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GST – Benefits & Drawbacks for Startups and Small Businesses in India

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Abstract

GST means Goods and Service Tax. Goods and Service Tax is a complete tax imposed on manufacture, sale and utilization of supplies and services. It is mostly a substitute of all indirect taxes which forced on supplies and services by the Central and State government of India. Goods and Services Tax would be levied and collected at each phase of sale or purchase of goods or services based on the input tax credit process. The main objective of GST is One Nation, One Tax and One Market. Integration of several Central and State taxes into a single tax would moderate pouring or dual taxation, facilitating a universal national market. It is such type of tax till the ultimate consumers will improve competitiveness of original goods and services in the market which directly impact on GDP growth of the country. The major benefit of GST is that it wills distinctive tax elusion. With the execution of GST in India, the procedure for GST registration would be centralized and uniformed similar to service tax registration. The procedure for obtaining GST registration would be uniformed, thereby improving the easiness of starting a new startup & small business in India. The main impact of GST on Startups & tiny businesses in India is that, once GST is implemented in India, businesses with revenue of less than Rs.10 lakhs per annum would not have to index for GST nor collect GST. Further rising of invoices will be easier for businesses as one rate would be approved for all supplies and services. But key weakness of GST rule for businessmen of startups & small businesses are filling of tax return and control of business.

Keywords: GST, GDP, Service Tax, Input Tax, Indirect Tax, Goods.

1. Introduction

GST means Goods and Service Tax. GST is a game changing reform for Indian economy by developing a common Indian market and dipping the heavy effect of tax on the cost of goods and services. It impacts the Tax Structure, Tax Incidence, Tax Computation, Tax Payment, Compliance, Credit operation and Reporting leading to a complete overhaul of the current indirect tax system. The Goods and Services Tax Bill or GST Bill, officially known as The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014, which proposes a national Value Added Tax to be implemented in India from 1 April 2017. At first, in budget 2006-07, then the Finance Minister Mr. P.Chidambaram announced that, GST will effect from 1st April 2010. Subsequently an Empowered Committee of State Finance ministers was formed to draw up roadmap and design of GST. On April 2008 EC, headed by the then West Bengal Finance Minister Asim Dasgupta submits report to the central government, which offers its views and comments in October and December of that year. Joint working groups are then set up to observe options on exemptions and thresholds, taxation of services and inter-state supplies, etc. On November 2009 EC releases its first discussion paper. On 22nd March 2011 the Constitution (115th Amendment) Bill is introduced in Lok Sabha; which is referred to Parliamentary Standing Committee on Finance, which submitted its report on August 7, 2013. The said bill failed as term of the Lok Sabha ended in 2014. On 19th December 2014 Constitution Amendment Bill introduced in Lok Sabha. This Constitution Amendment Bill was passed by Lok Sabha on 06th May 2015. On 12th May 2015 the bill was refereed to 21 members Select Committee of Rajya Sabha headed by Bhupender Yadav. On 22nd July, Select Committee submitted its report to Parliament. In the budget session 2016 opposition led by Congress raised some striking points. To solve this crisis the President constituted the GST council. The GST council formulated some recommendations. Parliament passed the 122nd Constitution Amendment Bill 2014 in last week. While Rajya Sabha accepted the Bill on August 3, the Lok Sabha did the same on 08th August 2016.

2. Constitutional Amendment

It basically seeks to penance the Constitution to allow both the Centre and the states to charge GST. This they cannot do now, because the Centre can't compel any tax on goods beyond manufacturing (Excise) or primary import (Customs) stage, while states do not have the power to tax services. Thus the constitution does not vest clear power either in the Central or State government to force tax on the "supply on goods and services". More over the constitution does not allow the state to impose tax on imports. Therefore it is vital to have Constitutional Amendments for empowering the Central to impose tax on sale of goods and States for charge of service tax and tax on imports. On 08th September 2016, The President of India has given his assent to the GST bill. Later the Government of India has processed the outline and functioning of GST Council and its first meeting will be held on 22nd and 23rd September 2016. Members of this council are the Finance Ministers of 29 states and 02 union territories in India and its chairman is Union Finance Minister. The target of government is to start GST from 1st April 2017.But due to Constitutional obligation the GST now could be rolled out by 16th September 2017 as the existing indirect taxes will come to finish and it would not be probable for either centre or state to accumulate indirect taxes.GST council met various times to overcome the vexed dual control issue. The twin control has been a glue point between the centre and states, which has so far deferred consensus amongst the council members. However the government is to start GST from 1st July 2017 instead of 1st April 2017.

3. Literature Analysis

The famous studies that have been carried out on Goods and Service Tax in India are briefly and chronologically presented below:

Rajesh Chadha.et.al. (December, 2009): The researcher stated that, the impact of India's growth and international trade after implementation of GST in India. Implementation of comprehensive GST across goods and services is expected, ceteris Paribus, to increase India's GDP somewhere within a range of 0.9 per cent to 1.7 per cent. The additional gain in GDP, originating from the GST reform, would be earned during all years in future over and above the growth in GDP which would have been achieved otherwise.

Saurabh Singhal (June, 2016): The researcher had undertaken the study about the impact of goods and service tax (GST) on professionals (CA, CS & CMA) in India.

Deepshikha Sikarwar (August, 2016): The researcher stated that, the oil and gas sector will not grow from the goods and service tax (GST) and will lose out due to fulfillment with twin taxation systems and non-creditable tax costs.

Nirmal Jain (August, 2016): The researcher had undertaken the study about the GST rate in India. The researcher suggested that, the lower than expected GST rate could be the real game changer.

Commercial Tax Dept., Orissa (2016): The researcher had undertaken the study about the impact of proposed GST structure on the prices of Goods of Mass consumption in Orissa. From the study it is found that, the prices of some commodities go up and down in GST regime.
Neha Kanojia (2016): In this study the researcher understand about the goods and service tax in India, its benefits and also its current status in India. The researcher pointed out that goods and service tax is an improvement over VAT and Service Tax.

4. Definition of GST

GST means Goods and Service Tax.
G – Goods
S – Service
T – Tax
Goods and Service Tax is a complete tax imposed on manufacture, sale and expenditure of supplies and services. It is mostly a proxy of all indirect taxes which forced on supplies and services by the Central and State government of India. Goods and Services Tax would be levied and collected at each phase of sale or purchase of goods or services based on the input tax credit process.

5. Objectives of GST

The main objective of GST is One Country, One Tax and One Market. Merging several Central and State taxes into a single tax would lessen driving of double taxation, facilitating a common national market. It is such type of tax till the last consumers will improve competitiveness of original goods and services in the market which directly impact on GDP addition of the country.GST is an objective based consumption tax based on VAT rule. In this research, our objectives are as follows:

- ❖ To understand the concept of Goods and Service Tax
- ❖ To know the difference of prices of goods between GST and non-GST system.
- ❖ To appreciate the rate of GST in India and compare with outside India
- ❖ To know the general benefits of GST

- To know the benefits of GST for startups and small businesses in India
- To know the drawbacks of GST for startups & small businesses in India.

6. Research Methodology

Exploratory research methodology has been utilized in this paper. Secondary data is been used and it is sourced from journals, articles, magazines and media report. The research design is been adopted to acquire greater accuracy and in depth analysis for the purpose of the study.

7. How GST differs from the current regime & how it will work?

Manufacturing → Wholesale → Retail

Table: 1

Amount in Rupees

Particulars	**In GST system**	**In Non-GST system**
Manufacturer		
Purchase of Raw materials	100	100
Tax paid @10% of Raw materials	10	10
Value added to the materials	30	30
Gross Value of goods	130	130
Tax on output @10%	13	13
GST incidence on Manufacturer (13-10)	3	___
Wholesaler		
Purchase value of goods from manufacturer	130	143
value added(say 'margin')	20	20
Gross Value of goods	150	163
Tax @ 10%	15	16.3
GST incidence on Wholesaler (15-13)	2	____
Retailer		
Purchase price of goods from wholesaler	150	179.3
value added(say 'margin')	10	10
Gross Value of goods	160	189.3
Tax @ 10%	16	18.93
GST incidence on retailer(16-15)	1	____
Total GST on entire value chain(10+3+2+1)	16	____
Total Tax on entire value chain in full non-GST regime(10+13+16.3+18.93)	____	58.23

Price of goods for the final consumer	166	208.23

From the above, it is clear that, in non GST regime the value of the goods is Rs. 208.23 with tax Rs. 58.23 and in case of GST regime value of goods will be cheaper i.e. Rs. 166 with tax Rs. 16.

8. Rate of GST

The most vital thing for its impact and worth is the GST tax rate. The tax-rate under the proposed GST would fall, but the number of assesses would rise by 5-6 times. Although tax rate would come down, tax collection should go up due to increased tax elasticity. The government is working prolong on a special IT plat form for soft execution of the proposed Goods and Service Tax (GST). The Arvind Subramanian committee expected revenue impartial rate of 15-15.5% and suggested a standard rate should be in the range of 16.9 - 18.9% with a lower band of 16.9- 17.7% being the chosen option. Highest rate was captivated at 40%. Most of the states in India also want to fix the tax rate above 18%.Current GST rates of some countries in world are as follows:

Table: 2

Country	GST Rate
Australia	10%
France	19.6%
Canada	5%
New Zealand	15%
Singapore	7%
Japan	5%
Germany	19%

www.gstindia.com

The average rate of Asia specific is 10% and the average rate of global is 16.4%. But India can start with lower GST rates. The lower rate would mean lesser enticement for tax avoidance and encourage better compliance. However the GST council has finalized the seven tier GST rate structure of 0%, 0.25%, 3%, 5%, 12%, 18% & 28% in the meeting. The lower rate for essential & important items and highest rate for luxury and de-merit goods that would also attract an additional cess. Luxury cars, supplies, tobacco and alcoholic drinks would also be levied with an extra cess on top of the highest tax rate. The total collection from this cess would create a revenue pool which would be used for recompensing states for any loss of income during the first five years of execution of GST.

9. Goods and Services covered under GST

All goods and services are likely to be enclosed under GST except the following

- Petroleum products – Five products namely Petroleum crude, high speed diesel, motor spirit (petrol), natural gas and aviation turbine fuel –Central Sales Tax
- Real Estate- Stamp Duty plus Property Taxes would be payable
- Electricity- Electricity Duty
- Tobacco products- under GST as well as Central Excise
- Alcohol for human consumption- State Excise

10. Amalgamation of Multiple Taxes in GST

The proposed GST would include various central (Excise Duty, Additional Excise Duty, service tax, Countervailing or Additional Customs Duty, Special Additional Duty of Customs, etc.), as well as state-level indirect taxes (VAT/sales tax, purchase tax, entertainment tax, luxury tax, octroi, entry tax, etc). Once the Bill is approved in Parliament, there will only be a national-level central GST and a state-level GST spanning the entire value chain for all goods and services, with some exemptions.

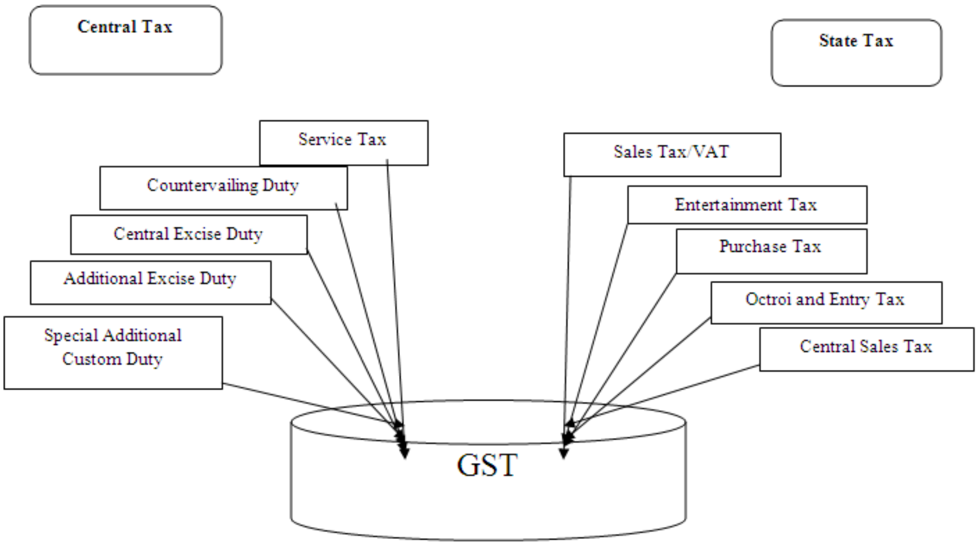

Figure: 1

11. General Benefits of GST

The main benefit of GST is that it wills distinctive tax elusion. If you don't pay tax on sell, you don't get credit for taxes on your inputs. Also, you will buy only from those who have already registered and paid taxes on what they are supplying. As a result, a lot of currently dissident transactions will come over ground. Supplies and services will cover lower tax rate on value adding and set-off against taxes on inputs. At present we have more tax on lesser items of goods and services. But with GST, there will be fewer taxes on more items. However the general benefits of GST are as follows:

(i) Understanding and maintaining easily
(ii) Elimination of cross cascading
(iii) Competitive growth
(iv) Optimization of GST rate and infrastructure
(v) Execution of one and only luminous tax scheme
(vi) Dropping of overall tax burden

12. Easy opening of Business in India under GST

While a new business is opening in India, businesses currently have to get VAT registration from the State's Sales Tax Department at first. Since, each State has diverse procedures, forms and fees for VAT registration, it is very tough for businesses which are operating in multiple States to obtain and keep compliance with VAT regulations. With the achievement of GST in India, the method for GST registration would be centralized and uniformed similar to service tax registration. Under GST rule, business would no longer have to attain multiple VAT registration – as a single GST registration would be valid across India. The practice for getting GST registration would also be uniformed, thereby civilizing the easiness of starting a new business in India.

13. Exemption under GST for Startups and Small Businesses

Currently, VAT registration and VAT payment is obligatory in India once a business crosses a yearly earnings of Rs.5 lakhs in some States and Rs.10 lakhs in a few other States. The multiple VAT legislation enacted by each State creates bewilderment and complexities. Once GST is forced in India, businesses with revenue of less than Rs.10 lakhs per annum would not have to index for GST nor collect GST again. Further, businesses whose annual sales turnover of Rs.10 lakhs to Rs.50 lakhs may have to pay GST only at a lesser rate. Therefore, once GST is rolled out, thousands of startups and small businesses currently having annual sales earnings of Rs.5 lakhs – Rs.10 lakhs would be absent of the tax and they should be relief from collection and filing of GST returns. Currently, businesses like restaurant or computer services which sell goods and provide services as a parcel basis have to execute both VAT and service tax rules. This creates more intricacy and difficulty for the businesses. They estimate tax on different rates for different objects. With the accomplishment of GST this distinction between supplies and services will be conquer. Further rising of invoices will be easier for businesses as one rate would be adopted for all goods and services.

14. Drawbacks of GST for small businessmen in India

- Drawback in GST regime for businessmen is filling of Tax return. Under current Vat laws, in case of most of the states, periodical returns are to be submitted, in addition, a yearly return is required, while service tax laws ask for compliance of two half yearly returns and a yearly return. In GST law, one would require to file not less than 37 returns for a fiscal year. This includes various files such as monthly outer supplies return, monthly inner supplies return, monthly summary returns and one annual return etc.
- Another disadvantage of GST for businessmen in India is control of business. As the control of business will be of state or central government so it may be some complex for businessmen.
- All credits will be on online and some penalties are like criminal activity. So it is frightening for startups and small businessmen who are now free from taxes.
- GST is also having three types of taxes and all have to be maintained. This is not going to be easy for startups and small businessmen.

15. Conclusion

GST, the major change in India's indirect tax structure since the economy began to opened up 25 years ago, at last looks set to become fact. Beside the advantages of GST there are also some disadvantages. These are the losses which will affect the small businessmen only in short term and may not be sore in the long run if the system will work properly. Obviously GST will be benefited for the Startups and Small businesses after implementing in India. We, the Indian expect lot of hopes from government regarding prologue and execution of GST in India. GST will directly urge economic growth after accomplishment in India.

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