Inspira- Journal of Modern Management & Entrepreneurship (JMME)
ISSN : 2231–167X, General Impact Factor : 2.5442, Volume 08, No. 02, April, 2018, pp. 147-151

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

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ABSTRACT

GST, which stands for "Goods and Services Tax", is said to be the biggest tax reform in India post independence, which was introduced in July 2017. The reason behind introducing GST was to replace all the indirect taxes that are imposed by India's Union and state Governments under the theme of "one nation, one market, one tax". It is an indirect taxation to be levied on manufacturing as well as sale/ consumption of goods and also on services rendered in India and this will directly affects all the sections of our economy. It is not an additional tax rather it brings excise duty, service tax, central sales tax, octroi, VAT, entertainment tax, luxury tax, lottery tax, and corresponding surcharge on supply of goods and services under one umbrella. This is an effort towards reducing the complexity of the tax policy by way of pushing a simple, uniform, flat structure of taxation. The Government has aimed to make it "Good and Simple Tax", however there are certain issues related to its implementation as well as future implication on our Economy. The titled paper is just an effort to explain the basic concept of GST in Indian context and also to explain the features of the GST. The paper will also give a glimpse of anticipated impacts of GST on our economy and the limitations of GST in India.

KEYWORDS: *GST**,** Excise Duty, Service Tax, Central Sales Tax, Octroi, VAT, Luxury Tax, Lottery Tax*.

Introduction

GST is an acronym for Goods and Services Tax. Government of India has been making its best efforts to roll-out the Goods and Services Tax (GST) for last few years but due to various political issues and the issue of share of States in GST has led to delay in make it a law. The GST Bill was tabled in Lok Sabha in 2009 by UPA government but it was not cleared. The present NDA government reintroduced a 'modified' version of the GST Bill in the Parliament and subsequent to the passage of the 122nd Constitution Amendment Bill, 2014 for Goods and Services Tax (GST) in the Lok Sabha on 6th May, 2015 it became a reality when both the Houses passed it.

The implementation of the Goods and Services Tax is a game-changing step in taxation policy reforms in India. By merging a large number of Central and State taxes into a single tax, GST is expected to remove the cascading effect of taxes and will ease double taxation in the cost of production of goods as well as services and this will lead to a seamless credit across the value chain. Removal of various tax hurdles by way of uniform GST, will make our country a attractive market, which will lead to economy of scale in sections of production and will also improve the efficiency of supply chain. This may lead to further expansion of our trade and commerce. For the end customer, the most important expected benefit will be significantly reduction of cost of our indigenous goods and in this way it will also promote 'Make in India' and thus support the growth of GDP. GST will facilitate investors across globe by way of ease of doing business

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in India as the existing multiple taxes have been reduced into a single GST. This will significantly reduce the tax compliance cost and also the transaction cost. Introduction of GST has also made the Indian products competitive as well as attractive in the markets across the globe. Most importantly, the GST, as a tax will be easier to monitor and administer as it promotes transparency in its character. Now, since the single biggest indirect tax regime has kicked into force, by dismantling all the inter-state barriers with respect to trade. Therefore we can say that GST would offer a win-win situation for all section of society like Government, tax authorities and also for the individual citizen. Various manufacturers would get benefitted from fewer tax filings, easy bookkeeping and transparent rules. But there are also some associated concerns. GST has also increased the burden of various procedural requirements and the documentary compliance. The number of tax returns to be filed has increased significantly. Similarly a taxable firm or person providing its services from different states, they will have to get registration and file return in all these states. Therefore, a centralized single registration should be introduced for such cases. In case of business entities, which have to maintain high inventory of goods in several states, they are affected adversely as they have to pay full GST rate on stock transfer between one state to another. In this way there is adverse impact of GST on working capital and the cash flow of these firms.

Why India Needed GST

Despite the running success of VAT, there were certain shortcomings existed in the structure in levy of VAT both at State and Central level. The shortcoming in CENVAT of the Government of India lies in non-inclusion of several taxes in the overall framework of CENVAT such as VAT, ACD, and Surcharge etc.

Moreover, in the present State-level VAT scheme, CENVAT load on the goods remains included in the value of goods to be taxed under State VAT, and contributing to that extent a cascading effect on account of CENVAT element. Furthermore, any commodity, in general, is produced on the basis of physical inputs as well as services, and there should be integration of VAT on goods with tax on services at the State level as well, and at the same time there should also be removal of cascading effect of service tax.

Further, by removing cascading effect, layers of taxes and simplifying structures, the GST would encourage compliance, which is also expected to widen the tax base. But virtually every media report that mentions the GST says that the tax reform has the potential to add up to 2 percent to India's GDP. If VAT is considered to be a major improvement over the pre-existing Central excise duty at the national level and the sales tax system at the State level, then GST will be a further significant breakthrough – the next logical step – towards a comprehensive indirect tax reform in the country. To realise the Target of improvement in the Indian economy, the need of GST was felt by economic experts and think-tank in Government. The above thought was based on various benefits associated with GST and few of them are discussed hereunder:

- **Simplification of Tax Structure**: There were different rates of VAT in different states. Due to various political reasons some State Governments, in few cases chose to slash VAT rates in their state. This results less revenue for both the Central as well as State government. With uniform tax rates in GST regime, through the supply chain system, instead of multiple tax rates, the state specific positives or negatives will vanish. This gives a fair piece of opportunity in market to all the stakeholders and this brings the efficiency as a target point among business competitors instead of looking for state specific advantages.
- **Corruption-free Taxation System:** As GST is expected to bring transparency in taxation system, it will lead to reduction of corruption. The input tax credit shall motivate the goods manufacturers and suppliers to pay their taxes with due honesty.
- **Uniformity in Economy in India:** Due to different tax rates, there has been always a debate regarding State of economy in Union of India and across various federal states. Post GST, this will bring Indian Economy as a one to global investors. Manufactured Goods or items will easily move all across the boundaries of country and the different state boundaries will diffuse. This will encourage investors to focus on One India/Pan-India business project and operations.
- **Simpler Tax Structure:** By merging all tax levies on various goods and services into a single one, GST attains a very simple and transparent character as procedural cost of compliances reduces due to uniform accounting for all types of taxes. Further, with the less paperwork and reduction in accounting complexities, the manufacturing sector will become more competitive and save both time and money.

- **Greater Tax Revenues:** Due to simplified tax structure, greater tax related compliance can be achieved. This will lead to rise in number of tax payers and will in turn increase the tax revenue collection by authorities of the government. By removing tax cascading effect, the layers of taxes and simplifying structures, the GST is expected to encourage the tax compliance, which will lead to widen the tax base.
- **Push to Exports:** With fall in production cost in domestic market, the competitiveness of Indian goods in international market will increase. This will boost the “make in India” campaign of Government and will augur well to all exporters, who are competing with global manufacturers, whose tax structures are very different.
- **Expansion in GDP**: As per the reports of IMF, for the growth of GDP over 8%, GST may play a major role. As GST makes whole nation a uniform market, the efficiency of movement of goods and service across the country will increase due to uniform tax base. As the GST is expiated to subsume all the other indirect taxes, the exemption benefit available for manufacturers in case of excise duty will be removed and this will result in increase in revenue for the government and this will interalia result in rise in GDP. This increased revenue of the government will further diverted to infrastructure development projects and this will keep the growth cycle further moving.

Features of GST: One Nation, One Market, One Tax

- Various types of Indirect taxes, which were levied earlier and now brought out under the single umbrella of GST are as follows:
  - *Central Govt. Leviable Taxes:*
    - ~ *Central Excise Duty*
    - ~ *Additional Excise Duty*
    - ~ *Service Tax*
    - ~ *Countervailing duty*
    - ~ *Special Additional Customs Duty*
  - *Central Govt. Leviable Taxes:*
    - ~ *Subsuming of State Value Added Tax/ Sale Tax*
    - ~ *Entertainment Tax(other than levied by the local bodies), Central Sales Tax(levied by the Centre and collected by the states)*
    - ~ *Octroi and Entry Tax*
    - ~ *Purchase Tax*
    - ~ *Luxury Tax*
    - ~ *Taxes on lottery, betting and gambling*
- **Types of GST**

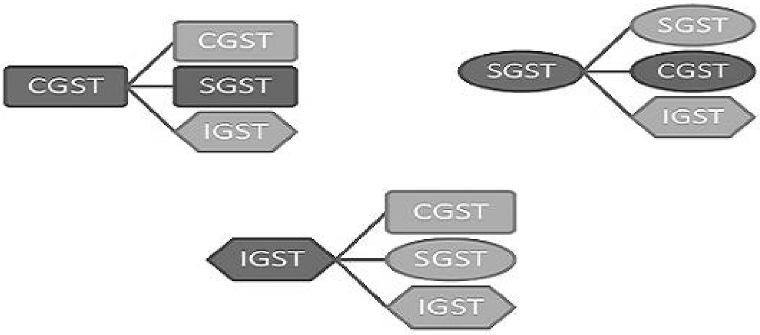
CGST	SGST
This is applicable in the case of Inter-State sale of goods and provision of service	In case of sale of goods Intra-state then tax will be charged as per this form.
Taxes/Duties Covered under CGST	Taxes/Duties Covered under SGST
Central Excise Duty	Entry tax (not octroi)
Service Tax	Entertainment tax
CVD, SAD	VAT/Sales Tax
Excise duty on M&TP etc.	Luxury tax etc.

The GST can take other forms also like

IGST: i.e. Integrated GST, which is collected by the Central Govt.

UTGST: i.e.Union Territory GST, which is collected by the Union Territory

- **GST Tax Credit Mechanism**



Overall Impact of GST on Indian Economy

- *From **Consumer point of view**, there will be better pricing for majority of the goods and services post GST. Due to transparency, there will be fair competition among suppliers and market will be efficiency driven. These aspects will benefit the end consumer.*
- *From Businesses point of view, they are able to reduce their cost of doing business since they are able to claim GST credit incurred on their business inputs. GST shall **reduce the overall transaction cost of businesses** like the warehousing and logistics cost shall see a decreasing trend and businesses shall benefit from it. GST shall enforce **free flow of goods and services** as well as **seamless flow of credit**. This shall directly or indirectly lay a positive impact on economy and foster growth through increased production of goods.*
- *GST is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level. GST is a part of proposed tax reforms in India having an extensive base that instigate the applicability of an efficient and harmonized consumption tax system. GST has been commonly accepted by world and more than 140 countries have acknowledged the same. Generally the GST ranges between 15%- 20% in most of the countries.*
- *There are approx. 140 countries where GST has already been implemented. Some of the popular countries being Australia, Canada, Germany, Japan, and Pakistan, to name a few. As far as impact of GST across the globe, there is mixed response from countries around the world. While the New Zealand economy had a higher GDP growth, it was lower in case of Canada, Australia and Thailand after the GST was implemented.*
- *Furthermore, the GST implementation has a cost of compliance attached to it. It seems that this cost of compliance will be prohibitive and high for the small scale manufacturers and traders, who have also protested against the same. They may end up pricing their goods at higher rates.*

GST Composition Scheme

Businessmen with annual turnover of more than Rs.20 lakhs and up to Rs. 1 crore* lakhs can take advantage of composite schemes coming in GST. Under the composite scheme, the tax rate is low. Under this scheme, the traders will have to pay only 2 per cent tax. The advantage of this scheme can be bought by Retailer, Wholesaler, Restaurant Businessman, MSME, Manufacturing. If the turnover of these traders is more than Rs 20 lakh and up to Rs 1 crore*. In GST, you have to pay tax at an annual rate of 2 per cent.

Changes recommended in Composition Scheme on 10th November 2017

The following changes were recommended in the Composition Scheme on the basis of discussions held in the 23rd meeting of the GST Council held at Guwahati on 10.11.2017:

- *Uniform rate of tax @ 1% under composition scheme for manufacturers and traders (for traders, turnover will be counted only for supply of taxable goods). No change for composition scheme for restaurant.*
- *Annual turnover eligibility for composition scheme will be increased to Rs 2 crore from the present limit of Rupees 1 crore under the law. Thereafter, eligibility for composition will be increased to Rs. 1.5 Crore per annum.*

- Supply of services by Composition taxpayer upto Rs 5 lakh per annum will be allowed by exempting the same
- The changes recommended by GST Council at (ii) and (iii) above will be implemented only after the necessary amendment of the CGST Act and SGST Acts.

Limitations of GST

There are certain limitations in implementing the GST in India, discussed as follows:

- There is no such clear picture about the GST both to the government and to the general public.
- There is no cooperation between the Central government and the state government in implementing the GST. Even though, if implemented the levy of Tax remains on the part of the state.
- The State government generally refuses to accept it. As the states levy taxes on the Destination principle i.e. (the state in which the product or service is sold or rendered), so in order to lose the revenue they were avoiding it.

Conclusion

The GST System is basically restructured to simplify current critical Indirect Tax system in India. In terms of growth, price, current account and budget balance, the macroeconomic impact of a change to the introduction of the GST will be significant. With a burgeoning services sector and a high economic growth trajectory that India is in today, a shift in income based tax to consumption based tax is going to provide substantial fillip to source of revenue. Of course, there will be a short lived limited price impact on the larger economy with introduction of GST. However, a larger impact is expected on the administrative compliance cost of GST which is likely to increase tax revenue from the “parallel” or “black” economy.. Ways have to be found for lowering the overall compliance cost, and necessary changes may have to be made for the good of the masses. GST mechanism is designed in such a way that it is expected to generate good amount of revenue for both central and state government. Regarding corporate, businessmen and service providers it will be beneficial in long run. It will bring transparency in collection of indirect taxes benefiting both the Government and the people of India. GST will become good and simple, only when the entire country works as a whole towards making it successful.

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