

GST- Benefits For Start Ups And Common Man

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Abstract: According to World Bank report of 2016, India is a Lower Middle Income country, that needs planned saving and investment so that the objective of growth and development can be achieved. Now after the policy of Jan Dhan Yojna of Prime Minister Narendra Modi ji, most of weaker section or poor people have opened their account in banks but only opening bank account is not financial inclusion. There are many determinants which spreads financial inclusion such as banks, insurance companies, post-offices, micro-finance institutions and self-help groups etc. This study is based on banking facility provided to people in Haryana (District wise) in 2015. The main determinants to find out financial inclusion are number of offices, saving and loan. The researcher has found out the effect of socio economic factor on financial inclusion. By applying the index of financial inclusion, it is denoted that zero value define complete financial exclusion and one shows complete financial inclusion.

I. INTRODUCTION

The biggest indirect tax reform since 1947, GST bill is expected to bring about an economic integration of the Indian economy. GST will help consolidate and streamline the process of indirect taxation and make it easier and more effective. The tax payers will pay one consolidated tax instead of the plethora of taxes including State Value-Added Tax (VAT), Central Excise, Service Tax, Entry Tax or Octroi and a few other indirect taxes.

“The challenges faced due to a complicated tax system on business transactions has been debated for a long time,” said R Narayan, Founder and CEO, Power 2SME. This tax will be levied on manufacture, sale and consumption of goods as well as services at the Central and State government levels. “The distinction between Goods and Services will be reduced gradually, thereby making tax compliances easier,” he added. Most of the developed countries use this form of taxation for ease and convenience and to avoid double taxation.

II. WHAT IS GST

✓ GST is an indirect tax reform which aims to remove barriers between states and create a single market.

GST would be payable on price actually paid or payable, termed as "transaction value", which will include packing cost, commission, and all other expenses incurred for sales. This tax will be payable at the final point of the consumption. The GST will have two components – the Central GST and the State GST, thus, empowering both the State and Central government to legislate and administer their respective taxes.

Except the Tamil Nadu government, which believes that this bill will take away the autonomy of the State government, all other States are in support of the bill.

GST will help to realize the dream “make in india” program of government of India. New startup will arise. This will reduce the long queues in check posts.

.....For Startups

GST is deemed to benefit all businesses in India, but small businesses can rejoice for the following reasons:

- ✓ **SIMPLE TAXATION:** Currently, a startup spends a lot of time and energy to manage the various taxes at various points. Adhering to different regulations at different States make the process very complex. GST will simplify the process by integrating all taxes, making the process of paying tax simpler.
- ✓ **EASE OF STARTING BUSINESS:** Any new business needs to have a VAT registration from sales tax department. A business operating in many States has to

face a lot of issues regarding the different procedures and fees in each state. GST will bring about a uniformity in process and centralized registration that will make starting business and expanding in different States much simpler.

- ✓ **HIGHER EXEMPTIONS TO NEW BUSINESSES:** As per the current structure, any business with a turnover of more than Rs five lakh has to get VAT registration and pay VAT. GST will make this limit higher, to upto Rs 10 lakh and, further to it, businesses with turnover between Rs 10 and 50 lakh will be taxed at a lower rates. This will bring respite from tax burdens to newly established businesses.
- ✓ **RESPIRE FOR BUSINESSES IN BOTH SALES AND SERVICES:** Businesses like restaurants, which fall under both sales and service taxation, have to calculate the VAT and service tax on both items separately. This makes the calculations process very complex. GST will not distinguish between sales and services, and thus the tax calculation will be done on total.
- ✓ **REDUCTION IN LOGISTICS COST AND TIME ACROSS STATES:** Many transport vehicles get delayed during movement across States due to small border tax and check post issues. Interstate movement will become cheaper and less time consuming, as these taxes will be eliminated. "The whole Indian market opens up for manufacturers as interstate supply becomes tax-neutral," explained Narayan. This will also bring down costs associated with maintaining high stocks, as there will be undisrupted movement of goods. As per a CRISIL analysis, GST can reduce logistics costs of companies producing non-bulk goods (comprising all goods besides the primary bulk commodities transported by railways - coal, iron ore, cement, steel, food grains, and fertilizers) by as much as 20 percent.
- ✓ **REDUCE THE COST:** Unlike VAT and service tax, GST is essentially a tax on value addition at each stage, and levied at point of sale and not purchase. This means that the consumer bears the GST charged by only the last dealer in the supply chain, thus making it cheaper for the consumer and increasing the profitability of his business. Secondly, there are various other taxes levied by the Central and State government on production, manufacture and distributive trade, where no set-off is available in the form of input tax credit. These taxes accumulate and lead to increasing the cost of final product which the consumer has to bear. GST subsumes all these taxes which are set off at each stage starting from producer and ending at the retailer, thus easing the burden on final consumer.
- ✓ **MORE EFFICIENT BUSINESSES:** However, there are also numerous indirect benefits. GST is supposed to benefit the nation as a whole. Any system that benefits the nation will benefit its citizen as well. Businesses will find it easier to comply with tax laws. Thus they will devote less time in figuring out the maze of indirect taxes and more time on running their business more efficiently. Increased efficiency will lead to better products for the consumer.
- ✓ **MORE FOREIGN INVESTMENTS:** An easier tax regime is also likely to attract more foreign investors. Foreign investor means increased competition. Increased competition means better cheaper goods.

- ✓ **BETTER ENFORCEMENT:** Even though there are likely to be some hiccups in the short run, the long term benefits of GST are huge. It will create a level playing field for all states. It will create uniform rules and regulations and compliance norms across the country. It will bring down administrative costs as it will require fewer offices and officers. It has also been seen that Central government has been better in enforcing tax laws than state governments. As a result number of slip ups and litigations are likely to be lower.

III. CONCLUSION

Critics of GST argue that implementation of this tax will lead to losing the fiscal autonomy of the States and cause permanent revenue loss. For a manufacturing State like Tamil Nadu, if taxes are levied at the point of purchase (point of destination) and not on point of sale (point of origin), it can lead to permanent losses close to the tune of Rs 9,270 crore. However, the government has offered to pay compensations to States for the losses borne by them for a transition period.

"Also, the government could not bring complete amendment in the bill. The separate State and Central GST system will not completely eliminate the irregular and double taxation problem and only bring it down," said Rahul, adding, "The States will be presenting their policies in the upcoming monsoon session, thus it remains to be seen how uniform these policies will turn out to be".

HOW WOULD A COMMON MAN BE BENEFITED BY THE INTRODUCTION OF THE GST (GOODS AND SERVICE TAX) IN INDIA?

I would like to add three very important ways in which GST will help our economy.

- ✓ **GST will reduce tax evasion.** There is a very logical reason as to how GST will help in reducing tax evasion. *All traders will insist on taking bills for all their purchases.*

Let us understand this with an example. Suppose you are a mobile phone distributor. You are buying mobile phones from the manufacturer and selling to wholesaler.

This is the net position after introduction of GST.

	Present Scenario		After GST	
	With Invoice	Without Invoice	With Invoice	Without Invoice
Manufacturer to Distributor				
Sale price of Phone	10000	11000	10000	110000
Add: Excise duty @12%	1200			
Add: VAT @4%	448			
Add: GST @16%			1600	
Final Payment	11648	11000	11600	110000
Distributor to Wholesaler				

Sale price of Phone	15000	15000	15000	15000
Add: VAT @4%	600			
Add: GST @16%			2400	
Final Receipt	15600	15000	17400	15000
Payment of Tax by distributor	152		800	
Net profit to distributor				
Sale price of Phone	15600	15000	17400	15000
Less: purchase Cost	11648	11000	11600	11000
Less: net tax paid	152		800	
Net profit to distributor	3800	4000	5000	4000
	Distributor will prefer without invoice		Distributor will prefer with invoice	

Table 1

As we can see, all the distributors will prefer to purchase with invoice, because it gives them a better profit margin.

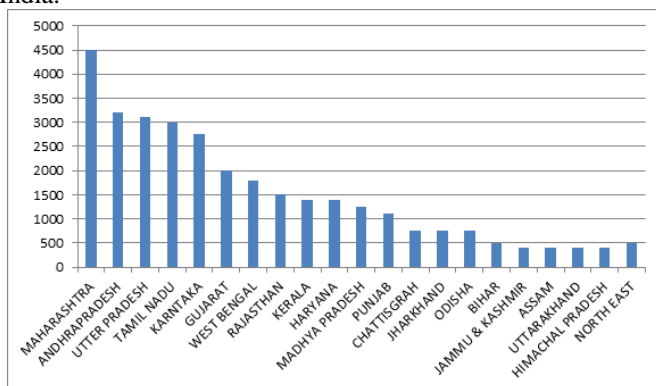
This is because the distributor will get credit of all the taxes paid at the previous stage. In the present scenario, the distributor has to bear the burden of excise duty. Therefore, for him it makes more sense to simply avoid paying taxes.

However, after the introduction of GST, it will be more beneficial to purchase goods on invoice. Now, if the customer himself insists on taking the bill, we can assume that tax evasion will fall. This is the biggest advantage of GST.

✓ GST will give more money to under-developed states. Why is Gujarat a very developed state in India? Why can't industries come up in backward states such as Bihar and Jharkhand?

The problem is - lack of infrastructure. Governments in Bihar cannot provide basic facilities such as electricity and water. This is because these states are not rich. Why are these states not rich? Because the tax collections are much less compared to other states.

Take a look at the tax collections of various states in India.



You can see that there is a big difference between states; and that tax collections are highest in manufacturing states.

GST will ensure that tax collections in other states also rise, because GST is a consumption based tax.

	Present Scenario	After GST
Intra-State Sales	Tax Collection Goes To The Same State	Tax Collection Goes To The Same State
Inter-State Sales	Tax Collection Goes To Originating State	Tax Collection Goes To Destination State

Table 2

This is because, being a consumption based tax, tax collection will go to the states in which the goods are consumed, and not where they are manufactured.

Now, where are the goods consumed? Typically speaking, more consumption will take place in states where the population is higher. As a result of this, the *per capita tax collection in the economy, across various states will even out*

This will be another advantage to the economy of the country, because more taxes will accrue to states that have need of money; which, in turn, will get developed.

✓ GST will remove location bias, thereby giving support to smaller businesses. Another big advantage in GST is that it will even out the tax structures of various states. This removes a location bias. Therefore, I can set up my factory in any state of the country, without having to worry about tax differences. In any ideal scenario, taxes should not be a hindrance to my investment decision. In India, this will go away once GST is introduced. This means that even undeveloped locations can see more businesses coming up.

A small retailer in Madhya Pradesh can transfer its goods to Uttar Pradesh and purchase its goods from Rajasthan. It can also take input services from a contractor located in Bihar and pay advertising charges to an agency in Karnataka - all this, without any significant worry about taxation. Why? Because tax structure in all these states will be the same!

POSITIVE IMPACT OF GST ON THE COMMON MAN

- ✓ A unified tax system removing a bundle of indirect taxes.
- ✓ Less tax compliance.
- ✓ Removes cascading effect of taxes.
- ✓ Manufacturing costs will be reduced, hence prices of consumer goods likely to come down.
- ✓ Due to reduced costs some products like cars, FMCG etc. will become cheaper.
- ✓ Lower prices will increase demand/consumption. Increased demand will lead to increase supply. Hence, rise in production of goods. The increased production will lead to more job opportunities in the long run. But, this can happen only if consumers actually get cheaper goods.
- ✓ A unified tax regime will lead to less corruption which will indirectly affect the common man.

Hence, this is possible only if the benefit is actually passed on to the consumers. There are other factors also like the sellers profit margin that determine the final price of goods. GST alone does not determine the final price of goods.

NEGATIVE IMPACT OF GST ON THE COMMON MAN

- ✓ Services will become expensive. e.g. Telecom, banking, airline etc.

- ✓ Being a new tax, it will take some time for the people to understand its implications.
- ✓ It is easier said than done. There are always some complications attached.
- ✓ If actual benefit is not passed to consumer and seller increases his profit margin, the prices of goods can also see a rising trend.

However, GST is a long term strategy and the positive impact shall be seen in the long run only. This can happen if GST is introduced at a nominal rate (hope so) to reduce the overall tax burden of the final consumers.

In conclusion, we can say that GST is one tax that can be a major breakthrough in the Indian taxation system.

The rate of GST also plays a crucial role in deciding the actual impact of GST on the common man.

Let us hope this “One nation, one tax” proves to be beneficial to the common man.

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