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Impact of GST on Luxury Goods

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Abstract*: The Indian tax administration has had challenges dealing with the concept of luxury for a long time. The introduction of Goods and Services Tax (GST) by the government has put "luxury items" in the highest tax bracket at 28%.Today, more than 160 nations are practicing this form of taxation. The implementation of the Goods and Services Tax (GST) in India was a historical move, as it marked a significant indirect tax reform in the country. The initiative is now paving the way for a common national market. The implementation of GST will definitely be a huge shot in the arm for the luxury retail industry. The main objectives are to discuss the impact of GST on luxury goods and to analyse the purchasing attitude of customers after the GST regime. Descriptive research method is followed. Convenient sampling method is used to collect the samples. A total number of sample sizes is 200. Statistics tools used for analysis are pie charts and complexcharts. The findings were buyers of luxury cars are not getting benefited since manufacturers are getting benefited more. GST reform is very effective for consumer because it could make the luxury industry and businesses restructure their financial model, the industries could also gain and so can the consumers .GST on luxury industry will encourage them to invest more in the long run in India and boost made in India goods Hence it is concluded that most of the luxury items, tax rates are not at same level at which they were before the GST regime and it reduces the cost for the consumer and manufacturer which facilitate seamless movement of product.*

Keywords: Goods and Services Tax

I. INTRODUCTION

The word tax is derived from the Latin word „taxare" meaning to estimate. A tax is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority" and is any contribution imposed by government whether under the name of toll, tribute, impost, duty, custom, excise, subsidy, aid, supply, or other name. Tax policies play an important role on the economy. The main source of revenue for government of India is from tax. India is a Socialist, democratic and republic country. The federal structure of India comprises central and state level Government. Both the Governments, share the prime responsibilities including meeting out the increasing development needs of the country. The primary source of revenue is the levy of taxes only. In fact, in order to stimulate economic growth and to fulfil socio-economic objectives, the tax is considered to be the most important source of revenue for the Government. A tax is a compulsory contribution from a person to the expenses incurred by the state in common interest of all without reference to specific benefits conferred on any individual. The tax cannot be regarded as voluntary payment or donation. Rather, it is enforced contribution which is exacted through legislative authority. The word tax has been derived from the Latin word "Taxo" which means touch sharply or charge. As per Wikipedia, "A tax is a mandatory financial charge or some other type of levy imposed upon a tax payer (an individual or other legal entity) by the Government in order to fund various public expenditure". It may be noted that the tax is a mandatory payment because a failure to pay or evasion of or resistance of taxation, is punishable by law. Direct and indirect taxes are the two main source of tax revenue. When the impact and incidence fall on same person it is called direct tax. When the impact and incidence fall on different person that is when burden can be shifted to other person it is called indirect tax. The indirect tax system is currently mired in multi-layered taxes levied by the Centre and state governments at different stages of the supply chain such as excise duty, octroi, central sales tax (CST) and value added tax (VAT), among others. First Indirect Tax Reform occurred in India when the Modified Value Added Tax (MODVAT) was introduced for selected commodities in 1986 to replace the Central Excise Duty. The other reforms are the introduction of service tax in 1994, decision to introduce VAT in 1999, introduction of Constitution Amendment Bill on GST in 2011. Goods and

Services Tax (GST) is most ambitious and biggest tax reform plan, which aims to stitch together a common market by dismantling fiscal barriers between states. It is a single national uniform tax levied across India on all goods and services. In GST, all the indirect taxes will be subsumed under a single regime. The GST taxation laws will put an end to multiple taxes which are levied on different products, starting from the source of manufacturing to reaching the end consumer. GST works on the fundamental Principle of "One Country One Tax".

II. OBJECTIVE

The research has been undertaken and presented considering the following fore objectives:

- To gain an in-depth understanding of GST taxation system.
- To evaluate the advantages and challenges surrounding GST.
- To enquire the impact of GST after its implementation on luxury goods.
- To find out difference between present indirect taxes and GST.
- To identify benefits and challenges of GST after implementation.
- To know the impact of GST on luxury goods.

III. SCOPE OF THE STUDY

This paper provides a detailed insight regarding impact on luxury
implementation of GST.GST after implementation will bring uniformity with tax rates and will also overcome lots of shortcomings in the Indian taxation system with regard to indirect taxation. There was rise in price in some of the products while in some of luxury products there was decline in price after GST.

IV. METHODOLOGY

This paper is based on exploratory research technique and data cited in this paper were collected via primary and secondary Indian sources available like statistical data available on various websites GST Council (gstcouncil.gov.in), GST Council Archives (gstindia.com), and many more ; literature review from journal papers ; annual reports ; newspaper reports ; and wide collection of magazine based articles on GST Based on the analysis of above mentioned data collection s sources and primary data by survey of consumers and showrooms of television, cars the objectives of the study are defined and research design is drafted which is highly descriptive in nature.

V. WHAT IS GST ?

GST is known as the Goods and Services Tax. It is an indirect tax which has replaced many indirect taxes in India such as the excise duty, VAT, services tax, etc. The Goods and Service Tax Act was passed in the Parliament on 29th March 2017 and came into effect on 1st July 2017.

In other words,Goods and Service Tax (GST) is levied on the supply of goods and services. Goods and Services Tax Law in India is a comprehensive, multi-stage, destination-based tax that is levied on every value addition. GST is a single domestic indirect tax law for the entire country.

Under the GST regime, the tax is levied at every point of sale. In the
case of intra-state sales, Central GST and State GST are charged. All the inter-state sales are chargeable to the Integrated GST.

VI. LUXURY GOODS

In economics, a luxury good (or upmarket good) is a good for which demand increases more than proportionally as income rises, so that expenditures on the good become a greater proportion of overall spending.

Luxury goods are in contrast to necessity goods, where demand increases proportionally less than income.[1] Luxury goods is often used synonymously with superior goods and Veblen goods.

The word "luxury" originated from the Latin word luxus, which means indulgence of the senses, regardless of cost.

Luxury goods have high income elasticity of demand: as people become wealthier, they will buy proportionately more luxury goods. This also means, however, that should there be a decline in income its demand will drop more than

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proportionately. Income elasticity of demand is not constant with respect to income, and may change sign at different levels of income. That is to say, a luxury good may become a necessity good or even an inferior good at different income levels.

Some luxury products have been claimed to be examples of Veblen goods, with a positive price elasticity of demand: for example, making a perfume more expensive can increase its perceived value as a luxury good to such an extent that sales can go up, rather than down.

Although the technical term luxury good is independent of the goods' quality, they are generally considered to be goods at the highest end of the market in terms of quality and price. Classic luxury goods include haute couture clothing, accessories, and luggage.[3] Many markets have a luxury segment including, for example, automobile, yacht, wine, bottled water, coffee, tea, foods, watches, clothes, jewelry, and high fidelity.

VII. SINGLE MARKET SINGLE LAW

GST is one indirect tax for the whole nation, which will make India one unified common market. Under present structure, there are 31 different VAT laws in the country. Each has a separate registration process, return filing procedure, penalty provisions, etc. This creates difficulty for the business man in running the business smoothly.

Under GST regime, there shall be uniformity across the country. GST will provide a big breakthrough in ease of doing business in India.

VIII. FEATURES OF GST

GST belongs to the VAT family as tax revenues are collected on the basis of value added. Unlike in the case of a pure commodity based VAT system, GST includes services tax also. Similarly, input credit is given while calculating the tax burden. Following are the main features of the GST as per the final agreement.

1. Taxes covered:

Most of the important indirect taxes of the centre and states are integrated under the GST.

The most important tax of the central government (in terms of tax revenue collection) -the Central Value Added Tax (or Union Excise Duty), Additional Customs Duty (CVD), Special Additional Duty of Customs (SAD), Central Sales Tax (levied by the Centre and collected by the States, the fastest growing tax revenue of the centre – Service Tax, the most important tax revenue of the states – the state VAT (Sales tax) are now merged into a single tax under the Goods and Service Tax.

2. The four-tier rate structure:

The GST proposes a four-tier rate structure. The tax slabs are fixed at 5%, 12%, 18% and 28% besides the 0% tax on essentials. Gold is taxed at 3%. The centre has strictly demanded and got an additional cess on demerit luxury goods that comes under the high 28% tax. Essential commodities like food items are exempted from taxes under GST. Other consumer goods which are common items will be taxed at 5%.4. The new GST seems to have two standard rates – 12% and 18%. GST rate structure for the goods and services are fixed by considering different factors including luxury/necessity nature.

3. Service tax rate under GST:

Under the GST, there is a differential tax structure. A low tax rate of 5% is imposed on essential services. Common services are charged at 12% and some commercial services at 18%. A tax rate of 28% on luxury services is also made. Several services like education provided by an educational institution, Post Offices, RBI etc. are exempted from service taxation. The standard GST rate on services seems to be 18%. Services are taxed at a common rate of 15% previously.

4. Turnover limit under GST and tax right over low turnover entities:

GST is applied when turnover of the business exceeds Rs 20lakhs per year (Limit is Rs 10lakhs for the North-Eastern States). Traders who would like to get input tax credit should make a voluntary registration even if their sales are below

Rs 20 lakh per year. Traders supplying goods to other states have to register under GST, even if their sales is less than Rs 20 lakh. There is a composition scheme for selected group of tax payers whose turnover is up to Rs 75 lakhs a year.

5. Tax revenue appropriation between the centre and states:

The centre and states will share GST tax revenues at 50:50 ratio (except the IGST). This means that if a service is taxed at 18%, 9% will go to the centre and 9% will go to the concerned state.

IX. LIREATURE REVIEW ON LUXURY GOODS

The concept of luxury is complex and subjective and its meaning is dependent on various personal and interpersonal motives (Vigneron& Johnson 2004). In order to understand the meaning of luxury, we can first describe the nature of luxury, luxury goods, luxury brands and brand equity for luxury brands.

The word luxury has been derived from the Latin words ―luxus‖ and ―luxuria‖ (Roux and Floch 1996). As per the meaning given in dictionaries, luxury means extravagance, opulence (UBC Sunsiten.d.), and rankness (University of Notre Dame n.d.). The word luxury should have a positive value of splendour to it. However, it takes on the negative meaning of decadence when used in association with "private" and ―excess‖, and put into a social context (Roux and Floch 1996). Luxury can be seen as a way of life.

BOURNE

Defined luxury goods as exclusive products which are not so commonly owned or used. But they are more visible and symbolic than necessity products. They are mainly branded goods which are bought so that they can satisfy the psychological needs of the consumer and also lead to an increase of selfesteem. Such products are purchased mainly for social and individual needs rather than functional needs which play a secondary role in purchase decisions.

ROUX & FLOCH

Say that luxury is not just about price, but also associated with pleasure, refinement, exclusivity and appreciation. A luxury product is also characterised by very limited supply and recognition of value by other people.

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