



IMPACT OF GOODS AND SERVICE TAX (GST) ON INDIAN ECONOMY

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ABSTRACT :

Present Indian tax system is very complex as it includes cascading effects of tax. GST, being one single indirect tax scheme for the entire nation will attempt to make India united common market. GST referred as Goods and services tax is defined as the giant indirect tax structure designed to support and enhance the economic growth of a country. More than 150 countries have implemented GST so far. However, the idea of GST in India was mooted by Vajpayee government in 2000 and the constitutional amendment for the same was passed by the Lok Sabha on 6th May 2015 but is yet to be ratified by the Rajyasabha. However, there is a huge hue and cry against its implementation. It would be interesting to understand why this proposed GST regime may hamper the growth and development of the country.



KEYWORDS : GST, Tax, VAT, Indian economy.

INTRODUCTION

The major source of revenue for any nation is the Tax, so for economic development of the nation it is compulsory to have good taxation system. India started its journey towards tax system in the year 1980. GST would be a major move towards Indian economy as since independence India has faced some of the issues because of complex indirect tax system, this complexity is assumed to be resolved by present GST structure replacing all state and central indirect taxes in to one simple unique tax. The Goods and Services Tax (GST) is a vast concept that simplifies the giant tax structure by supporting and enhancing the economic growth of a country. GST is a comprehensive tax levy on manufacturing, sale and consumption of goods and services at a national level. The Goods and Services Tax Bill or GST Bill, also referred to as The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014, initiates a Value added Tax to be implemented on a national level in India. GST will be an indirect tax at all the stages of production to bring about uniformity in the system. On bringing GST into practice, there would be amalgamation of Central and State taxes into a single tax payment. It would also enhance the position of India in both, domestic as well as international market. At the consumer level, GST would reduce the overall tax burden, which is currently estimated at 25-30%. Under this system, the consumer pays the final tax but an efficient input tax credit system ensures that there is no cascading of taxes- tax on tax paid on inputs that go into manufacture of goods . In order to avoid the payment of multiple taxes such as excise duty and service tax at Central level and VAT at the State level, GST would unify these taxes and create a uniform market throughout the country. Integration of various taxes into a GST system will bring about an effective cross-utilization of credits. The current system taxes production, whereas the GST will aim to tax consumption.

REVIEW OF LITERATURE:

Dr. G Sunitha and P.Satischandra had highlighted the concept of GST, its effect on Indian economy and the benefits in their paper "Goods and Service Tax (GST): As a new path in Tax Reforms in Indian Economy".

Dr. R. Vasanthagopal highlighted that GST will definitely will be a step towards a growing economy in his paper "GST in India: A Big Leap in the Indirect Taxation System" in the year 2011

Rathod M(2017) in his paper "An Overview of Goods and Service Tax (Gst) In India" concludes that GST will be a step towards a developed inida benefiting to many parties and entire nation.

OBJECTIVES OF THE STUDY:

The main objectives of the study are stated below:

- To gain an in-depth understanding of GST taxation system evolution.
- Understanding in - depth the concept of new taxation system introduced - Goods and Services Tax (GST) in India.
- To evaluate the features, advantages and challenges surrounding GST.
- To evaluate the prospects of taxation position of various goods and services in India.
- To furnish the information for future research on GST based taxation system.

RESEARCH METHODOLOGY:

The data used for this research is mainly secondary, collected from various magazines, books, research papers, reports and documents.

GST:

GST known as Goods and Services Tax applicable to both goods and services will be levied at all the stages of supply. Tax will be charged on all taxable goods and services in India. There are two components included in GST: CGST and SGST charged by Central and State government respectively. In the interstate transaction central government will collect GST and distribute it to the imported states.

Models of GST:

Very First County to adopt GST is France, adopted GST in the year 1960.

Models of GST are like:

- **State GST:** In this model tax is charged by respective states of the nation, it is applicable in USA.
- **National GST:** In this system Central government collects the taxes and distributes it among the states with certain provisions. It is followed by China and Australia.
- **Non concurrent Dual GST:** In this model states collect GST on goods where as GST on the services would be charged by Central Government.
- **Concurrent Dual GST:** Tax in this model is levied by central and state government on both goods and services.
- **Quebec Model:** In this system different provisions prevail for States and central government for collecting tax.

Concurrent Dual GST model comprises three terms which are:

- **CGST:** Central Goods and Services Tax
- **SGST:** State Goods and Services Tax
- **IGST:** Integrated Goods and Services Tax

CGST is going to be charged by Central Government for the transactions related to intra state which will be paid to the account of central government. SGST is proposed to be collected by state

government, IGST is going to be collected by Central government on interstate transactions which is an additional tax to be levied.

GST Rates:

GST Council has declared four tier tax structures: 5%, 12%, 18% and 28%. Lower rates are kept for essential items and higher ones for luxury goods. For controlling the inflation food items will be taxed at zero rates.

Impact of GST on the Indian Economy : Advantages and Challenges of GST Implementation

Impact of GST on the Indian Economy : GST will impact the overall taxation system of the Indian economy. It will improve the country's GDP ratio and also control inflation to a certain extent. However, the reform will mainly be advantageous to the manufacturing industry, but will make some things challenging for the service sector industry. GST is expected to raise the GDP growth from 1% to 2%, but these figures can only be analyzed after successful implementation. Some countries have faced a mixed response in growth like New Zealand saw a higher GDP as compared to countries like China, Thailand, Australia, and Canada (Shokeen, Banwari, & Singh, 2017). The GST rate is implemented in various slabs like 5%, 12%, 18%, and 28%, which will automatically provide great tax increments to the government and the manufacturing sector will face immense growth with reduction in tax rate. There is definitely something good for everyone. Various unorganized sectors which enjoy the cost advantage equal to tax rate which will be brought under GST. This will make various sectors like Hardware, Paint, Electronics etc. under the tax slab. GST requires everything to be planned meticulously for organized rate of taxation. There are still lots of sectors which are to be discussed under GST and this requires proper planning. For the common man and different companies, the collection of Central and State taxes will be done at point of time when sales originate, both components will be charged on manufacturing costs and price of the product will downgrade and consumption will thereby increase.

Impact of GST on Various Sectors : Goods and Services Tax will unite the Indian economy into one common market under a single umbrella of taxation rates, leading to easiness of starting and doing businesses, leading to increase in savings and cost reduction among various sectors. Some industries will be empowered by GST because of reduction in tax rates, while some will lose because of higher rate of GST interests. In this section, we discuss various sectors and elaborate the impact of GST on them :

- **IT Companies:** GST will allow more implementation of digital systems and services. GST will increase the rate of tax from 14 -15% to 18%, which will increase the cost of electronic products like mobile phones, laptops, etc.
- **FMCG Industry :** GST will have a significant impact on the FMCG sector. Some food items are exempted under GST like grains and cereals, milk, meat, fish, fruits and vegetables, candy etc. Before GST, FMCG companies paid 24-25% tax including Excise Duty etc. With GST, the rate of return would be 17-19% leading to strong impact in production and consumption.
- **Online Shopping :** With the introduction of GST, various Ecommerce companies will face much burden of work in rate of filling taxes and cost will be increased.
- **Telecom Sector :** With the current VAT charges of 15% being replaced by 18% GST rate, the price of mobile calling, SMS, and broadband services would be impacted. This will have a negative impact for big telecom giants like Airtel, Vodafone, Idea, etc.
- **Automobiles :** GST will provide reduction on on-road price of vehicles to max by 8% as per the latest report. Lower prices mean various automobile companies can boost up volumes and sales and have tremendous opportunities for expansion in India.
- **Small Scale Enterprises :** There are three categories: (a) below threshold, need not register for GST, (b) between threshold and composition turnovers will have the option to pay a turnover based tax or opt to join the GST regime, (c) above threshold level, will be within the GST framework. Manufacturers and traders will pay less tax after GST Implementation.

- **Entertainment :** With GST, taxes can do down by 2 - 4%, but the rate of tax for cinema lovers will be increased. GST will soon comprehend with demands and bring best for boosting up the film industry's business.

Challenges of GST Implementation : The following are some of the major challenges for GST implementation in India:

- **Nature of Taxes :** In India, there are various taxes like Central Excise, VAT, CESS, and other state level taxes which will all be removed and come under one tax, that is, GST, but still lots of states and union territories have other taxes out from GST which has to be worked upon.
- **Types of GST :** As GST would be of two types : Central GST and State GST and further division is required on the basis of utmost necessity and property based like need, location, geography, and resources which has to be worked upon.
- **Rates of Tax :** Still the tax rate is not fully finalized and lots more has to be worked upon considering the standard of living of people, etc.
- **Tax Management and Technology Infrastructure :** It is utmost necessary that proper management of tax and infrastructure is required to implement proper policies and plans.

BENEFITS OF GST:

GST will benefit to many parties including Government, Customers and Producers.

The various benefits expected are as under:

- **To the Consumers:** The major benefit of GST is that it reduces the cost of product and services. So customers will be getting the products and services at lower cost compared to the price they need to pay in current tax structure under VAT. It increases purchasing power and saving capacity.
- **To the Producers:** Currently because of multiple taxes in VAT there are some complexities which increases the cost of product, GST, Overcoming all the shortcomings of present tax structure will reduce the cost of product. Producers will be able sale the products at lower cost which directly increases their amount of sales and profit.
- **To the Government:** GST is easy to understand and implement, Customers whose income will be increased because of lesser tax, will save more and by this government will be getting more amount of investment from customers.

PROBLEMS AGAINST GST IN INDIA:

The main problem against GST is about compensating State Governments. Presently with VAT indirect taxes are levied by central and state governments, contributing portion of income to the state governments. But after the implementation of GST state governments will have to be depended on Central government and Financial Commission, State government are assumed to face financial losses .Another pre requisites for GST would be good IT infrastructure , change in accounting practices and systematic registration process.

CONCLUSION:

Primarily, the concept of GST was introduced and proposed in India a few years back, but implementation has been done by the current BJP government under the able leadership of Prime Minister Shri Narendra Modi on July 1, 2017. The new government was in strong favour for the implementation of GST in India by seeing many positive implications as discussed above in the paper. All sectors in India - manufacturing, service, telecom, automobile and small SMEs will bear the impact of GST. One of the biggest taxation reform- GST will bind the entire nation under a single taxation system rate. As forecasted by experts, GST will improvise tax collections and boost up India's economic development and break all tax barriers between Central and State Governments. No doubt, GST will give

India a clear and transparent taxation system, but it is also surrounded by various challenges as discussed in this paper. There is need for more analytical based research for successful implementation.

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