:

With the standardization of GST for automobiles at 28%, two-wheelers and small and medium cars may face a higher impost. “While this may be slightly negative for players as we believe that this will be passed on to consumers. However GST eases logistics hurdles, reduces time at check-posts, and subsumes local taxes.

Pharmaceuticals:

Pharmaceutical products have seen 2 percent increase compared to previous taxes under GST. Present rate is 12 percent against the earlier rate of 10 percent. Moreover, the pharma companies cannot enjoy area-based immunities under this new tax structure and as a result, the end-consumers will suffer from the increased cost. Specifically about the pharmaceutical sector, experts say that GST for sure will remove the complexities of the business and help grow the business.

Real-estate:

The effective GST rate on under-construction real estate projects will be 12 per cent only and not 18 per cent as there will be abatement for land cost. However, the sector will see substantial benefits from GST implementation, as it has brought to the industry much-required transparency and accountability. Moreover GST rate varies for each input of real estate(eg: steel-18percent, cement-28 percent)

Fast Moving Consumer Goods (FMCG):

Items in this category include all consumables (other than groceries/pulses) .The GST Council on 10 November announced shifting as many as 178 items of daily use from the top tax bracket of 28 percent to 18 percent. While few items were shifted from 18 percent bracket to 12 percent, some other were moved from 12 percent to 5 percent. The FMCG sector is experiencing significant savings in logistics and distribution costs as the GST has eliminated the need for multiple sales depots. Due to the smoother supply chain management, payment of tax, claiming input credit, under the GST regime there will be a cost reduction in terms of transportation and storage of goods.

Conclusion:

It can be concluded from the above discussion that GST will provide relief to producers and consumers by providing wide and comprehensive coverage of input tax credit set-off, service tax set off and subsuming the several taxes. GST is thus likely to improve the tax collections and boost India’s economic development by breaking the tax barriers between the states and integrating India through a uniform tax rate. It can be further concluded that GST have a positive impact on various sectors and industry. Although implementation of GST requires concentrated efforts of all stake holders.

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