

## IMPACT OF GOODS & SERVICE TAX IN INDIAN ECONOMY

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### ABSTRACT

*In the present research paper, an attempt has been made to study impact of Goods and Service tax in Indian Economy. India is a developing country where Indirect Tax is levied by Central and State Government. Value Added Tax is levied by State Governments which is a compulsory contribution to state revenue, levied by the government on workers' income and business profits, or added to the cost of some goods, services, & transactions. There are two taxation systems in India i.e. direct tax and indirect tax. Goods and Service Tax (GST) is a great reform in the indirect tax system in India. The indirect tax is a main source of taxation for the Central Government. At present, there is great problem with the current regime of taxation system in India. Goods and Service Tax (GST) is the most awaited tax reform in the country. Presently there are many indirect taxes as central excise, VAT, service tax, luxury tax etc. which would get merged less than one tax i.e. GST. This is a single tax which will be levied on the product or service which is sold. The GST, as discussed above is an indirect tax and will be borne by the customer/consumer. There will be a standard rate of GST on various goods and services. Goods and Service (GST) is officially known as the constitution (one hundred and twenty second amendment) bill, 2014. The GST implementation in India is Dual in nature, i.e. it would consist of two components: one levied by Centre (CGST) and another levied by States and Union Territories (SGST).*

**KEYWORDS:** SGST, CGST, Central Excise, VAT, Service Tax, Luxury Tax.

### Introduction

The Goods and Services Tax (GST) is a broad concept which simplifies the complicated tax structure by supporting and enhancing the economic growth of our country. Goods and Services Tax (GST) is a comprehensive tax which is to be levied on manufacturing sale and consumption of goods and services at the 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 country level in India. GST is an indirect tax at all the stages of production and providing services to bring about uniformity in the taxation system in India.

### Objectives

- To study the features of GST.
- To study the impact of GST on Indian economy.
- To study the advantages and challenges of GST.

### Research Methodology

The research paper is an attempt of research, based on the secondary data sourced from journals, Internet, articles, previous research papers which focused on the various aspects of goods and service act. According to the requirements of the objectives of the study by design is descriptive type. The accessible secondary data is used only for study.

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### **Two Components of GST**

As of now it is understood that the GST will have two components- a CGST, levied by the centre and a SGST, levied by the states. Base of GST: It is proposed that the existing base of the CENVAT, which encompasses goods only up to the manufacturing level, would be extended up to the retail level. Also, all the services would form the base of both the CGST and the SGST. The rates of tax on goods as well as on services, under both these components, will be the same. Petroleum products would be out of the purview of GST, as is the case under VAT. Tobacco would be part of the GST base but the centre would in addition levy special excise to yield more resources. All taxes related to sales tax (such as additional sales tax, entry tax, etc.) would be subsumed under the GST, the only other tax that would be subsumed under the GST is the entertainment tax. Extension of the base of CGST up to the retail level would increase revenue by about 20%. Similarly, the revenue base of the states would enlarge by including all services into the SGST.

### **Purpose of Tax Reform**

Taxation in present scenario of our country is thus needed not merely to raise the revenue required to meet its ever-growing funds for expenditure on administration and social services etc., but also to reform for the inequalities of wealth and income. An overall comprehensive tax reform system keeping in view the resource requirement of the governments to meet their all necessary objectives as well as satisfactory allocation of income, and wealth can be the only great tax reform in India.

### **Impact of GST on Indian Economy**

The Goods and Service Tax (GST) bill is expected to have wide ranging ramifications for the complicated taxation system in the country. It is likely to improve the country's tax to GDP ratio and also inhibit inflation. While giving financial muscle to the government for increasing the capital expenditure which will help the economy grow. Though there are expectations that the GDP growth is likely to go up by 1 to 2% the results can only be analysed after the GST implementation. The response is mixed from countries around the world. While the New Zealand economy had a higher GDP growth, it was lower increase of Canada. The multiplicity of the taxation influences the company's decision on manufacturing location and distribution of Goods. FMCG companies will now shift towards the areas where they can have the benefits of tax. There will be a positive effect on costing of products as taxes will be reduced the same reduction will affect the prices or costing also.

Currently in India tax evasion is the problem lying in front of govt. and due to confusing tax system prevailing people often evade, but GST will act as a weapon against this practise and increase the revenue for the government as well. With the collection done at point of sale both components will be charged on the manufacturing costs and therefore leading to decrease of prices which in turn will benefit the consumer and further leading to increase in the consumption of goods which further will increase the profits of the companies.

### **Advantages of GST**

Here's a look at GST's benefits Less developed states get a lift as the current 2% inter-state levy means production is kept within a state. Presently, a tax is levied on when a finished product moves out from a factory, which is paid by the manufacturer, and it is again levied at the retail outlet when sold. According to experts, by implementing the GST, India will gain \$15 billion a year. This is because it will promote more exports; create more employment opportunities and boosts growth. It will divide the burden of tax between manufacturing and services. It will lead to development of common national market. Leakages can be controlled with the GST as tax structure.

### **Challenges of GST**

There are few aspects which contradict the growth story and might be seen as hurdles. When the aviation industry was witnessing the much awaited growth with increasing domestic traffic, the GST implementation might slow the rate at which the industry is expecting growth as flying will become expensive. Service tax on fares currently ranges between 6% and 9% (depending on the class of travel). With GST, the rate will surpass 15%, if not 18%, effectively doubling the tax rate. India, on one hand, has the lowest insurance penetration in the world (less than 5% of Indian population & half of the global average) and on the other GST will further make the insurance products dearer. Life, health & motor insurances will begin to cost more from April 2017 as taxes will go up by up to 300 basis points, if the rate of GST will be over 15% then all the services will be costlier. It is really required that all the states implement the GST together and that too at the same rates. Otherwise, it will be really cumbersome for

business to comply with the provisions of the law. This was supported by a few states, while a few others, criticised the same. A large part of the success of GST depends on two prominent factors- 'RNR' and 'threshold limit' for GST. RNR, i.e. the Revenue Neutral Rate, is the rate at which there will be no revenue loss to the government after implementation of GST. Needless to mention that RNR will impact India Inc. adversely, if it is unduly higher than the present tax structure. These are some of the major challenges before the government and the industry, ahead of the actual implementation of GST.

### Conclusion

Moving to GST regime will be beneficial for the economy on multiple counts, GST is not simply VAT plus service tax, but a major improvement over the previous system of VAT and disjointed service tax- a justified step forward. A single rate would help maintain simplicity and transparency by treating all goods and services as equal without giving special treatment to some 'special' goods and/or services. It can also be used as an effective tool for fiscal policy management if implemented successfully due to nation-wide same tax rate. It can be further concluded that GST have a positive impact on various sectors and industry. GST will soon be knocking the doors of Indian economy and thus we shall all be ready to deal with it. It's the world wide accepted system of taxation and will result in India joining this system too. Though there are bottlenecks in adapting and ruining the system in India though it be political or growth and more research is yet to be done. Implementation of GST requires undivided efforts of all stakeholders though it is Governments both central and state, industries or consumer. Thus steps should be taken to successfully implement the tax. In India implementation of GST would also greatly help in removing economic distortions caused by present complex tax structure and will help in development of a common national market.

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