

A COMPARISON OF PRE GST & POST GST PRICES AND THE OVERALL PRICE LEVEL CHANGES OF GOODS IN INDIA

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ABSTRACT

The Goods and Services Tax was implemented in India on 1st July 2017. This research paper is aimed at comparing the Pre GST and Post GST Prices of Goods which were previously subject to tax under the VAT and the Excise Duty Act and have now fallen in the net of Goods and Services Tax in India. An attempt has also been made to assess the changes in the general price levels of goods under the new regime of taxation.

KEYWORDS: GST, Pre GST, Post GST, Comparison, Price Level Changes

INTRODUCTION

GST is a broad levy of taxes on the goods and services consumed. This tax aims to erase the difference between the taxable goods and services. With the implementation of GST in India from 1st July, 2017 onwards there has been an ongoing debate about the viability of this scheme of taxation as to whether this tax would prove to be the panacea that the Indian Indirect Tax system is looking forward to or will it be a stance that will wreak havoc on the Indian economy in the short run. This paper is an attempt to answer a few of these questions and to gain an understanding as to how the implementation of GST has affected the prices of the goods and services falling under its purview.

Objectives of the Study

The objective of the study is to compare the Pre GST and Post GST prices of goods and also to analyze the price level changes brought about by the implementation of Goods and Services Tax in India.

REVIEW OF LITERATURE

Girish Garg (2014) in “Basic Concepts and Features of Good and Service Tax in India”, claims GST to be the most logical step towards an exhaustive Indirect Tax Reform in India post independence which will make the economy stronger by transforming India into a consolidated market.

Lim Boon Poh (2014) in “GST in Malaysia an ugly truth or a beautiful lie?” pointed out that GST on paper appears to reduce the tax burden but the opposite is true as there will be an increase of 2% in tax which would raise the

prices of goods and services and would lead to a decrease in demand and ultimately to a stunted growth of the economy both in the short as well as the long term.

MOHD RIZAL PALIL(2011) in “The Impacts Of Goods And Services Tax (GST) On Middle Income Earners In Malaysia” stated that the people are anticipating at least a 4% increase in prices. He also emphasized that due to a lack of awareness among the general public the prices may actually increase because of a hoarding mentality among the public.

KUMAR NITIN(2014) studied GST in “Goods And Services Tax In India: A Way Forward” and said that a large number of Indirect taxes such as excise duty, octroi, central sales tax (CST) and value-added tax, (VAT) etc. would be subsumed in a single levy called GST. It is his view that GST will bring about greater efficiency and transparency in the Indian Indirect Tax System.

Ali Taqvi& Srivastava (2013) in “Challenges and Opportunities of Goods and Service Tax (GST) in India” have mentioned that GST would lead to a growth in revenue for both the states as well as the Union. He further envisaged that the transaction costs would be reduced and unnecessary wastages would be eliminated.

RESEARCH METHODOLOGY

Quantitative Method has been used for the purpose of this research paper.

A Pre GST and Post GST comparison has been made on goods falling in 12.50% tax bracket under VAT and which are now covered in the 18% tax rate under GST.

For the purpose of Price calculations Excise Duty is being charged on the Manufactured Goods at 12.50%, VAT rate has been taken to be 12.50% and the Goods & Services Tax is charged at 18%. Out of the 18% GST, the revenue sharing between the Center and the States is 50% i.e. 9% Central GST and 9% State GST respectively.

The Cost of Production for the manufacturer has been assumed at Rs.100/- for the purpose of the calculations.

The Profit margin of the Manufacturer is assumed to be 50% of the Cost of Production and that of the Wholesaler and the Retailer is 25% on the cost of goods and any other costs incurred by them.

It is assumed that the Manufacturer has paid a tax of Rs.10/- Pre GST and Rs.5/- Post GST on the purchase of raw materials which will be allowed to him as Input Tax Credit.

Similarly, the benefit of Input Tax Credit will also be passed on to the Wholesaler and the Retailer.

Only the Consumer will not get the benefit of the input tax credit as a result of which the entire amount of tax will be collected from him.

Comparison of Pre GST & Post GST Prices

Table 1

Pre GST & Post GST Price Comparison						
1.	Manufacturer					
		Pre GST		Post GST		Difference
Particulars		Percentage	Amount	Percentage	Amount	Amount
A	Cost of Production		100.00		100.00	
B	Profit Margin	50.00%	50.00	50.00%	50.00	
C	Price Including Profit (A+B)		150.00		150.00	
D	Excise Duty	12.50%	18.75	N/A	0.00	
E	Price Including Excise (C+D)		168.75		150.00	
F	VAT	12.50%	21.09			
G	CGST			9.00%	13.50	
H	SGST			9.00%	13.50	
I	Total	(E+F)	189.84	(E+G+H)	177.00	
J	Input Tax Credit		10.00		5.00	
K	Price to Wholesaler (I-J)		179.84		172.00	7.84
2.	Wholesaler					
		Pre GST		Post GST		Difference
Particulars		Percentage	Amount	Percentage	Amount	Amount
A	Cost of Goods		179.84		172.00	
B	Other Costs		5.00		5.00	
C	Profit Margin	25.00%	46.21	25.00%	44.25	
D	Price Including Profit (A+B+C)		231.05		221.25	
E	VAT	12.50%	28.88			
F	CGST			9.00%	19.91	
G	SGST			9.00%	19.91	
H	Total	(D+E)	259.93	(D+F+G)	261.08	
I	Input Tax Credit VAT/GST		21.09		27.00	
J	Price to Retailer (H-I)		238.84		234.08	4.77
3.	Retailer					
		Pre GST		Post GST		Difference
Particulars		Percentage	Amount	Percentage	Amount	Amount
A	Cost of Goods		238.84		234.08	
B	Other Costs		10.00		10.00	
C	Profit Margin	25.00%	62.21	25.00%	61.02	
D	Price Including Profit (A+B+C)		311.05		305.10	
E	VAT	12.50%	38.88			
F	CGST			9.00%	27.46	
G	SGST			9.00%	27.46	
H	Total	(D+E)	349.93	(D+F+G)	360.02	
I	Input Tax Credit VAT/GST		28.88		39.82	
J	Price to Consumer Post GST (H-I)		321.05		320.20	0.85

Percentage Change in Price to Wholesaler = Difference in Pre & Post GST Prices to Wholesaler/Pre GST Price to Wholesaler * 100

$$= 7.84/179.84 * 100$$

$$= 4.36 \% \text{ Decrease}$$

Percentage Change in Price to Retailer = Difference in Pre & Post GST Prices to Retailer/Pre GST Price to Retailer * 100

$$= 4.77/238.84 * 100$$

= 2.00 % Decrease

Percentage Change in Price to Consumer = Difference in Pre & Post GST Prices to consumer/Pre GST Price to Consumer * 100

$$= 0.85/321.05 * 100$$

= 0.26% Decrease

Average Percentage Change in Price =(Percentage Change in Price to Wholesaler + Percentage Change in Price to Retailer + Percentage Change in Price to Consumer)/3

$$= (4.36+2.00+0.26)/3$$

= 2.20 % Decrease

CONCLUSIONS

The above-given table contains a comparison of the Pre GST and Post GST Prices of the goods falling in 12.50% tax bracket under VAT and which are now covered in the 18% tax rate under GST.

The analysis shows that there is a downward trend in the price levels at Manufacturer, Wholesaler and Retailer levels of 4.36%, 2.00%, and 0.26% respectively. This, in turn, leads to an average decrease in the prices of the goods in consideration after the implementation of GST in India.

Therefore, we can conclude from the above analysis that there has been a general decrease in the price levels after the implementation of GST in India.

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