

GST: Its Impact on Services Availed by Consumers

Rajwinder Kaur, Research Scholar and Assistant Professor, S.N. College, Banga, Punjab

ABSTRACT

GST (Goods and Services Tax) is one of the biggest tax reforms of Indian tax structure. Being uniform tax, it has replaced many cascading indirect taxes. Amalgamation of central and state taxes will help in boosting Indian economy and enhancing its position in International markets. Input tax credit has made GST beneficial for consumers. This paper will highlight the concept, features, timeline and effect of GST on services utilised by consumers.

Keywords

GST (Goods and Services Tax), implementation, impact on consumers, services, tax system

INTRODUCTION

Indian taxation structure is well defined between centre and state. Indian taxation system is related with ancient tax system that emphasized more on social welfare. It comprises of direct and indirect taxes. Direct taxes are paid by assesses while indirect taxes are charged on goods and services. In last ten years, Indian taxation system has undergone tremendous changes. New tax laws have been made for reducing complexity and bringing transparency in taxation payment. GST (Goods and Services Tax) implemented on June 30, 2017 midnight to integrate the taxation structure is very prominent step taken by Indian government by bringing various indirect taxes in one basket. It has replaced 17 indirect taxes and 22 cesses. GST was first introduced in 1954 in France. Only Canada has a dual model like India. After France, Japan, South Korea, UK, Australia has adopted GST. More than 150 countries have implemented GST. Four laws have been passed regarding GST- GST, CGST (Central GST), SGST (State GST) and UTGST (Union Territories GST).

LITERATURE REVIEW

Neha Rani, Sunil (2016) in their research paper, "An Overview about the Impact of GST on Various Sectors of Indian Economy" discussed the impact of GST on various

sectors and stated that GST will have positive impact on automobile, tourism and entertainment services while hospitality and e-commerce areas will have to bear burden of new tax system. They further concluded that if removed loopholes, GST will be fruitful to Indian economy.

Bhavana Sahu (2016) in her research paper, "GST in India- Its Realities and Impact" cleared that GST will be advantageous for GDP of India and it will create employment opportunities and will make Indian products competitive in International market. He further stated that prices of some goods and services will hike while some of them will become cheaper.

Jaspreet Kaur (2016) in her research paper, "Goods and Services Tax (GST) and its Impact" (2016) studied impact of GST and concluded that electronic goods, medicines, SUV cars, entertainment and restaurant services will see cut down in their prices but there will be more tax burden in case of packaged food, jewellery and mobile services.

Sakhram Mujalde, Avi Vani (2017) in their research paper, "Goods and Services Tax (GST) and its outcome in India" concluded that implementation of GST will bring transparency and simplicity in Indian taxation system with uniform tax rate.

RESEARCH METHODOLOGY

It is explanatory research based on secondary data collected from newspapers, magazines, published articles and respective journals.

OBJECTIVES OF STUDY

The objective of writing this paper is as follows:

- To study the concept of Goods and Services Tax
- To analyse the history of GST in India and highlight the salient features of GST
- To scrutinize the impact of GST on services consumed by people.

TIMELINE OF GST IN INDIA

In 2000, Vajpayee government appointed an Empowerment Committee under supervision of then Finance Minister, Asim Gupta. In 2004, Vijya Kelkar recommended GST to replace current taxation system. In February 2006, GST appeared in budget speech for first time. Finance minister P. Chidambaram set target to implement GST by year 2010. In February 2007, he said that Empowered Committee will prepare roadmap for GST. In April 2008, committee submitted a report, "A Model and Roadmap Goods and Services Tax (GST) in India." In February 2010, project for computerisation of commercial taxes was launched by government. In March 2011, Constitutional Amendment Bill (115th) was introduced in Lok Sabha. After that Bill was referred to Standing Committee on finance. In August 2013, Standing Committee submitted report to Parliament regarding improvements but bill was lapsed with dissolving of Lok Sabha. In December 2014, Constitutional Amendment Bill (122nd) was approved and presented in Lok Sabha and was passed on 6 May 2015. The amendment bill was propounded in Rajya Sabha on 12 May 2016 and finally sanctioned in August 2016 by two-third majority. It became law on 8 September 2016 when President signed the Bill. [4]

GOODS AND SERVICES TAX (GST)

GST is destination based indirect tax that is levied on value addition. It is dual tax that is it includes both CGST (central goods and services tax) and SGST (state goods and services tax). Table-1 Shows that there are four tax slabs for goods that are 5%, 12%, 18%, 28%. Indirect tax rate on services was 15%. With GST tax regime, it has been inclined to 18% but all non-creditable taxes have become creditable.

Table 1. GST Tax Slabs

0%	Zero rate	Food grains and necessary goods
5%	Concessional rate	Mass consumption goods
12%	Standard rate	Most products
18%	Standard rate	Most products
28%	Highest rate	Luxury goods

FEATURES OF GST

- GST (Goods and Services Tax) is a unified indirect tax levied on all goods and services except exempted goods and services.
- GST is based on dual model – CGST and SGST. CGST is charged by central government while SGST by state government. IGST (Integrated GST) is imposed by centre on intra state transfers.
- It is destination based tax.
- It is collected at point of sale.
- GST has facilitated the movement of goods throughout the country.
- Import of goods is taxed at basic custom duty and IGST (Integrated GST).
- CGST and SGST is shared equally by centre and state government.
- It is applied if turnover of business exceeds Rs. 20 lakhs and Rs. 10 lakhs in case of north eastern states.
- Taxes paid against CGST can be taken as ITC (Input Tax Credit) but only from tax payable.
- Cross utilisation of Input Tax Credit between centre and state is allowed only in case of intra state transfers. [1, 3, 4]

GST ON SERVICES

Service sector is dominant in India as it provides employment on large scale as well attracts foreign investment into the country. It covers various services like restaurants and hotels, transport, banking, insurance, entertainment and telecommunication services. The bulk of services are under 18% tax rate. The rates have been increased on most of services but due to availability of Input Tax Credit (ITC), the effect of GST is not inflating on consumers as said by Arun Jaitley (chairman of GST council). [4, 6, 7]

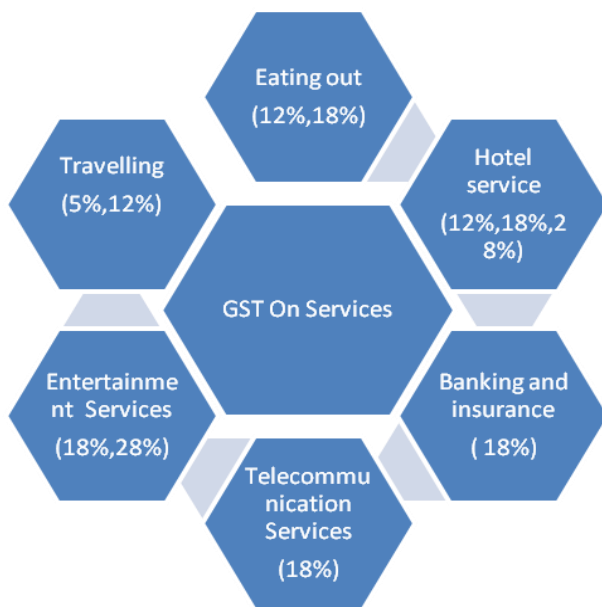


Fig. GST on Services

IMPACT ON EATING OUT

GST will have immense impact on dining out. The current size of Indian Food Service Industry is Rs. 2,47,600 crores and is projected to grow to Rs. 4,08,040 crores by 2018 at 11%. (**Indian Food Service Report, 2013**). Earlier restaurant bill had three components: VAT, service tax and service charge. VAT is charged on food items, service tax on services provided by restaurant and service charge is charged by restaurants, not by government.

Table-2 states that before implementation of GST, VAT was charged at 14.5%, service tax at 6% and service charge at 10%. This amounts to about 20.5% tax. Service charge is charged even after GST. This system had created complexity for restaurants and government. Under GST compliance is required under tax system only.

Rate on restaurants is divided into two categories: Non-Air conditional restaurants and Air conditional restaurants. Non-Air conditional restaurants not serving alcohol are charged at rate of 12% while serving alcohol at 18%. Air conditioned restaurants are taxed at 18% whether providing alcohol or not. Under GST tax rate is less than VAT system. On transaction of Rs. 4000, tax will amount to Rs. 5319.6 after charging VAT, service tax, Krishi Kalyan cess and Swachh Bharat cess. Under GST, it will be only Rs. 5104.

Table 2. Comparison of Restaurant Bill under VAT and GST System

(Amount in Rs. Crore)

VAT System	Rs.	GST System	Rs.
Transaction Amount	4000	Transaction Amount	4000
Service charge @ 10%	400	Service charge @ 10%	400
	4400		4400
Service tax @ 6%	264	GST @ 28%	
KKC @ 0.2%	8.80	-CGST 9%	352
SBC @ 0.2%	8.80	-SGST 9%	352
VAT @ 14.5%	638		
TOTAL	5319.60	TOTAL	5104

Under GST system consumer will save Rs. 215.6. GST will also make easier for restaurants to take input tax credit from total output liability. [6, 8, 10]

IMPACT ON TRAVELLING

Travelling is extensively used service that includes four basic modes that is Air travel, Railways, Buses and Cabs. GST rates are disappointing for passengers.

- Air travel-Tax rates on economy class air tickets have been reduced to 5% from earlier 6%. However, business class air tickets have become expensive with 12% tax rate which is 3% more than previous rate. Tax rate on online booking of air tickets has also been hiked from 15% to 18%.
- Railways-Service tax on AC railway ticket has been marked up to 5% from 4.5% whereas Non-AC tickets have been exempted from GST. Travelling on metro, local train, religious travel, Haj yatra have kept away from GST.
- Bus travel-There is no GST on Non-AC buses and for AC buses it has been cut down from 6% to 5%.
- Cab travel-GST has brought good news for radio cab riders. Tax is levied only on radio taxis not on metered cabs or auto rickshaws. Tax rate has been brought down to 5% from 6% for bookings made under on cab aggregators like Uber, Ola.

The GST Council have exempted the inter-state movement of any mode of conveyance from IGST (Integrated GST). The burden of higher rates is on end consumer as business passengers can claim Input Tax Credit. [6, 9, 10]

IMPACT ON BANKING AND INSURANCE SERVICE

GST has inclined up the price of banking services. Customers have to pay 3% more tax for utilising banking services at 18% tax rate. Banking services charged at higher rate includes debit card, locker rent, issuance of cheque books, and collection of bills and cheques and SMS alerts. The cost of more paperwork and filing of GST returns will pass on to end customer but business customers can have input tax credit on business accounts. [6, 11]

IMPACT ON INSURANCE SERVICES

Tax on life and non-life insurance has been raised to 18% from 15%. In countries like Africa, Australia, Malaysia and EU no GST is applicable on insurance services as it is treated as social security provided by government.

- Life Insurance- Life insurance products are term PLANS and endowment plans. Service tax was levied at 15% whereas under GST it is 18%. This implies if policyholder's insurance premium is Rs. 50000 per annum then he has to 3% more tax from his pocket that is Rs. 1500.
- Endowment plans were attracting service tax at 3.75% on first insurance premium. Under GST, insured has to pay 4.5% on first premium and 1.88% on renewal of policy. [6, 10, 11]

IMPACT OF GST ON ENTERTAINMENT SERVICES

Under VAT system, entertainment tax was imposed up to 110%. by states. The rate varied from state to state. In states of Punjab, Himachal Pradesh, Jammu and Kashmir and Rajasthan it was 0% (NIL) while it was highest in state of Jharkhand that is 110%. In Madhya Pradesh, Gujarat and Andhra Pradesh it was 20%. 30% rate was applied in Karnataka, Kerala and West Bengal and 60% in Uttar Pradesh. In Assam, there were two rates, for tickets that cost less than Rs. 20 it was 15% and that cost above Rs. 20, it was 20%. In Tamil Nadu, it was 15% but exempted for Tamil films.

After implementation of GST, entertainment service tax is fixed at 28% for cinema and movie festivals and for circus, theatre and it is 18%. Food and beverages are assessed with 18% tax.

Therefore, GST will have mixed effect on entertainment service depending upon states. It is beneficial for states that earlier were under high tax bracket but adverse for those that were attracting less entertainment tax. [2, 6, 10, 12]

IMPACT ON HOTEL SERVICES

Under VAT system, hotels were liable to pay various taxes like VAT, luxury tax, service tax and service charge. Service tax is tax levied by central government while service charge is collected by hotel for providing services. Service tax is mandatory while service charge is at discretion of hotel management. A hotel room if tariff exceed Rs. 1000 was imposed at 15% tax. There was also abatement of 40% that means actual rate was 9%. Along with this VAT (12%-14.5%), luxury tax was also levied. So, if all these are combined total effect goes up to 20%-27%. Hoteliers were not getting any input tax credit that was leading to cascading effect.

Under GST, hotels with tariff below Rs. 1000 are exempted from tax. Hotels with tariff between Rs. 1000-Rs.2500 are charged at 12% and between Rs. 2500-Rs.7500 are assessed at 18% earlier it was proposed at 28%. 28% rate is charged on hotels with tariff above Rs.7500. GST council has cut down tax rate of five star hotels from 28% to 18%.

Tariff rate per room per day	GST rate
Less than Rs. 1000	NIL
Rs. (1000-2500)	12%
Rs. (2500-7500)	18%
Above Rs. 7500	28%

The availability of input tax credit from total output tax liability has compressed the operational cost for businessmen which will also benefit the end consumer in form of less prices. [6, 10]

IMPACT ON TELECOMMUNICATION SERVICES

Indian tourism industry has emerged as one of the growing service sector in India. It is attracting 18% tax rate which is 3 percent point's more than previous 15% service tax.

After the entry of Reliance Jio in market, customers are getting data plans at very concessional rates while voice calls are free for prepaid customers. Prepaid customers now get Rs. 82.20 talktime with recharge of Rs.100 as against Rs.83.96. Service providers have to maintain and update database to determine place of supply. Compliance

requirements have also been increased due to filing of manifold returns and audits in each state but telecom operators can avail input tax credit that will lower effective rate but with GST cascading effect of tax has reduced and there is more transparency with uniform tax rate. [6, 10]

CONCLUSION

GST has eliminated multiple taxes and created uniform tax regime. New taxation system is single level resulting in overall gain for industry, trade, government and consumers. GST is providing rebate of input tax to suppliers of goods and services leading to low prices of services in current scenario. GST implementation has lowered cost of doing business that has provided relief to customers. Tax rate has been marked up on most of services. There has been favourable effect on restaurant services with merging of VAT, service tax and various cesses. GST has cut down travelling expenses on Non -AC buses, trains and economy class air tickets while business class customers have to pay more under new system. Tax rates on hotel services are based on tariff rates per day. Price of banking, insurance and telecommunication services has been inclined for which customers have to prepare themselves to pay higher bills. New tax rates have shown mixed impact on entertainment services varying from state to state. Overall GST is fruitful for consumers especially for business customers with availability of input tax credit along with shrinkage of compliance and transaction cost.

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