

AN ANALYSIS OF PRICE FORECAST & THE PRICE LEVEL CHANGES OWING TO THE IMPLEMENTATION OF GST IN INDIA

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ABSTRACT

India is on the verge of a revolutionary change in its indirect tax system, with the introduction of the Goods and Services Tax ('GST'). With the introduction of GST from 1st July, 2017 there is a state of silent ambiguity about the changes that the proposed GST will bring in the price levels of Goods and Services in our country. This paper is an attempt to analyse the impact that the proposed GST is likely to have upon the prices of some commonly used Goods, and also the price level changes under the new regime of taxation on a forecast basis.

KEYWORDS: GST, Price Forecast, Goods and Services

INTRODUCTION

GST stands for Goods & Services Tax. It is a comprehensive indirect tax levied on the sale of goods and provision of services with the benefit of claiming input tax credit on the purchases made at an earlier stage. This tax is aimed towards eliminating the difference between goods and services, so that goods and services are treated alike for the purpose of taxation.

With the recent implementation of the Goods and Services Tax in India from 1st July, 2017 onwards, there are doubts in the minds of both the consumers as well as the manufacturers/traders as to the new prices of the Goods and Services under this new tax regime, as well as an inquisitiveness as to what extent the price levels may change owing to this major reform in the indirect taxation of our nation.

This paper is a humble attempt to resolve these doubts to some extent, and to gain an understanding of what the prices and the price level changes might be under the GST.

OBJECTIVES OF THE STUDY

The study is geared towards determining the prices of some commonly used goods under the new GST regime on forecast basis, and also to analyse the price level changes when compared with pre-existing Value Added Tax in India.

REVIEW OF LITERATURE

Girish Garg (2014) in "Basic Concepts and Features of Good and Service Tax in India" quoted that "GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence."

He further suggested that GST will help in making India a single unified market and will ultimately culminate into making the Indian economy stronger by the expansion of tax base and minimizing of exemptions.

Ali Taqvi & Srivastava (2013) in “Challenges and Opportunities of Goods and Service Tax (GST) in India” have mentioned the following 2 points: -

Firstly, with the introduction of GST, there would be a growth of revenue in the States as well as the Union by the expansion of tax base and lowering down of tax rates.

Secondly, the transaction costs might be reduced, if a single registration is made sufficient for both SGST and CGST but for this, the IT Infrastructure has to be strengthened first.

Dr. R. Vasanthgopal (2011) in “GST in India: A Big Leap in the Indirect Taxation System” mentioned that the benefits of GST would only accrue, if the GST framework is designed in a neutral and rational manner, taking into consideration the needs of all stakeholders and this should be backed up by strong political commitment for the smooth switchover from the current system to the proposed GST framework.

Sriram P. Govind (2011) after years of deliberation and discussion, GST is finally at India’s doorstep and India needs to prepare itself for this revolutionary reform in Indirect Taxation. GST aims to consolidate and increase the efficiency of the indirect tax system in India, which presently harbours multiple taxes in a complex, indecipherable system. It will eliminate the cascading effects of taxation, facilitate and promote an increase in revenue for both the Centre and the States and will result in the provision of goods and services to consumers at much lower rates.

Therefore, if properly and efficiently implemented, imposition of GST could be the greatest reform in the field of indirect taxation in India. It will bring about efficiency and transparency in the indirect tax mechanism in India, and will no doubt be a big leap forward for the Indian economy.

RESEARCH METHODOLOGY

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

A basket of 15 commonly used goods in households has been created randomly for the purpose of this forecast.

Only Value Added Tax (VAT) has been considered to be included in the price of the goods and an attempt has been made to forecast the prices of the goods under the GST regime, and also to compare the price level with that under the VAT regime.

Price for the purpose of this paper means the Maximum Retail Price of the product without any discount.

For the purpose of calculating the Current Prices under VAT, the following formulas have been applied-

- $$\text{VAT included in the MRP} = \frac{\text{MRP of the Product}}{100 + \text{Rate of VAT}} \times \text{Rate of VAT}$$
- Base Price = MRP of the Product - VAT included in the MRP (Calculated in the above step).

For the purpose of calculating the Proposed Prices under the GST, the following formula has been applied-

- Proposed Price Under GST = Base Price + Rate of GST

The calculated figures have been rounded off to the nearest rupee.

For Example – For Item No. 1 i.e. Real Mixed Fruit Juice – 1 Litre, the following calculations have been done –

$$\text{VAT included in the MRP} = \frac{\text{MRP of the Product}}{100 + \text{Rate of VAT}} \times \text{Rate of VAT}$$

$$= \frac{99}{100 + 14.5} \times 14.5$$

$$= 13$$

Base Price = MRP of the Product - VAT included in the MRP (Calculated in the above step).

$$= 99 - 13$$

$$= \text{Rs. } 86$$

Proposed Price under GST = Base Price + Rate of GST

$$= 86 + 18\%$$

$$= 86 + 16 \text{ (Approx.)}$$

$$= \text{Rs. } 102$$

BASKET OF GOODS

Item No.	Goods	Product Description	Current Rates Under Vat (In %)	Proposed Rates Under GST (In %)	Current Prices (In Rs.) (Under Vat)	Proposed Prices (In Rs.) (Under Gst)	Change in Prices (In Rs.)
1.	Aerated Water, Beverages in Sealed Container, Poly Pack.	Real Mixed Fruit Juice – 1 Litre	General Rate 14.5	18	99	102	+3
2.	Branded Aata	Aashirvaadshudh chakki Whole Wheat Atta – 10 Kg.	0	0	330	330	0
3.	Biscuits, Sweet	Parle – G Glucose Biscuit – 800 Gm.	14.5	18	60	62	+2
4.	Besan, Container and Bearing A Registered Brand Name	Fortune Besan -500 Gm	0	5	60	63	+3
5.	Chocolate Spread	Fun Foods Fudge Chocolate Spread 350 Gm	0	12	149	167	+18
6.	Chewing Gum	Happydent Complete Spearmint With Xylitol Sugar Free Chewing Gum -27 Gm	14.5	28	40	45	+5
7.	Drugs And Medicines Including Syringes and Dressings.	Crocin Advance 500mg Tablet 15's Paracetamol	General Rate (W.E.F. 01.04.13) 5	12	13	14	+1
8.	Coconut Oil	Patanjali Coconut Oil (Bottle) 200 Ml	14.5	5	65	60	-5
9.	Honey	Dabur Honey 1 Kg	5	0	380	362	-18
10.	Corn Flakes	Kellogg's Original & the Best Corn Flakes (Carton) 475 Gm	14.5	18	172	177	+5
11.	Paper And Newsprint	The Hindu	5	5	15	15	0
12.	Paneer	Mother Dairy Paneer 200 Gm	5	0	65	62	-3
13.	Tea.	Brooke Bond Red Label Tea (Zip Lock) 1 Kg	5	5	350	350	0
14.	Tooth Paste	Colgate Strong Teeth Toothpaste 200 Gm	14.5	18	90	93	+3
15.	Pens	Faber-Castell Fx Ball Pen Pack of 5 Blue	5	12	30	32	+2
Total Current Prices					1,918	-	-
Total Proposed Prices on Forecast Basis					-	1934	-
Change in Price Level on Forecast Basis					-	-	+16

$$\% \text{Change in Price Level} = \frac{\text{Change in Price Level on Forecast Basis}}{\text{Total Current Prices}} \times 100$$

$$= \frac{+16}{1,918} \times 100 = +0.83\%$$

CONCLUSIONS

The above given table contains the proposed price of the Goods on a forecast basis under the new GST regime. The + sign shows an upward movement in the price level and the (-) sign shows a downward movement in the price level of the goods. As per the Goods considered in our basket, the price of most the goods has moved upward and a few have

gone down. But, when we analyse the whole basket, the overall price level change comes only to an increase of 0.83%, which is only a marginal increase. Therefore, we can conclude that the benefits accruing to the nation are greater with the “One Nation, One Tax” motto of GST when compared to only a marginal increase in the price level changes to the whole.

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