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Special Issue on

**TAX REFORM FOR DEVELOPING
VIABLE AND SUSTAINABLE
TAX SYSTEM IN INDIA**



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Impact of GST on Unorganized Retail Sector

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Abstract

Goods And Service Tax (GST) reform whole Indian Tax Structure. The main purposes of GST is reduce cascading effect and waiving of various tax. The GST replace by single tax with comprehensive tax, it cover all Indirect Tax under single umbrella. This paper focuses on GST and its features and also effect on unorganized retail sector.

Introduction:

GST (Goods and Services Tax) is one indirect tax for the whole country, which will make India one unified common market. It is a single tax on the supply of goods and services, right from the production to the consumption. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. The GST Act passed on 29 March 2017. This Act enforced from 01 July 2017. GST levied on every value addition hence it is comprehensive, multistage, destination based tax. In short GST is indirect tax applicable on the supply goods and provided all services. As per GST Act the tax is levied at every stage of sale from manufacture to consumer. In this chain many supplier and buyer from manufacturing to consumption of goods and services it go from various stages. Like raw material, processing, finished goods, store in godown, wholesaler, retailer and then consumer.

Unorganized Retailing is the conventional format of low cost retailing it includes general and provision stores local grocery shop, single owner, manned medical store, the local dhobi and even the hand cart pavement.

The informal sector plays a vital role in economic development of all the countries. Particularly, developing countries one third of national income comes from this informal sector only. The informal sector reduces the unemployment. While analyzing the composition of the Indian Economy, it is of two major sectors namely, organized and unorganized. The organized sector contributes two third to the GDP. Whereas the remaining 1/3 is by unorganized sector.

Objectives of the Study:

- To provide a conceptual framework of GST and its salient features.
- To analyze the effects of GST on different sectors in India.

Research Methodology:

Descriptive and exploratory research design is adopted for doing this research paper. The data for the study has been collected from secondary sources like newspapers, research papers and websites.



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Impact of Goods and Service Tax:

1. Simple Tax Structure:

Calculation of taxes under GST is simpler. Instead of multiple taxation under different stages of supply chain, GST is a one single tax. This GST saves money and time.

2. Impact on Small Enterprises:

There will be three categories of Small Enterprises in the GST regime. Those below threshold need not register for the GST. Those between the threshold and composition turnovers will have the option to pay a turnover based tax or opt to join the GST regime. Those above threshold limit will need to be within framework of GST Possible downward changes in the threshold in some States consequent to the introduction of GST may result in obligation being created for some dealers. Small scale units manufacturing specified goods are allowed exemptions of excise up to Rs.1.5 Crores. These units may be required to register for payment of GST, may see this as an additional costs.

3. Food Industry:

Food includes grains and cereals, meat, fish and poultry, milk and dairy products, fruits and vegetables, candy and confectionary, snacks, prepared meals for home consumption, restaurant meals and beverages. Even if the food is within the scope of GST, such sales would largely remain exempt due to small business registration threshold. Given the exemption of food from CENVAT and 4% VAT on food item, the GST under a single rate would lead to a doubling of tax burden on food.

4. Housing and Construction Industry:

In India, construction and Housing sector need to be included in the GST tax base because construction sector is a significant contributor to the national economy.

5. Fast Moving Consumer Goods (FMCG) Sector:

Despite of the economic slowdown, India's Fast Moving Consumer Goods (FMCG) has grown consistently during the past three – four years reaching to \$25 billion at retail sales in 2008. Implementation of proposed GST and opening of Foreign Direct Investment (F.D.I.) are expected to fuel the growth and raise industry's size to \$95Billion by 201835.

6. Financial Services:

In most of the countries GST is not charged on the financial services. Example, In New Zealand most of the services covered except financial services as GST. Under the service tax, India has followed the approach of bringing virtually all financial services within the ambit of tax where consideration for them is in the form of an explicit fee. GST also include financial services on the above grounds only.

7. Economic Union of India:

There is freedom of transportation of goods and services from one state to another after GST. Goods can be easily transported all over the country, which is a benefit to all businesses. This encourages increase in production and for businesses to focus on PAN-India operations.

8. Uniform Tax Regime:

GST being a single tax, it has made it easier for the taxpayer to pay taxes uniformly. Previously, there used to be multiple taxes at every stage of supply chain, where the taxpayer would get confused, which a disadvantage.



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Conclusion:

The aim of the government is to bring India in an umbrella of one tax promoting the “One Nation One Tax” system. Implementation of Goods and Services Tax (GST) substituted the regime of Value Added Tax (VAT) in India. It merged all the indirect taxes which was prevailing in the country during the Value Added Tax (VAT) regime. In India GST is structured for efficient tax collection, reduction in corruption, easy inter-state movement of goods etc. Since GST on inter-state sale of goods would be creditable, there is an opportunity to remodel current supply chain structure to ensure lower logistics cost and bring in significant operational efficiency which should have a positive impact on the profitability of the companies. Share of organized players is going to increase as the benefit of input tax credit is available to those businesses that get their supplies from registered tax payers.

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