

IMPACT OF GOODS AND SERVICE TAX (WITH SPECIAL REFERENCE TO IMPACT ON ECONOMIC INDICATORS)

Dr. H N Gupta *

ABSTRACT

GST is a multi-stage consumption tax on goods and services. GST is levied on the supply of goods and services at each stage of the supply chain from the supplier up to the retail stage of the distribution. Even though GST is imposed at each level of the supply chain, the tax element does not become part of the cost of the product because GST paid on the business inputs is claimable. The basic fundamental of GST is its self-policing features which allow the businesses to claim their input tax credit by way of automatic deduction in their accounting system. Controlled inflation rate, increase in growth rate, controlled fiscal deficit, favorable balance of payment, increase in foreign exchange and reduction in poverty and unemployment are the basic conditions for the success of any economy. After implementation of GST, it is expected that inflation and fiscal deficit will be controlled; Government indirect taxes revenue will be increased, favorable impact in foreign exchange reserve and balance of payment. India will complete other developed and developing countries.

KEYWORDS: *GST, Input Tax Credit, GDP, Fiscal Deficit, Indirect Tax, Inflation, VAT, Sales Tax.*

Introduction

GST is a multi-stage consumption tax on goods and services. GST is levied on the supply of goods and services at each stage of the supply chain from the supplier up to the retail stage of the distribution. Even though GST is imposed at each level of the supply chain, the tax element does not become part of the cost of the product because GST paid on the business inputs is claimable. Hence, it does not matter how many stages where a particular good and service goes through the supply chain because the input tax incurred at the previous stage is always deducted by the businesses at the next step in the supply chain. GST is a broad based consumption tax covering all sectors of the economy except specific goods and services which are categorized under zero rated supply and exempt supply orders.

The basic fundamental of GST is its self-policing features which allow the businesses to claim their input tax credit by way of automatic deduction in their accounting system. This eases the administrative procedures on the part of businesses and the Government. Thus, the Government's delivery system will be further enhanced. Tax collected from GST is used for socio-economic development which includes providing infrastructure, education, welfare, healthcare, national security etc. Over the past few decades, the worldwide trend has been for the introduction of a multi-stage GST system. Today, almost 90% of the world's populations live in countries with GST, including China, Indonesia, Thailand, Singapore and India. A taxable supply is a supply which is standard rated or zero rated. Exempt and out of scope supplies are not taxable supplies. GST is to be levied and charged on the value of the supply. GST can only be levied and charged if the business is registered under GST. A business is not liable to be registered if its annual turnover of taxable supplies does not reach the prescribed threshold. Therefore, such businesses cannot charge and collect GST on the supply of goods and services made to their customers. At the Central level, Central Excise Duty, Additional Excise Duty,

* Lecturer, Department of Accountancy and Business Statistics (ABST), S.P.N.K.S. Government P.G. College, Dausa, Rajasthan, India.

Service Tax, Additional Customs Duty etc. and at the State level, VAT/ Sales Tax, Octroi and Entry tax, Purchase tax, Luxury tax, Entertainment Tax, Tax on Lottery etc. are included in GST. In case of inter-State transactions, the Centre would levy and collect the Integrated Goods and Services Tax (IGST) on all inter-State supplies of goods and services. The IGST would roughly be equal to CGST plus SGST. The IGST mechanism has been designed to ensure seamless flow of input tax credit from one State to another. The inter-State seller would pay IGST on the sale of his goods to the Central Government after adjusting credit of IGST, CGST and SGST on his purchase. GSTN is working on developing a state-of-the-art comprehensive IT infrastructure including the common GST portal providing frontend services of registration, returns and payments to all taxpayers, as well as the backend IT modules for certain States that include processing of returns, registrations, audits, assessments, appeals, etc. All States, accounting authorities, RBI and banks, are also preparing their IT infrastructure for the administration of GST.

Important Provisions of GST Act

The GST act includes following important provisions:

- If goods are produced and consumed in the same state, CGST and SGST will be levied at each stage and input tax credit will be claimable. In case of Union Territory, UTGST and CGST will be levied.
- If goods are produced in one state and sold & consumed in another state, IGST will be levied which is equals to CGST and SGST. If goods are further sold in that state, input tax credit of IGST will be claimable. If input tax credit is not claimed in that case, it will be divided equally in Centre and State.
- Custom Duty is not included in GST. If goods are imports from foreign country, IGST will be levied. If that goods are further sold, Input tax credit will be claimable.
- Composition Scheme is applicable in case of turnover between 20 lakhs to 75 lakhs. Tax rates in case of composition scheme are : General Business- 1%, Small Manufacturer- 2%, Restaurant- 5%.
- Goods and Service Network is established for preparing software solution tool for filing GST return.
- Payments of GST are made through Net Banking, NEFT, RTGS And Cheques. Payments up to RS. 10000 can be made through cash payment in Bank.
- In case of B to C transactions, no need of invoice details is required up to turnover of Rs 5 Crores.
- In case of refund, online payment will be made within 60 days of filing return. Refund will be made within 7 days in case of export cases.
- Registration on GST portal is compulsory in case of turnover more than 20 Lakhs but registration is compulsory if you need tax refund.
- HSN code requirement:
 - Turnover up to 1.5 crores - No need of HSN code
 - Turnover between 1.5 to 5 crores - 2 Digit HSN Code
 - Turnover more than 5 crored - 8 Digit HSN Code

Impact on Economic Indicators

Indian economy is facing many problems such as problem of unemployment, differences between poor and rich, problem of language and caste, difference between rich and poor, problem of corruption etc. Apart from these problems, Indian economy is developing continuously from last 3 decades. Main economic indicators are inflation rate, fiscal deficit, GDP growth rate etc. It is expected that implementation of GST will impact positively on main economic indicators as discussed below:

Reduction in Inflation Rate

Sales Tax and VAT are working before GST. In that time, Sales Tax and VAT are paid on cost and excise duty. There are problem of double taxation and cascading of tax. Implementation of GST will be positively impact on inflation rate due to removing cascading of tax. Inflation rates of different countries are as under:

Inflation Rate In Different Countries

Year	India	Usa	Japan	China	France	Germany
2008	8.32	3.85	1.37	5.97	2.82	2.63
2009	10.83	-0.34	-1.34	-0.72	0.09	0.32
2010	12.11	1.64	-0.72	3.17	1.53	1.1

2011	8.87	3.16	-0.28	5.53	2.12	2.07
2012	9.3	2.07	-0.03	2.71	1.96	2.01
2013	10.92	1.47	0.35	2.62	0.86	1.5
2014	6.37	1.62	2.76	1.92	0.51	0.91
2015	5.88	0.12	0.8	1.44	0.04	0.23
2016	4.97	1.26	-0.12	2	0.18	0.48
2017	2.07	2.13	0.42	1.55	1	1.74
Total	79.64	16.98	3.21	26.19	11.11	12.99
Average	7.964	1.698	0.321	2.619	1.111	1.299

Inflation rate is the important factor for the economic development of any country. If we study inflation rate of USA, Japan, France and Germany, it can be concluded that average inflation rate of these country is less than 2% in last 10 years. In case of Japan, inflation is negative in some years. Average inflation rate of last 10 years in India is 7.964 which is much higher than developed countries. General trend of inflation rate in India is decreasing. Presently inflation rate is 2.07%. After implementation of GST, it is expected that it will be 2% in mid of 2018 and around 1% at the end of 2020 which will be helpful for the development of Indian economy.

Increase in Tax Revenue

It is expected that tax revenue of the State and Centre Government will be increased after implementation of GST. Total revenue of the Government is RS.17.1 trillion for the F.Y. 2016-17 from indirect taxes which will be reached at Rs.19.11 trillion in the F.Y. It is expected that indirect taxes revenue will increase by 15% till 2020. Reduction in bureaucratic corruption, reduction in tax evasion and increase in public awareness are the main reasons for increase in indirect tax revenue.

Fiscal Deficit

Fiscal policy and monetary policy is the instruments for controlling any economy. Fiscal deficit is the excess of total expenditure over total income in any financial year. This deficit is balanced by the central bank of the country through issuing extra money. Study of country wise and year wise fiscal deficit are as under:

Analysis of Fiscal Deficit

Countries	Debt to GDP	Budget Deficit to GDP
India	69.5	3.2
Usa	106.1	-3.5
Japan	250.4	-4.5
China	46.2	-3.8
France	96	-3.4
Germani	68.3	0.8

Budget deficit o GDP ratio is negative in USA, Japan, China and France. In India, Budget deficit to GDP ratiis 3.2 which is much higher than international standards. As per international guidelines, Budget deficit up to 2%of GDP will be helpful to the development of the economy. If this ratio is more than international standards, it will increase inflation rate, reduce growth rate, increase in corruption and increase unplanned expenditure of the total budget. Presently budget deficit of India is 3.2% of GDP. It is expected that indirect tax revenue of the Governments will increase after implementation of GST which will control budget deficit.It is expected that budget deficit will be limited to 3% in 2019-20 and 2.5 % in the F.Y. 2021-22 which will be helpful for economic development.

Increase in Growth Rate:

Growth rate is the barometer of economic growth. It represents growth in national income, growth in basic facilities, improvement in health and educational facilities, reduction in poverty level etc. Analysis of growth rate of different countries is as under:

Analysis Of GDP Growth Rate

COUNTRIES	2016-17	2015-16	HIGHEST	LOWEST
India	5.7	6.1	11.4	-5.2
Usa	2.3	2.2	13.4	-4.1
Japan	0.3	0.6	3.2	-4.8
China	6.8	6.9	15.4	3.8
France	2.2	1.8	12.5	-3.8
Germani	2.8	2.3	7.2	-6.8

Growth rate data for the year 2015-16 and 2016-17 shows that growth rate of India is much higher than other developed countries. Size of economy of USA, Japan, France and Germany is much higher India so it is difficult to maintain higher growth rate. After implementation of GST, it is expected that growth rate of India is more than 8% in FY 2020-21.

Conclusion

Controlled inflation rate, increase in growth rate, controlled fiscal deficit, favorable balance of payment, increase in foreign exchange and reduction in poverty and unemployment are the basic conditions for the success of any economy. After implementation of GST, it is expected that inflation and fiscal deficit will be controlled; Government indirect taxes revenue will be increased, favorable impact in foreign exchange reserve and balance of payment. India will compete other developed and developing countries.

References

- ✿ Ojha, Sandeep & Dr. Swati Ojha, Socio-Eco. indicators of industrial Labour, VDM Verlag, 2016.
- ✿ Nitya Tax Associates, Basics of GST, Taxmann, 2016.
- ✿ <http://economictimes.indiatimes.com/business/business-news/know-all-about-indias-biggest-tax-reform-gst/articleshow/57909199.cms>
- ✿ http://moneycontrol.com/news/market-news/gst-beginning-of-new-tax-regime_162197.html
- ✿ https://www.nyoooz.com/news/kanpur/tax-reduction-rate-of-66-products-in-gst-the-decision-taken-by-the-council_61223/
- ✿ <http://www.cbec.gov.in/resources/htdocs-cbec/gst/gst-overview-hindi.pdf>
- ✿ <http://economictimes.indiatimes.com>
- ✿ <http://tradingeconomics.com>