

Entrepreneurship in a Globalised Economy

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ENTREPRENEURSHIP IN A GLOBALISED ECONOMY

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A STUDY ON IMPACT OF GST ON INDIAN ECONOMY

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The earlier system of indirect taxation had multiplicity of taxes levied by the Centre and State. There was no uniformity in tax rates and structure across States. There was cascading of taxes due to 'tax on tax'. There were too many restrictions on seamless credit available, i.e., credit for excise duty and service tax paid at the stage of manufacture was not available to the traders while availing the State level sales tax or VAT, and vice-versa. Further, no credit of State taxes paid in one State can be availed in other States. (CST)

Goods and Service Tax, which subsumes a large number of Central and State taxes into a single tax, is meant to mitigate the cascading effect of taxes, provide near seamless credit and make way for a common market. However, realization of all the foregoing objectives appears to be a Herculean task and requires the co-operation of all States.

Keywords: *GST, Indian Economy.*

INTRODUCTION

On 1st July 2017 at midnight, the President of India, Sir Pranab Mukherjee and Prime Minister Sir Narendra Modi launched GST all over India including Jammu & Kashmir. However, there have been many changes made to the rates of GST, the latest being on 18th January 2018.

In a short span of time, all the states approved their State GST (SGST) laws. Union territories with legislatures, i.e., Delhi and Puducherry, have adopted the SGST Act and the other 5 union territories without legislatures have adopted the UTGST Act.

The idea of introducing GST was first proposed by the then Union Finance Minister P. Chidambaram in his Budget for 2006-07. The discussion on GST took specific decision the introduction of the Constitutional Bill (122nd Amendment), 2014. The Bill was passed by Parliament on 8 August 2016. This was followed by the approval of the Bill by more than 15 states. On 12 April 2017, the Central Government enacted four GST bills:

- Central GST (CGST) Bill
- Integrated GST (IGST) Bill
- Union Territory GST (UTGST) Bill
- The GST (Compensation to States) Bill

Need for GST in India

In the Indian economy, the service sector contributes to over 55%. Separate taxation goods and services is neither viable nor desirable. GST in India had been introduced to reduce tax burden that's on both companies and consumers. In the previous system, there were multiple taxes added at each stage of the supply chain, without taking credit for taxes paid at previous stages. As a result, the end cost of the product does not clearly show the actual cost of the product and much tax was applied. The tax structure was complex. GST integrated most of the taxes into single tax, where the consumers are benefited. This method provides Input Tax credit paid on purchase of goods and services, which can be offset with the tax to be paid on the supply of goods and services. As a result, this reduces the overall cost, with the end customer paying less.

GST CONCEPTS

Power to tax GST

Under new Article 246A (inserted by the Constitution Amendment Act, 2016), the Parliament has exclusive power to make laws with respect to GST where the supply of goods or services or take place in the course of inter-State trade or commerce. Subject to the above, Union and each State would have powers to make laws with regard to GST imposed by Union or that State in relation to intra-State supplies.

What is GST (Goods and Service Tax?)

GST is a destination based tax and levied at a single point at the time of consumption of goods or services by the ultimate consumer. GST is based on the principle of value added tax. The law emphasizes on voluntary compliance and on accounts based reporting and monitoring system. It is a comprehensive levy and envisages tax collection on both goods and services at the same

Internationally, GST was first introduced in France and now more than 160 countries have introduced GST. Most of the countries, depending on their own socio-economic formation, have introduced National level GST or Dual GST.

Definition of Good and Service Tax (GST)

The term GST is defined in Article 366 (12A) to mean “any tax on supply of goods or services or both except taxes on supply of the alcoholic liquor for human consumption”.

In terms of Section 2 (52) of the CGST Act “Goods” means every kind of movable property other than money and securities but includes actionable claims, growing crops, grass and other attachments attached to or forming part of land which are agreed to be severed before supply or under a contract of supply.

In terms of Section 2(102) of the CGST Act “Services” means anything other than goods, money and securities but includes activity relating to the use of money or its conversion by cash or by any other mode, from one form, currency or denomination, to another form, currency or denomination for which a separate consideration is charged.

Thus, all supply of goods or services or both would attract CGST (to be levied by Centre) and SGST (to be levied by State) unless kept out of the purview of GST.

There is no requirement of actual sale of goods under GST. The alternative methods of supply of goods could be in the form of:

- Inter-State or distinct person stock transfer;
- Captive consumption in another State location;
- Supply on consignment basis or any other basis by the principal to his agent;
- Supply on job work basis (if working under returnable basis- no tax need be paid);
- Any other supply such as donation, sample etc.

The taxes subsumed and NOT subsumed into GST

Subsumed	NOT subsumed
Value Added Tax	State Excise Duty
Purchase Tax	Stamp Duty
Entry Tax, Octroi, Local Body Tax	Profession Tax
Sales Tax partially	Motor Vehicle Tax
Entertainment Tax (other than the tax levied by Local tax authorities)	Electricity Duty –Doubtful because of inclusion of electricity in the definition of term “goods”) Whereas services by way of transmission or distribution of electricity by an electricity transmission or distribution utility is exempt from GST under notification No. 12/2017- CT (R),

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Luxury Tax	Sale tax on five petroleum products namely Petroleum Crude, Motor Spirit (petrol), High Speed Diesel, Natural Gas and Aviation Turbine Fuel for a period of time. GST Council would decide the date of including them in GST.
Betting, Gambling and Lottery Tax	
Surcharges and State Cesses	

Central taxes

Subsumed	NOT subsumed
Central Excise Duty	Customs Duty.
Additional Duties of Excise	
Excise on Medicinal and Toiletries Preparation Act	
Additional Customs Duty (CVD) – equal to central excise on like goods manufactured in India	
Special Additional Duty – Supposed to be equal to CST which was earlier 4%. Not changed inspite of drop in CST rate to 2%.	
Surcharge and Cesses	
Central Sales Tax	

New Concepts under GST

GST on Reverse charge if Supplier is not registered:

If the supplier is not registered under GST and is supplying taxable goods or services to a recipient who is registered, the GST on such taxable supplies shall be borne by the recipient on reverse charge basis.

Free gifts by Employer to Employee:

Supply of goods or services or both between related persons when made in the course or furtherance of business, provided that gifts not exceeding Rs 50,000 in value in a financial year by an employer to an employee shall not be treated as supply of goods or services or both

Compliance Rating Score:

There is a new provision in the law that if there is non-compliance it will not just lead to penalties but may also lead to black listing, which may affect the future creditability, reputation of the person which can harm the business growth. The government will give an online rating on timeliness and efficiency of compliances in terms of stars (5 star rating). Each non-compliance can reduce the number of stars.

BROAD PRINCIPLES OF GST

Levy and Collection (Section 9)

In terms of Section 9(1) of CGST Act, 2017 Central Goods and Services Tax (CGST) shall be levied on all intra-State supplies of goods and/or services on the value determined under section

and at the rate notified by the Central/State Government in this behalf, on the recommendation of the Council. However, the aforesaid rate of CGST shall not exceed 20%. Further, the CGST shall be collected in the prescribed manner.

In terms of Section 9(3) the Central Government may, on the recommendation of the Council, by notification, specify categories of supply of goods and/or services the tax on which is payable on reverse charge basis and the tax thereon shall be paid by the recipient of such goods and/or services. In this regard, the Central Government has certain supply of goods.

In terms of Section 9(4), CGST in respect of supply of goods or services or both by an unregistered supplier to a registered recipient will be paid by such registered recipient under reverse charge. Although, this is a significant change from erstwhile law, which would force even small tax payers to go for the regular scheme of full tax with credit if they want to deal with any registered businesses. As, no business in competitive environment can afford to break the credit chain and thereby avoid buying from unregistered or composition dealers. It is pertinent to mention that reverse charge provision under section 9(4) of CGST Act and 5(4) of IGST Act has been deferred till, 30th September 2018. Therefore, all intra-State and inter-States supplies made by unregistered suppliers to a registered person are exempted till September 30, 2018 vide Notification 12/2018-Central Tax (rate), dt. 29-06-2018.

Composition Levy (Section 10)

In terms of Section 10(1) a registered person whose aggregate turnover in the preceding financial year did not exceed Rs. 1 Crore. However, this limit, is Rs. 75 lakhs in the case of an eligible registered person, registered under section 25 of the CGST Act, in any following States (Special category States), namely

Arunachal Pradesh,
Assam,
Manipur,
Meghalaya,
Mizoram,
Nagaland,
Sikkim,
Tripura,
Himachal Pradesh

In terms of section 10 of the CGST Act and Notification No. 1/2018 - Central Tax dated 1.1.2018 read with Notification No. 8/2017-Central Tax dated 27.06.2017, subject to certain conditions and restrictions, rate of tax applicable to a taxable person opting for composition levy, shall be:

Half per cent of the turnover in State or turnover in Union territory in case of a manufacturer;

two and a half per cent, of the turnover in State or turnover in Union territory in case of persons engaged in making supplies referred to in clause (b) of paragraph 6 of Schedule II; and

half per cent, of the turnover of taxable supplies of goods in State or turnover in Union territory in case of other suppliers.

IMPACT OF GST ON INDIAN ECONOMY

GST is a game-changing reform for the Indian Economy, as it will bring the net appropriate price of the goods and services. The various factors that have impacted Indian economy are:

Increases competitiveness

The retail price of the manufactured goods and services in India reveals that the total tax component is around 25-30% of the cost of the product. After implementation of GST, the prices have gone down, as the burden of paying taxes has been reduced to the final consumer of such goods and services. There is a scope to increase production, hence competition increases.

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 saves money and time.

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.

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 is a disadvantage.

Greater Tax Revenues

A simpler tax structure can bring about greater compliance, this increases the number of tax payers and in turn the tax revenues collected for the government. By simplifying structures, GST would encourage compliance, which is also expected to widen the tax base.

Increase in Exports

There has been a fall in the cost of production in the domestic market after the introduction of GST, which is a positive influence to increase the competitiveness towards the international market.

Benefits and Challenges in India

Benefits

Removal of multiple taxation.

Removal of cascading tax effect, i.e. tax on tax.

Increase in the production of goods and services

Increase in the demand and supply of goods and services.

Due to lower burden of taxes, there is a reduction in overall costs.

Burden has been decreased on the final tax payer, i.e. Consumer at the end.

Control over the circulation of black money as the system normally followed by traders and shopkeepers will be put to a mandatory check.

venue of the government increased by extended tax base.

Challenges

Impact on pricing of goods and services due to subsumed taxes.

To keep a check on the rates of GST. If the rates of GST are over 15%, then the goods would be costlier.

There are still a few states in India which lack IT Infrastructure.

A separate law must be drafted.

Transfer of goods from one state to other all over the country. Continuation of specific exemptions on central GST and state GST.

Constitutional amendments to enable GST to central and state governments.

Constitutional amendments to enable levy of GST on imports.

Impact of GST on Different Sectors

Consumer Goods & Services

The GST rates for the FMCG industry is set at 18-20%. While most are happy with the introduction of GST, the ones who are heavily affected are opposed.

Transportation

The rates for cabs has been lowered to 5% and for air travel also. So, this is a welcome move for those in this sector.

E-Commerce

Post GST, e-commerce operators collect 1% of the net value of the taxable supplies, which is called Tax Collected at Source (TCS).

Entertainment & Hospitality Sector

This sector was affected as this sector falls in the 28% category. Movie tickets, hotel rates will now be costlier.

Financial Products and Services

The, financial services such as funds and insurances, (Non-Banking Financial Company) are most impacted.

Start-Ups

GST have a positive influence towards start-ups. It had got both advantages and disadvantages for start-ups. However, as a start-up, already facing the stress of a new business, the question of how the new GST will impact your business, must be difficult for you.

Inflation and Economic Activity

GST is an Inflationary measure. However, the rise in the tax rate on services to 18% is expected to raise inflation.

Stock Transfer

Post the introduction of GST, tax is levied on branch transfers and input tax can be claimed later.

Export of Goods & Services

At all stages of the supply chain there is no tax, post GST. Moreover, the availability of input credits is welcomed.

Gold and Gold Jewellery Prices

Post GST the tax rate was set to 18% initially then brought down to 5% tax rate

Rent

Since the implementation of GST the exemption limit for renting out commercial property is Rs. 20 lakhs and there is not GST on house rent.

SEZ

Under GST regime, SEZ's have benefitted from a zero-tax rate.

Affordable Housing

Purchase of houses is non-taxable; however under construction house will carry a GST tax rate. The GST rates for homes purchased under CLSS, EWS, LIG, and MIG1/11 will be 8%, after deducting cost of land. However, those don't qualify CLSS, etc; will have to pay 12% GST on constructed houses.

Real Estate Sector

This sector has mostly benefitted from the introduction of GST, as much of this sector is becoming more transparent.

Logistics

The rate pre-GST was above 26% and post the implementation of GST there was reduction to 18-21%, which was good news for the sector.

Manufacturing Industry

GST, demands businesses to set-up mechanism for meeting the requirements of GST. Therefore, once the companies adapt the requirements, the compliance costs will go down drastically.

Automobile Industry

GST absorbed indirect tax regime, which attracted several duties and taxes on the sale of vehicles and spares and accessories.

Chemical Industry

Implementation of GST is believed to be positive to the chemical industry, especial in the long term.

Tobacco Industry

The new GST rates are less than the combined taxes during pre-GST regime.

Stainless Steel Industry

GST had made a very good impact on steel industry. After issuing new tax rates, it has become more favourable to steel industry. The GST rate for primary steel industries is imposed at 18%, which is helpful for them to grow.

Textile Industry

Despite some changes under the GST regime, the textile sector benefitted with the implementation of the regime.

Coal Sector

After the GST implementation, the coal transportation rates have done down to 5% through trains, and thus the logistics costs has been decreased.

Power Sector

Overall impact of GST on power sector is positive. Domestic coal, is in the 5% tax slab. The impact of GST will be positive for the electrical and the lighting sectors as the rate is now 18%.

Exports

In the pre-GST tax system, import of the goods carried several import duties, however, after GST, IGST has replaced the indirect taxes that was earlier imposed on import of goods and services

Domestic appliances and Electrical Machinery

There is not a huge impact in this industry as the new GST rates around 25%, which is similar to the rates pre-GST.

Job works

Special provisions exist for removal of goods for job-work and receiving back goods after processing from the job-worker carry no GST. The benefit of these provisions is extended both to the principal and the job-worker.

Various segments of Indian Railways

The impact of GST in this sector is very minimal as the rate is kept at the lowest tax rate of 5% to ensure passengers benefit the most.

Hospitality Industry

This is another industry that has benefited as the previous tax regime levied up to 27% tax. Post GST, the tax rates have been reduced.

Aviation Sector

The industry has mixed feelings about the introduction of GST, especially the GST rates for airline fuel.

Pharmaceutical Industry

This industry will see an increase in costs after GST implementation as the cost of medicines will rise by 2.3% in the 12% bracket and medicines with 5% will see no increase in MRP.

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Cement Industry

GST will not affect this industry drastically, the tax rates imposed will get absorbed in the cost of cement production.

Digital Advertising Industry

This industry which is fast growing, is a cheaper method for companies as GST will have less effect in this sector, as compared to traditional marketing.

Sweet makers

They are trying to figure out if they need to pay 28% tax on it as many of our chocolate variations have more than 5% cocoa content. Badam milk, basundi and rasmalai are also a concern as we aren't sure if they are sweets (5% tax) or beverages (12% tax).

Handicraft Sector

One of the largest sector of the country, which is most affected by GST. Therefore, GST is not welcomed by the artisans.

Alcohol Industry

There is no GST on alcohol; instead there is an increase in the price of alcohol. Price of a beer is going to rise by 15% and wine and other hard drinks will be increasing by 4%.

Impact of GST on a Short term

Before the implementation of GST, consumers paid more for goods and services, however, everyday consumables saw no major change in rates. The main drawback is on the small and medium enterprises, who will incur costs in trying to become GST compliant, which may result in higher prices of goods.

After a lot of deliberation, our GST council has finalised the rates for all the goods and major service categories under various tax slabs, and the GST is expected to fill the loopholes in the current system and boost the Indian economy. This is being done by unifying the indirect taxes for all states throughout India.

The tax rate under GST are set at 0%, 5%, 12%, 18% and 28% for various goods and services, and almost 50% of goods & services comes under 18% tax rate. But how is our life going to change post GST? Let's see how GST on some day-to-day good and services will have an impact on an end user's pocket.

Footwear & Apparels/Garments:

Footwear costing more than INR 500 will have a GST rate of 18% from an earlier rate 14.41 rate but rates for the footwear below INR 500 has been reduced to 5%. So, you need to shell out more for buying a footwear above INR 500/-. And with respect to the ready-made garments, rates have been reduced to 12% from an existing 18.16% which will make them cheaper.

Cab and Taxi rides:

Now, taking an Ola or an Uber will be cheaper because the tax rate has come down to 5% from an earlier 6% for a cab booking made online.

line tickets:

Under the GST, tax rate for economy class for flight tickets is set at 5% but the tax for business class tickets will have a higher tax rate of 12%.

in Fare:

There will not be much of an impact. The effective tax rate has increased from 4.5% to 5%. But, passengers who travel for business trips can claim Input Tax Credit on their rail ticket which can help them to reduce expenses. People travelling by local trains or in the sleeper class will be affected, but first-class & AC travellers will have to pay more.

Movie Tickets:

Movies tickets costing below INR 100 will be charged a GST rate of 18% but prices above INR 100 will have a higher tax rate of 28%.

Life Insurance Premium:

The Premium Amounts on policies will rise, with an immediate impact can be seen on your term and endowment policy premiums as the rates have been increased under GST across life, health and general insurance.

Mutual funds Returns:

GST impact on your returns from mutual funds investments will largely be marginal as the GST will be charged on the TER i.e. Total Expense Ratio of a mutual fund. The TER is commonly known as expense ratio of a mutual fund company, and the same is set to go up by 3%. The return that you get as an investor will be reduced to that extent unless the respective mutual fund company or AMC absorbs it but that anyhow will be a marginal difference.

Jewellery:

The gold investment will become slightly expensive because there will be 3% GST on gold and 5% on the making charges. The earlier tax rate on gold was around 2% in most of the states and the GST is increased from the existing rate to around 2% to 3%.

Buying a Property:

Under construction properties will be cheaper than ready-to-move-in properties. The GST rate for an under-construction property is 18% but the effective rate on this kind of property will be around 12% due to input tax credits the builder will avail of.

Education & Medical Facilities:

Education and Medical sectors have been kept outside the GST ambit and both the primary education & healthcare is exempt from GST. It means a consumer will not pay any tax for the money you spent on these services. But due to increase in the rate of taxes for certain goods & services as procured by these organisations, they may pass on the additional tax burden to the consumers.

Hotel Stay:

For your hotel stay, If your room tariff is less than Rs 1,000, then there will be no GST, but anything above Rs 5,000 will attract 28% tax.

Buying a Car:

Most of the cars in the Indian market will become slightly cheaper, except for the hybrid cars because the GST rate will be 28% tax on all the vehicles irrespective of their make, engine capacity or model. However, over and above this 28%, an additional cess will be levied which can be either 1%, 3% or 15 %, depending on the particular car segment.

Mobile Bills:

People will have to pay more on mobile phone bills as GST on telecom services is now 18%, as opposed to the earlier tax rate of 15%. However, telecom companies may absorb this 3% rise due to fierce competition.

Restaurant Bills/EATING OUT:

Your restaurant bill would depend on whether you dined at an AC or Non-AC establishments which do not serve alcohol. Now dining at five-star hotels will be charged at 18% GST rate and the Non-AC restaurants will be charged 12% and a 5% GST will be charged from small hotels, dhabas and restaurants who do not cross an annual turnover of INR 50 Lakh.

IPL & other related events:

Events like IPL i.e. sporting events will have a 28% GST rate which is higher than the earlier 20%.rates. This will increase the price of your tickets. And the GST rate for other events like theatre, circus or Indian classical music shows or a folk dance performance or a drama show will be at 18% GST rate, this is lesser than the earlier tax rate.

DTH and cable services:

The money you pay towards your DTH (Direct-To-Home) connections or to your cable operator will reduce a bit as the rate is fixed at 18%, which is lower than the earlier taxes which were comprising of entertainment tax in the range of 10% to 30%, apart from the service tax of 15°

Amusements Parks:

The ticket price for amusement parks and theme parks will increase as the earlier service tax of 15% will become 28% under the GST.

Here's is a list of some items which are completely exempt from the GST regime:

The unprocessed cereals, rice & wheat etc.

The unprocessed milk, vegetables (fresh), fish, meat, etc.

Unbranded Atta, Besan or Maida.

Kid's colouring book/drawing books.

Sindoor/Bindis, bangles, etc..

Implementation of GST is one of the best decision taken by the Indian government. For the first time, July 1 was celebrated as Financial Independence day in India when all the Members of Parliament attended the function in Parliament House. The transition to the GST regime which is followed by 159 countries would not be easy. Confusions and complexities were expected and will be there. In India, at some point, had to comply with such regime. Though the structure might not be a perfect one but once in place, such a tax structure will make India a better economy favorable for foreign investments. Until now India was a union of 29 small tax economies and 7 union territories with different levies unique to each state. It is a much accepted and appreciated regime because it gets rid away with multiple tax rates by Centre and States. And if you are doing any kind of business you should register for GST as it is not only going to help Indian government but will help you to track your business weekly as in GST you have to make your business activity statement every week.

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