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Impact of GST (Goods and services tax) on consumers

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Abstract

In India, the maximum population is of the middle class and lower middle class where people either belong to service class or they depend on agriculture for their living. In this scenario, the most important question is what the impact of GST on consumers? There are lots of questions in the mind of consumers in these days such as, is there anything new for him or it's like an old material in a new package? Is there any tax relaxation for him in new tax provisions or it will increase the prices of goods and services for him?

As soon as the GST came into effect, it would not be wrong to say that, this revolutionary move had impacted the lives of many. In fact, people are still struggling to understand what actually GST is all about. Moreover, for them, the picture is still not clear as what would be the GST impact on consumers and how it is bringing changes in the Indian economy. As and when a new reform or bill comes and a new law is imposed, it surely leaves its impact especially on the common man. It is ultimately the common man who is directly or indirectly affected by the implementation of any new tax.

Does the common man benefit from introduction of GST? This is a very tricky question and there is no definitive answer to this as for the producers and the government, the straight answer was YES, the GST will benefit them but for the common man it is not that simple. This is because GST will have different impact on different goods and services used by consumers. One thing is for certain that, it will bring down prices leading to increasing demand of goods and services which would benefit individual companies, but not everything will become cheaper.

Consumers play a vital role in any economy, as the consumer is placed last in the supply chain and as the user of such goods and services, it is important to know how consumer has an effect of GST. So, it is important to view the effects of GST from consumers stand point whose focus is primarily on pricing of various consumer products and services in GST.

Different tax experts and economists have given their opinion on the long term benefits of goods and services tax for India. Thus, there is a need to study the impact of GST on consumer regarding the GST in India.

Keywords: GST, goods and services tax, consumers

Introduction

The introduction of goods and services tax (GST) as a single taxation system is considered to be a major tax reform in the country. All most all the sectors of the economy are now experiencing the effects of goods and services tax. Consumers are no way an exception to the aftermath of the goods and services tax.

Since a decade, man has evolved and there has been an evident technological transition as well. Today the needs of a common man have become much more than the traditional "roti, Kapda and Makaan". After introduction of the biggest tax reform in the history of India, if the common perception that the Government has fed us, is to be believed then the prices will be cheaper than before. However, the reality is a little different. The incorporation of all taxes into one tax i.e. GST, has impacted on consumers.

Review of literature

Anshu Ahuja (2017) ^[1], in the research paper titled "Perception of people towards goods and services tax" found that, the consumers are satisfied that goods and services tax will reduce the tax evasion in the country and will increase the transparency in the tax structure. He further suggested that, the government should give some relaxation to farmers and small scale business to avoid the adverse impact of goods and services tax on their income level. Gowtham Ramkumar (2017) ^[2], in his study titled "Impact of GST on consumer spending ability in Chennai City" concluded that, the consumers are left with less money after GST,

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rise in inflation level and fall in prices of certain goods after GST implementation. He further concluded that, the GST rates will have a significant impact on the spending ability of the consumers and suggested that benefits of input tax credit must be transferred by the companies to the consumers.

Manoj Kumar Agarwal (2017) [3], in his research paper titled “People’s perception towards GST – An empirical study” found that, the people feel that GST has increased the legal compliances and it will increase the tax collection of the government. He further found that, the GST has increased the tax burden of businessmen and suggested that efforts should be made on the part of the government to ensure people have a proper understanding of the goods and services tax implemented in India.

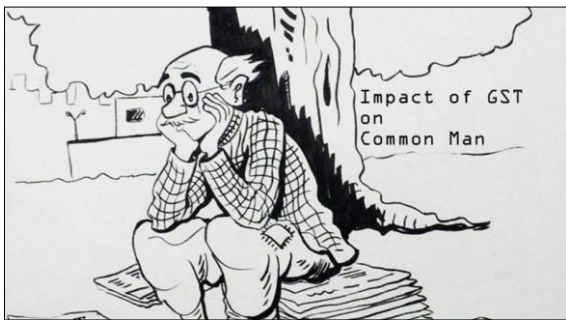


Fig 1: Impact of GST on Common man

Scope of the study

GST is having different impact on different goods and services used by the consumers. As the consumers are placed last in the supply chain and the end user of such goods and services, it is important to know how consumers have an effect of GST.

Research Methodology

This paper is based on exploratory research technique and the data cited in this paper was collected via secondary sources like, various websites and the literature review from journal papers, annual reports, news paper reports and wide collection of magazine based articles on GST.

Objectives of the study

1. To evaluate the GST on goods and services.
2. To analyze the impact of GST on consumers.



Fig 2: GST impact on common man

Goods and services under different GST rates

GST rates have been divided into 5 parts - 0% (exempted), 5%, 12%, 18% & 28%.



Fig 3: GST rates in India

The goods and services which are exempted from GST/Zero tax in GST

The items that are exempted from GST / Zero GST tax are like Jute, fresh meat, fish chicken, eggs, milk, butter milk, curd, natural honey, fresh fruits and vegetables, flour, besan, bread, prasad, salt, bindi, Sindoor, stamps, judicial papers, printed books, newspapers, bangles, handloom, Bones and horn cores, bone grist, bone meal, etc.; hoof meal, horn meal, Cereal grains hulled, palmyra jaggery, salt – all types, kaja, children's' picture, drawing or colouring books, human hair. Hotels and lodges with tariff below Rs 1,000 service has been exempted under GST.

The Goods and Services which are charged at 5% GST

Items that have 5% GST are fish fillet, apparel below Rs 1000, packaged food items, foot wear below Rs 500, cream, skimmed milk powder, branded paneer, frozen vegetables, coffee, tea, spices, pizza bread, rusk, kerosene, coal, medicines, Cashew nut, Ice and snow, bio gas, insulin, agarbatti, kites, postage or revenue stamps, stamp-post marks, first-day covers. Railways, air transport, small restaurants also will be under the 5% category because their main input is petroleum, which is outside GST ambit.

The Goods and Services which are charged at 12% GST

Apparel above Rs 1000, frozen meat products, butter, cheese, ghee, dry fruits in packaged form, animal fat, sausage, fruit juices, bhutia, namkeen, ayurvedic medicines, tooth powder, color books, picture books, umbrella, sewing machine, cell phones, ketchup, diagnostic kits, exercise books and note books, spoons/forks, skimmers, cake servers, fish knives, tongs, spectacles, corrective, playing cards. Services like State run lotteries, non-AC hotels, business class air ticket, fertilizers, work Contracts would also fall under 12% GST.

The Goods and Services which are charged at 18% GST

Majority of the items fall under the GST slab rates. Footwear costing more than Rs 500, bides patta, biscuits, flavored refined sugar, pasta, cornflakes, pastries and cakes, preserved vegetables, jams, sauces, soups, ice cream, instant food mixes, mineral water, tissues, envelopes, tampons, note books, steel products, printed circuits, camera, speakers and monitors, kaja pencil sticks, headgear and parts thereof, aluminum foil, weighing machinery other than electric or electronic. Under services, A/C hotels that serve liquor, telecom services, IT services, branded garments and financial services would attract 18% GST.

The Goods and Services which are charged at 28% GST

Bides, chewing gum, molasses, chocolate not containing cocoa, waffles and wafers coated with chocolates, pan masalas, aerated water, paint, deodorants, shaving creams, after shave lotions, hair shampoo, dye, sunscreen,

wallpaper, ceramic tiles, water heater, dishwasher, weighing machine, washing machine, ATM, vending machines, vacuum cleaner, shavers, hair clippers, automobiles,

motorcycles, aircraft for personal use etc., would attract 28% GST.



Fig 4: Consumers in a local market

GST impact on consumers

Table 1: List of daily need items

Daily need items	GST rate %	< >	Previous effective rate %
Hair oil	18	<	26
Tooth paste	18	<	26-28
Soaps	18	<	26-28
Spectacles lens	12	<	18.5
Steel Utensils	5	<	18.5
Namkeen	12	<	26
Tooth Power	12	<	26
Led light	12	<	26
Brooms sticks	5	<	18
Milk beverage	12	<	26
Mineral water	18	<	26-28
Rusk & Toasted bread	5	<	5-12.5

Source: The Economic Times, July 1st, 2018

Table 2: List of dearer goods

Dearer goods	GST rate %	< >	Previous effective rate %
Bread, butter, ghee & cheese	12	>	5
Agarbatti	12	>	0
Jam & jellies	18	>	12
Chocolates	28	>	25-26
Pasteries & cake	18	>	11-15
Instant coffee	28	>	26
Sanitary napkins	12	>	5-6
Razor	28	>	26
Shaving cream, hair cream	28	>	26

Source: The Economic Times, July 1st, 2018

Table 3: List of consumer durables

Consumer durables	GST rate %	< >	Previous effective rate %
AC	28	>	25-26
Washing machine	28	>	25-26
Coolers	28	>	23-24
Refrigerators	28	>	24-27
Celle phones	12	>	6

Source: The Economic Times, July 1st, 2018

Table 4: List of utility

Utility bills	GST rate %	< >	Previous effective rate %
Telecom	18	>	15
Insurance	18	>	15
Coaching class	18	>	15
Jewellery	3	>	2.5
Leather bags	28	>	6
Wrist watches	28	>	26
Furniture	28	>	26

Source: The Economic Times, July 1st, 2018

Table 4: List of leisure

Leisure	GST rate %	< >	Previous effective rate %
Movie tickets (> Rs.100)	28	>	22-23
Five star restaurants	28	>	18
A/C Alcohol serving restaurants	18	<	22
Air tickets (economy)	5	<	6
Average room tariff (Rs. 2,500-7,500)	18	<	28
Average room tariff (> Rs. 7,500)	28	>	28-30

Source: The Economic Times, July 1st, 2018

Table 5: List of Vehicles

Vehicles	GST rate %	< >	Previous effective rate %
Bicycle	12	<	18.5
Two-wheelers	28	>	27-30
Small petrol car	29	>	27-30
Small diesel car	31	>	27-30
Large car (< 1.5 L engine)	43	>	43-47
Large car (> 1.5 L engine)	43	>	47-51
Rubber tyres	28	>	18.5

Source: The Economic Times, July 1st, 2018



Fig 5: Goods under GST exemptions. Zero Tax slab items

In the image above, it is found that, most of the necessities have been kept under GST-free.

Conclusion

Do the consumers get the benefits from GST?. This is a very tricky question and there is no definitive answer to this, as for the producers and the government, the straight answer was YES. But the benefits from GST for the consumers it is not that simple. This is because the GST will have different impact on different goods and services used by consumers. One thing is for certain that, it will bring down the prices and leading to increasing the demand for goods and services which would benefit to the consumers, but not everything will become cheaper.

If the government will take necessary care for essential commodities prices, there will not be any hike and then the consumers will not suffer. With all these facts stated above, there is no denying the fact the GST impact on consumers looks like a mixed kitty, making few things cheaper and some costlier.

Disclaimer

The views expressed here are those of the individual authors and do not necessarily reflect the official policy or position of their respective institutions. References to data, have been made only to illustrate or explain a phenomenon for discussion purposes and these are based on publicly available information.

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