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IMPACT OF GST ON INDIAN ECONOMY

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ABSTRACT

The greatest indirect tax change to take place since independence is the Goods and Services Tax. With a single uniform tax rate applied to a variety of goods and services, it has consolidated many taxes. Value addition is subject to a thorough, multistage, uniform single tax rate at each step. The Goods and Services Tax was established on July 1st, 2017. It views this as a crucial step in the nation's economic development. Business in India was particularly difficult because of the many levies that were in place. The implementation of GST will bring maturity and transparency to the Indian industry. The fundamental idea of GST, its characteristics, and the effects of GST on the Indian Economy (several sectors of the Indian Economy) are covered in this article.

Keywords: *Indirect Taxes, The Indian Economy (Agriculture, Industry, Services), Goods & Services Tax.*

Introduction

The Atal Bihari Vajpayee administration first proposed the introduction of GST in 2000. To develop a structure for GST, Asim Dasgupta established an Empowered Committee. In 2004, a task committee under the direction of Vijay L. Kelkar reported that there were numerous problems with the current tax system. The task force suggested that the GST System would help to mitigate these problems. The finance minister scheduled the implementation date of the GST at the beginning of April 2010 in February 2006. Pranab Mukherjee, India's new finance minister, announced the fundamental design of the GST System in July 2009. In November 2009, the Dasgupta-led EC proposed the GST regime. GST implementation was delayed by a year in February 2010 due to the project's budgetary spending of Rs. 1133 crore. The 115th Amendment bill for the implementation of GST was introduced by the government in March 2011.

The opposing party's criticism resulted to the bill being referred to the standing committee for a thorough investigation. P Chidambaram and state finance ministers set the deadline for concerns to be resolved by December 31st, 2012, in November 2012. The standing committee delivered its findings to the legislature in August 2013. Few modifications are approved by the panel. However, as of October 2013, Gujarat is opposed to the bill since the State would suffer a loss of Rs. 14,000 crore annually as a result of the destination-based taxation system.

Arun Jaitley, India's new finance minister, presents the 122nd Amendment bill to the legislature in December 2014. Jaitley stated in February 2015 that the government aims to introduce the GST by April 1st, 2016. The Lok Sabha passed the Amendment Bill in May 2015, at which point it was revealed that petroleum will not be subject to the GST. The measure is not approved by the Rajya Sabha in August 2015. The opposition finally consented to the government's request for the four amendments to the bill in August 2016, and the law was subsequently passed in the Rajya Sabha. The Constitution Amendment Bill receives the President of India's approval in September 2016 to become an Act. Four GST-related measures become law in 2017.

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The GST Council also put the GST rates and regulations in writing. Thus, on July 1st, 2017, the long-awaited indirect tax reform became effective. It views this as a crucial step in the nation's economic development.

Literature Review

In his essay "An Overview of Goods and Service Tax (GST) In India," Rathod M. (2017) draws the conclusion that GST will be a step towards a developed India, benefiting various parties and the entire country.

In his study paper "Goods and Service Tax in India-A Way Forward," Nitin Kumar (2014) stated that the adoption of GST will attempt to correct all the flaws in the country's current tax system.

Garg (2014) conducted research on the fundamental ideas and characteristics of the Indian GST. He emphasized that the GST would be a good indirect tax reform for our nation since it would apply to all commodities and services and to all business sectors, including the government and the private sector. The GST will have an impact on all large, small, and medium, intermediaries, importers, exporters, traders, professionals, and consumers. By raising tax revenues, this consistent tax rate for the federal government and each state would also probably enhance economic growth. With the reduction of these exemptions, both the manufacturing and service sectors will pay the same amount of tax.

In Malaysia, Palil et al. (2011) conducted research on how the GST affected middle-class incomes. T-test and ANOVA were employed to analyze the customer data. Consumers believed that rising costs will have a negative influence on their ability to make purchases. Due to a lack of knowledge, people did not know how the GST would be applied; therefore, the government should strive to persuade them that the GST would not limit their purchasing power. If it did, however, the government would mitigate that effect by offering exemptions and lowering the income tax rate.

In a 2008 study, Chadha et al. examined how GST affected India's economic development and foreign commerce. Some directional changes in various variables had been projected by the general equilibrium model, such as an increase in India's GDP that would range from 0.9 to 1.7 percent. GST was predicted to boost import value by between 2.4 and 4.7 percent and exports by between 3.2 and 6.3 percent in 2008-09. Due to gains in the land (0.42%-0.82%), wage rate (0.68%-1.33%), and capital (0.37%-0.74%), the real return on the factor of production would grow, resulting in an overall increase. GST would also aid in the efficient allocation of resources.

Lee conducted research on the implications of the GST in Hong Kong and discovered how it affected government revenue and various income categories. Due to revenue unpredictability and insufficient additional money, it was determined that the GST was not widely adopted and was expensive to implement. Second, it was noted that the GST was truly superfluous because the current tax system was already widely based, and because of its regressive nature, it would worsen income inequality by placing an additional burden on the middle class.

Objectives of the Study

- To comprehend the GST idea.
- To research the effects of GST on the Indian economy, specifically on different economic sectors.

Concept of Goods and Services Tax

The greatest indirect tax change since independence is the Goods and Services Tax (GST). It replaced many taxes with a single, uniform tax rate applied to a variety of commodities and services. GST is a thorough, multistage, unified single tax rate that is applied to value addition at each stage. The system is based on dual taxation and includes both the CGST and the SGST. The different central taxes, such as the central excise duty, central sales tax, and service tax, have been replaced with the CGST (Central Goods and Services Tax). State taxes including purchase tax, octroi, and other levies have been replaced by SGST (State goods and services tax). The CGST and SGST taxes are collected and distributed to the central and the state, respectively. The integrated goods and services tax (IGST), which has taken the place of the central sales taxes on interstate transactions, is levied on the delivery of products and services between states. The center is in charge of collecting taxes. Union Territories will be subject to UTGST (Union Territory Goods and Services Tax).

Features of Goods and Services Tax

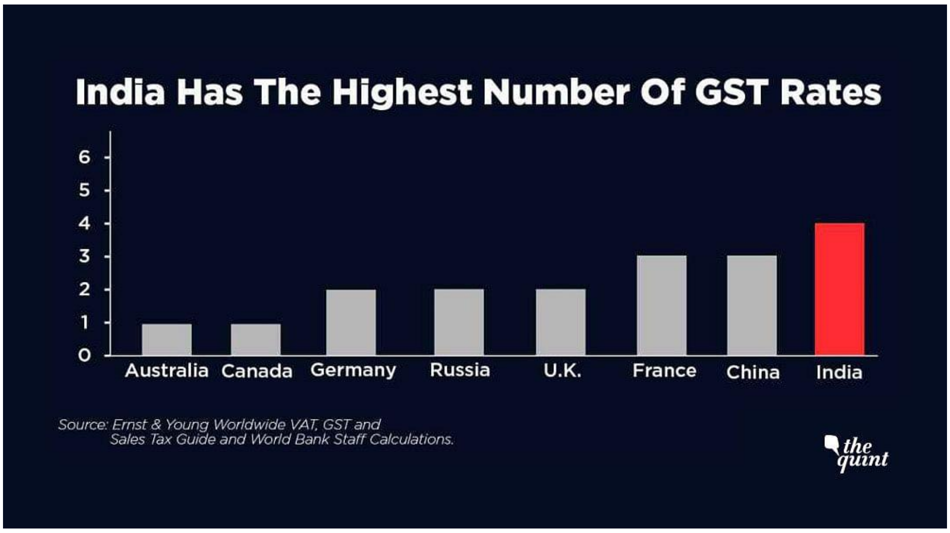
1. As opposed to the old idea of taxes on the manufacture of commodities, sale of goods, or provision of services, GST is levied on the supply of goods and services.

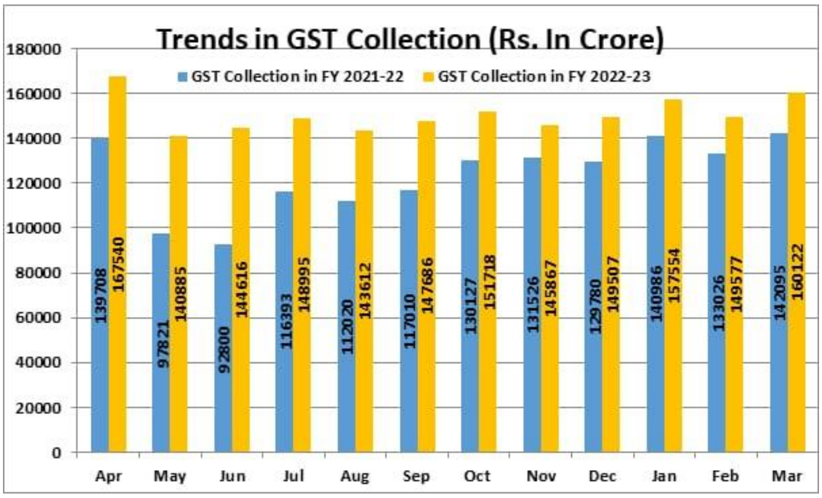
2. It is founded on the idea of a consumption tax based on destination.
3. Imports of goods and services were subject to the IGST and were considered to be interstate supplies.
4. Under the supervision of the GSTC (Goods and Service Tax Council), the center and the state agree upon the CGST, IGST, UTGST, and SGST rates.
5. Except for alcohol intended for human use, all goods and services are subject to the GST tax.
6. The GST percentages are 5%, 12%, 18%, and 28%.
7. Rough diamonds are subject to a 0.25% rate.
8. GST rate on diamonds (other than rough diamonds), pearls, precious or semi-precious stones, coinage, fake jewelry, precious metals (such as gold and silver), and diamonds (other than raw diamonds) - 3%
9. The GST is waived for taxpayers with a yearly revenue of 20 lakhs (or 10 lakhs in Jammu and Kashmir).
10. Small taxpayers with a 1 crore annual revenue threshold are eligible for a composition levy system. (75 lakhs for states in the special category, except J&K and Uttarakhand).
11. Taxpayers have access to a number of payment options, including debit/credit cards, NEFT, and RTGS.

Impact of GST on the Indian Economy

GST was implemented in an effort to promote economic growth in the midst of a global economic crisis. The government has introduced numerous initiatives, including Digital India and Make In India. A more effective taxing system was required for the achievement of these plans. GST has therefore been put into effect. Since independence, tax reform has been eagerly anticipated. The convoluted taxation structure has been replaced with a single, unified tax rate. Since its adoption, it has had an impact on the Indian economy's many sectors. There are three primary sectors of the Indian economy. The paragraphs that follow will describe how the GST has affected different industries. The following figure lists the sectors of the Indian economy:

A Figure of Sectors of the Indian Economy





Source: Ministry of Finance

Agriculture Sector

An essential part of the Indian economy is the agricultural sector. It makes up about 17.4% of India's GDP. Positive effects of the GST are anticipated for the agricultural industry. The following are some of the consequences of GST on the agricultural sector: The transportation of agricultural products throughout India was the main problem the agriculture sector was facing before the adoption of GST. Agriculture products will be able to move freely throughout India as a result of the subsumption of all significant indirect taxes into the GST. The GST will make the supply chain mechanism for agri products easier, more transparent, and more effective. For farmers and retailers, it will cut costs and waste. Agriculture items were taxed at various rates in the states of India prior to the implementation of the GST. Since the introduction of the GST, all agricultural products are subject to a single rate of taxation nationwide. As a result, farmers may sell their goods at the best prices throughout the nation.

- The federal government has launched a program to promote the National Agriculture Market (NAM). A uniform e-commerce platform will bring together different farmers and traders in controlled markets. For the NAM to be implemented successfully, GST is crucial. The rates for pump sets have been lowered from 28% to 18% following the 22nd GST Council Meeting. The tax rate decrease will increase pump manufacturers' confidence.
- The government decreased the tax rates on Sprinkles and Nozzles to 12% during the 25th GST Council Meeting. Farmers will employ more deep irrigation methods as a result of it.

Contract farming, dairy farming, poultry farming, and animal breeding have all been added to the scope of the GST. The government will receive more money as a result.

Industrial and Service Sector

- **E-commerce Operators:** It is one of the industries that has been expanding rapidly. The government required a seller to pay VAT/CST throughout the GST transition period. Following implementation, e-commerce operators will start to collect 1% of the net value of taxable supply (0.5% CGST + 0.5% SGST). As a result, their burden has grown, which has made them less than pleased.
- **Textiles Industry:** The introduction of the GST has had a negative impact on the textile business. Although the government placed textiles in the 5% tax category, there are still additional taxes that increase the tax obligation to 13%. Although the government had pledged to do so, the prices of raw materials for the textile and garment industries never decreased. Small businesses found it challenging to operate in such a setting. Around 10% of all exports each year come from the textile industry, but since the GST was implemented, this sector's exports have also suffered. The traders are very disorganized and confused. Due to the processing times for input tax credits, paperwork for small manufacturers, and other issues, business has decreased.

- **FMCG Industry:** The implementation of GST has a favorable effect on the FMCG industry. Input tax credits for capital goods and input services have increased as a result of the GST. Since the checkpoints were eliminated, the cost of logistics has also decreased for this industry.
- **Pharma Industry:** The introduction of the GST has benefited the pharmaceutical industries. The tax on raw materials is lower under the GST regime than it was under the prior tax rates, which lowers the cost of purchasing. Manufacturers of medical equipment and devices are also receiving a tax break of 1%, which will aid them in increasing output. The main issue is the inclusion of healthcare services under exempted supplies because, by law, if a supply is exempt, an input tax credit is not permitted. It interfered with the transfer of input tax credits from one supplier to another.
- **Telecom Industry:** The GST regime sets an 18% tax for the supply of telecom services and goods. 15% was the previous tax rate. The debt load for telecom providers has increased as a result of the tax rate hike. After the railroads, the telecom sector consumes the most diesel. It is extremely challenging for the operators to set up input obligations because petroleum items are not included in the GST. Therefore, in order to prevent future harm to this industry, the GST Council must take into account all of these factors and find a quick solution.
- **Transportation Industry:** The transport sector is the foundation of any economy. The cost of rail transit for people and commodities has increased slightly as a result of the installation of GST. However, if they are using transport for business purposes, they can now claim an input tax credit. With the exception of services provided by Goods Transport Agencies (GTA) and Courier Agencies, the government has exempted all goods road transport services.
- **Real Estate Industry:** The real estate industry has become more mature and transparent thanks to the GST. Developers had to pay a lot of indirect taxes under the previous GST system, which increased the price of homes for buyers. All of the various taxes have changed under the GST regime and have been replaced with a single tax rate. 12% GST is payable to properties that are still under construction. Homes bought through the CLSS (Credit-Linked Subsidy Scheme) are subject to an 8% GST. Properties that are ready to occupy are exempt from GST. Only if the numerous laws and regulations are implemented correctly will all of these changes have a good effect on real estate. Customers appear to only benefit from projects completed after the GST period.

Conclusion

The impact of GST on the Indian economy is not clear. It has a good effect on some industries while having a negative effect on others. Different standards and regulations still need to be clarified. The prices of commodities alter overnight, which causes businessmen to lose money. Despite numerous government initiatives, the cost of compliance has gone up for SMEs. Due to weak communication between customs and GST, outdated software, and modifications made to the return method by the GST Council, suppliers are not receiving timely refunds from the government. For the GST to operate smoothly, the right technological infrastructure is required. The government should therefore concentrate on ensuring that the numerous rules and regulations of this system operate smoothly in order to reap long-term benefits from it.

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