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*"Effects of Implementation of GST on Trade and Commerce"*



# Impact of Goods and Service Tax on Common People: An Overview

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## Abstract

After a long discussion on Good and Service Tax (GST) issue, it had been introduced in India and implemented since 1<sup>st</sup> July, 2017, with the context of reform in indirect tax system, after 70 years of Independence Government of India and GST Council of India had taken steps of biggest reforms in Indian indirect taxation system. In India, there is complex structure of indirect tax and it is different with every state of India. So, with this reform Government of India introduced single indirect tax for whole country i. e. "One Nation One Tax". With the implementation of GST, India would eliminate all the taxes levied by different states and would come under the category of "One Nation, One Tax" although there is lots of confusion in its application. The banks, finance professionals, traders and the industries seems to be not fully prepared to accept the changes of implementing the GST. So, these paper generally overview on implementation of Goods and Service Tax in rural India and its effect on common people.

**Keywords: GST, Indirect Tax, Tax reforms, etc.**

## Introduction

The Goods and Service Tax is an indirect tax, that is introduced in India and applicable on goods purchased and sold as well as services rendered in various states of India with replacing different tax levied in different states of India. This tax system had amalgamated several central tax levied and state taxes into a single tax and eliminate double tax system of cascading tax. It would enable the goods transfer from one state to another without any stoppage at borders of state for payment of state tax and also reduce paper work to the large extent. This tax introduced in India since 1<sup>st</sup> July, 2017. The businessman and companies need to change their accounting system, for that purposes they require one investment to develop proper accounting system. Goods and Service tax introduced in different 6 slabs from lower to higher.

## Good and Service Tax (GST)

The Goods and Services Tax (GST) is a value-added tax levied on most goods and services sold for domestic consumption. The GST is paid by consumers, but it is remitted to the government by the businesses selling the goods and services. Goods & Services Tax Law in India is a **comprehensive, multi-stage, destination-**

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**based tax** that is levied on every **value addition**.

In simple words, Goods and Service Tax is an indirect tax levied on the supply of goods and services. GST Law has replaced many indirect tax laws that previously existed in India.

### **Multi-stage Tax**

There are multiple change-of-hands an item goes through along its supply chain: from manufacture to final sale to the consumer.

Let us consider the following case:

- Purchase of raw materials
- Production or manufacture
- Warehousing of finished goods
- Sale to wholesaler
- Sale of the product to the retailer
- Sale to the end consumer

### **Value Addition Tax**

The manufacturer who makes biscuits buys flour, sugar and other material. The value of the inputs increases when the sugar and flour are mixed and baked into biscuits. The manufacturer then sells the biscuits to the warehousing agent who packs large quantities of biscuits and labels it. That is another addition of value after which the warehouse sells it to the retailer.

The retailer packages the biscuits in smaller quantities and invests in the marketing of the biscuits thus increasing its value.

GST will be levied on these value additions i.e. the monetary worth added at each stage to achieve the final sale to the end customer.

### **Destination-Based Tax**

Consider goods manufactured in Maharashtra and are sold to the final consumer in Gujrat. Since Goods & Service Tax (GST) is levied at the point of consumption, in this case, Gujrat, the entire tax revenue will go to Gujrat and not Maharashtra.

### **Impact of GST on Common People**

The guiding principle for the GST Council in deciding tax rates was that the GST rate should be close to the current effective tax burden on various items so that the transition to the new indirect tax system is revenue-neutral. Although there are 6 different slabs i.e. 0%, 5%, 12%, 18%, 28% and 43% (28%+15% Cess), 81% of commodities comes below 18% tax rate and only 19% of commodities comes under 28% slab rate. Most of the commodities fall under 12% to 18% tax slabs.

**Products on which tax burden comes down (in %)**

Products	Current effective tax
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rate\*GST Rate

Products	Current effective tax rate*	GST Rate
Mobile Phone	20-20	12
Footwear (Below Rs. 500)	14-41	5
Ready-made garments	18-16	12
Cars for the handicapped	20-22	18
Medicines	11	5
Renewable energy devices	17-18	5
Iron ore	17-18	5
Music instruments (handmade)	0-12.5	0
Contact lenses	18	12
Processed food	14	12

(Source: EY, GST Council)

(Source: EY, GST Council)

\*Current effective tax rate includes central excise duty; value added tax (VAT) and various local levies.

- Mobile phones are become cheap after implementation of GST by 8%.
- Rate of footwear (below Rs. 500) also coming down, effect of this common people can buy this product easily.
- Ready-made garments also became cheaper after implementation of GST.
- Tax rate on medicine also coming down by 6%, it is very positive sign for economical poor class of the society.
- Tax rate on renewable energy devices coming down by 12%-13%, it is very important for motivate renewable energy in rural India.
- Rate of tax on Iron ore also coming down by 12-13%.

Products on which tax burden goes up (in %) Products Current effective tax rate\*GST Rate

Products	Current effective tax rate*	GST Rate
Butter	5.66	12
Television	24.39	28
Footwear (above Rs. 500)	14.41	18
Biscuits (Above Rs. 100kg)	16.09	18
Corn flakes	9.86	18
Wristwatch	20.64	28
Jam	5.66	18
Baby food (sold in unit containers)	7.06	18
Small cars (<4m <1200cc Petrol)	25-27	28+1**
Small cars (<4m <1500cc diesel)	25-27	28+3**
Mid segment (<1500cc)	36-40	28+15**

(Source: EY, GST Council)

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From the above table, it is seen that, the rate of GST increased on butter by 6%, biscuits by 2%, cornflakes by 10%, jam by 12%, baby food by 11%, etc. but this is not good for common people, due to this increment inflation might be increased and it is not affordable for common people pocket. With this other luxurious items like television, car, etc. also became costlier after GST with extra compensation cess, the effect of that, the dream of purchased car or buy big television is not easily possible to fulfill.

### **GST Impact on Services**

Although the proposed GST rate on many services is higher than the current applicable service tax – 15% on specified fraction of the service value – GST eases the tax burden on them. That is because in addition to service tax, these services currently also bear VAT levied by states which make the combined tax burdened higher than the GST rate proposed. Examples include supply of food/drinks in outside catering and services of non-AC restaurants without liquor license.

### **Services on which tax burden goes up (in %)**

#### **Service Effective Service tax rate \* GST Rate**

Service	Effective Service tax rate*	GST Rate
Renting of motor cab (when fuel cost borne by customer)	6	18
Tour operators' services	1.5	5
Supply of food/drinks in AC restaurants in 5 Star or above rated hotel	6	18
Hotel stay where room tariff is between Rs. 1000 – Rs. 2500	9	12
Hotel stay where room tariff is between Rs. 2500 – Rs. 7500	9	18
Hotel stay where room tariff is above Rs. 7500	9	28

*(Source: EY, GST Council)*

\*Takes into account the portion of service values on which tax is applicable the comparison of rates are only approximations.

From the above table, it is found that, most of the services rate have been increased after implementation of GST and effect of that most of the common services goes out of the pocket of common people, it is not affordable to common people. After implementation of GST common people of rural India could not easily hire a car on rent because rate of GST on Renting Motor Cab is increased by 12% and Tour operator service charge also increased up to 5%, both are the rate contributed to increase cost of service. One more thing is that hotel stay for common people or taking meal at restaurants became costlier after implementation of GST and it is not affordable for common people in case of emergency and it is also effect on tourism business of the country. After increasing of service tax with GST, it will effect on



budget of tour of common people and it is also effect on tourism industry of India.

### Products at Zero GST rates

- Meat other than frozen and in unit containers
- Fish, fresh or chilled
- Milk and dairy products
- Eggs and salts
- Human blood and components
- Contraceptives
- Fresh fruits and vegetables
- Non-branded cereals, flour and jiggery
- Unbranded organic manure
- Judicial, non-judicial stamp papers; inland letters, post cards.
- Non-precious metal bangles, agriculture implements and hand tools.

(Source: EY, GST Council)

### GST rates for the household expenses

Categorization of house hold expenses in 5 category i.e. Food, Entertainment Personal Care, Transportation and Communication Services.

Category	Tax before GST (%)	Tax after GST (%)	Effect (%) Increase /(Decrease)
Food Items	12.5	5	(7.5)
Entertainment	30	28	(2)
Transportation	15	18	3
Personal Care	28	18	10
Communication (Mobile & Internet)	15	18	3

### Effects of GST Rates for high consuming products of a common man

- Sugar, tea, coffee (not instant) and edible oil to fall under 5% slab
- Cereals and milk have been exempted from GST
- Capital and intermediate goods would be taxed at 18%, which is expected to be a good boon for the industrial growth.
- Coal is kept in 5% tax slab which is currently 11.69%
- Toothpaste, hair oil and soaps will be taxed at 18% instead of 28% current rate
- Common man items have been kept under 12% and 18% slab.
- Indian sweets and mithai 5% slab
- All raw food items including food grains are exempted from GST.
- Processed food of daily needs to be in 5% slab



From the above table it is seems that:

· Tax rate of food items are coming down up to 5% slab of GST with compare to earlier 12.5% tax rate. It is beneficial for common people to buy this product.

· Tax rate of entertainment is slightly coming down by 2%, it is also positive signal for common people.

· Rate of tax on transportation is increase up to 18%, transportation now become costlier with compare existing rate (15%), it will be effects on cost of consumable products, food product, tourism, etc. and effect of that inflation might be increase.

· Tax rate on personal care decrease by 10%, it is very positive remark for common people, because use of personal care product is became affordable for this group.

· Use of mobile and internet became costlier by 3% after implementation of GST.

From the above table and discussion, it is found that the implementation of GST is having mix effect on common people, some of product became costlier with implementation of GST and it will lead to inflation in the economy, this inflation is not affordable for the people of rural India. Some of the product became cheaper and effect of that, inflation will coming down.

### **Conclusion**

In short, I would like to conclude here with, GST is a multi-level, value addition and destination based tax and as per the GST council it is an "One Nation, One Tax", effect of that various types of taxes existed in central and states are eliminated with GST and single tax have been introduced in country to increase economic growth of India in case of revenue generation, employment, reduce inflation, etc. but the result of that most of the traders are not ready to accept these changes and most of the daily base product falls under the GST, effect of that, it is not affordable to common people, due implementation of GST rate of common consumable products might be increase and it will become costlier, therefore it is not affordable to pocket of common people and effect of this is very harmful for various business industries and common people of India.

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