International Journal of Advanced Research in Commerce, Management &Social Science (IJARCMSS)
ISSN : 2581-7930, Impact Factor : 6.809, Volume 05, No. 04(I), October-December, 2022, pp 61-66

INVESTIGATE THE ECONOMIC EFFECT AND IMPACT OF GOODS AND SERVICES TAX ON INDIAN ECONOMY

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ABSTRACT

With the objective of achieving "One Nation, One Tax," the Indian government enacted the Goods and Services Tax on July 1, 2017, a dramatic shift in the country's indirect tax system. The Goods and Services Tax (GST) is a national indirect tax that applies throughout India and creates a unified market. The Goods and Services Tax (GST) is only collected at the time of purchase, in contrast to the indirect tax system that is widespread across the nation. However, many in our society have other reasons for rejecting the most recent tax plan. The Goods and Services Tax (GST) has had an impact on almost every major and minor economic sector in the nation. The basic objective of the GST is to create a single tax from producers to retailers. India has the highest retail capacity per person in the world and is rated sixth in terms of most popular shopping places. The GST replaced a wide variety of taxes formerly levied by federal and state governments. Taxes on GST are collected on a progressive scale that ranges from 0% to 28%. There are five distinct tax bands (5%, 12%, 18%, and 28%). The GST Council, which includes both the central government and the finance ministers of all the states, is in charge of setting the GST's rates, rules, and regulations. In this article, we examine the possible benefits and downsides of the GST system from an Indian viewpoint, as well as the effects of GST on Indian enterprises and the Indian economy. This article makes an effort to examine the impact of the goods and services tax on the Indian economy. The study's secondary objective is to learn how the GST has impacted the economy, both positively and negatively.

Keywords: *GST, GST Council, Economy, Indirect Tax.*

Introduction

Tax policy has a major impact on the economy. The government of India mostly funds its operations via taxation. There are two main categories of taxation: direct and indirect. When both the effect and incidence are felt by the same person, we speak of a "direct tax," and when they are felt by different people, we speak of a "indirect tax." However, GST consolidates all indirect taxes into a single rate, which aids economic growth. Consolidating several taxes (at the federal and state levels) into a single tax is expected to provide major advantages. One of the biggest benefits is the elimination of double taxation or the "tax cascade." By enacting the Goods and Services Tax (GST), India caused a historic shift in the world of indirect taxation. Indirectly taxing the sale of goods and services, the Goods and Services Tax (sometimes called a consumption tax) is implemented in India. This is an exhaustive, multi-step, and destination-based tax. It is comprehensive since it includes almost all indirect taxes (with the exception of a few state levies). The three primary models used in GST architecture are the integrated GST (IGST), the country-by-country GST (CGST), and the state-by-state GST (SGST). The Goods and Services Tax was put into place as a reform to create a setting where fair competition may thrive. The state and the federal government made the decision to combine their resources and sovereign authority to create this fiscal convergence in order to accomplish their common goal of economic success. The programme is now preparing for a national market rollout. It is expected that Indian exports would become more competitive if the GST is implemented. The implementation of GST

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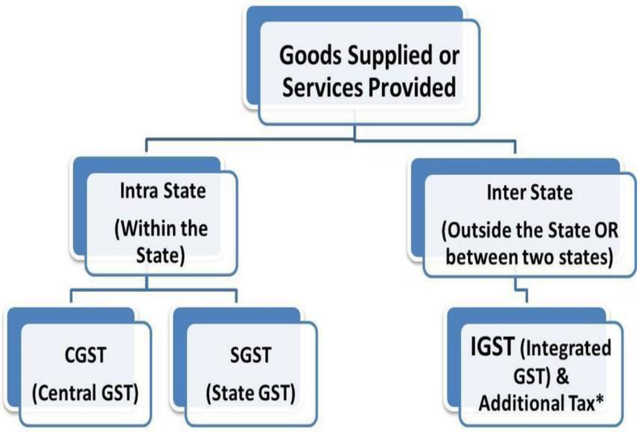
will make India's tax system practically uniform with that of the rest of the world. It will also make American exports more affordable overseas. When the Goods and Services Tax (GST) is implemented in India, it would have a profound effect on almost every facet of business in the country. More than 140 countries across the globe have adopted GST in some form, but India has long stood out as an exception. The Central GST Bill, the Integrated GST Bill, the GST (Compensation to States) Bill, and the Union Territory GST Bill are the four-legislation pertaining to GST that were passed by parliament and signed into law by the president in 2017. Both the GST rates and the GST rules were formalised by the GST Council. The administration has announced that the GST Bill would become law on July 1, 2017, after a slight delay due to legal issues.

GST Structure



Source: https://www.google.com/search

Indian Tax Structure before GST

Before the establishment of the GST, there were clear boundaries between federal and state taxes. There was utter lack of duplication between the various monetary authorities. The government in Ottawa plans to levy taxes on all manufactured goods, with the exception of alcoholic drinks produced for human use and illegal substances like opium. Under the former taxation system, central taxes such as custom duty/central excise duty, central sales tax on goods and services, surcharges, and cesses applied. State taxes included value-added taxes, gross receipts taxes, excise taxes, sales taxes collected at the point of sale, surcharges, and cesses. Merchandise sales taxes might be levied at the discretion of the individual states.

The federal government would collect the Central Sales Tax on behalf of the original states. In addition, a service tax was added to the cost of every service provided by the Centre. Products and services are taxed where they are made, sold, or provided under a value-added tax (VAT) system. Further customs taxes were being assessed and collected by the government in New Delhi on goods leaving and entering India. This charge was added on top of the regular customs duty. Countervailing duties (CVDs) and special additional duties (SADs) are forms of additional customs tax that may be used to reduce the overall tax burden.

Literature Review

Purohit(1997) He discovered that since instituting VAT, which has many rates, VAT as a percentage of total domestic taxes on goods and services in Brazil has increased. The rates of taxation varied for various items. Since more cars, chemicals, drinks, etc., were sold, more money was made through taxes. However, the selling of goods over state lines was subject to taxation by the state doing the exporting. The author concludes that this suggests India may implement a GST system similar to Brazil's.

Taqvi, Srivastava and Srivastava (2013) They argue that the system's intrinsic benefits are the reason why more than 140 countries have already adopted GST in some form. Therefore, moving to a tax structure based on value is essential. The Value-Added Principle of taxation, whether in the form of VAT or GST, has been adopted as part of recent tax reform attempts carried out in the vast majority of nations.

Dr. Pradeep Chaurasia and et.al. (2016) According to their findings, GST has a significant role in fostering national economic development. They emphasised a national evaluation indicating that GDP growth due to the GST would be between 0.9% and 1.7%. They arrived at the conclusion that GST is good for the growth of the Indian economy and would significantly contribute to a growth of more than 2% in the GDP of the country.

Rani Jacob(2016) Claimed that the GST has helped micro, small, and medium-sized enterprises (MSMEs) by reducing the regulatory load, online compliance requirements, selective taxes, compliance costs, technological reliance, and monthly financial preparedness.

Neelavathi (2018)A rise in interest for all vehicle categories is forecast as a result of the study's authors' claim that GST shifts fees from the setup to the use phase, necessitates wider financial activity, and portends much higher GDP growth. When all assessments on input payments are equal to the GST yield requirement, the overall cost of automobile production may be reduced.

Research Methodology

The data used in this work came from secondary sources such debate papers on GST implementation, academic journals, web articles, prior studies, media, etc. Through the use of these secondary resources, we have attempted to determine the difficulties associated with the GST and to explore its future possibilities in India.

Objectives of the Study

- To determine the impact of GST in India on the economy.
- To investigate the economic effects, both positive and negative, of the GST.

Impact of GST on Indian Economy

The GST's effect on India's economy The Goods and Services Tax (GST) law is likely to have far-reaching effects on India's convoluted tax structure. The current tax system to GDP ratio is projected to increase, and inflation should be reduced as a result. The manufacturing sector may stand to gain from the change, but the many service industries may find it challenging. The GDP growth is predicted to increase by 1% to 2%, but the actual results will not be known until after GST is put into place. The international reaction has been lukewarm at best. After the Goods and Services Tax was instituted in those countries, Canada, Australia, and Thailand all had slower economic development than New Zealand. However, the planned one percent tax to placate the States in exchange for replacing their loss of income from the inter-state CST is likely to play spoilsport. It might potentially have a negative effect on GDP. Congress Party members are already opposed to the proposed 1% tax increase. It is reasonable to presume that the GS Tax rate, which is estimated to be between 5% and 28%, is a flat 0%. There is little chance of the government gaining any new tax income at this rate. Various sectors of production, where the current tax rate is close to 24%, would reap the benefits of the GST rate. Fast-Moving Consumer Goods (FMCG), Automobiles (Auto), Cement (Cement), and Other Manufacturing Industries Will See the Most Benefits. That's because they're now being hit with tax rates ranging from 24.1% to 38.1%. The service industry is the one that will suffer the most. Starting June 1st, there has been an increase from 12% to 14%. Adding another 4% would be too much for them to bear. It's important to have a consistent tax rate, but it shouldn't lead to unequal treatment of the goods and services industries. The government's consideration of a 20% or 28% GS Tax rate has unanticipated consequences for the service industry. An increase in the GST rate would have a positive impact on the tax to GDP ratio and provide the government more leeway to increase capital spending. This should help the economy expand. The process is not without some benefits, however. It is possible to bring the unorganised sector under the GST bill, which now enjoys a cost advantage equivalent to the taxes rate. Consequently, many formerly untaxed businesses in industries like electricity, paint, hardware, etc. will be forced to register and pay their dues. It's far simpler to say than to really do. Implementing the GST reform in a way that includes the unorganised sector would need extensive preparation. As an added bonus, it would help the organised players who are now losing money to the unorganised sector by expanding the tax base. There are still many unexplored regions that must be explored via deliberations in parliament. The consolidation of federal and state tax collection will help both consumers and businesses by lowering overall prices. As a result, both levels of government will reap the economic benefits of increased production while individuals enjoy cheaper expenses.

Electrical and Electronic Goods

Currently, 12.5% excise and 15.5% VAT are collected on electronic items, but after GST, just a single tax would be imposed, bringing the cost of electronic goods like AC, microwave ovens, refrigerators, washing machines, etc. down.

Multiplex Theatre and Media

Currently, taxes on multiplexes and the media range from 22.2% to 28.2%, due to the imposition of both a service tax and an entertainment tax. However, once GST is in place, that rate will drop to between 18% and 24%.

IT Sector

Software services offered by software businesses will be subject to an 18% GST surcharge. It is expected that the price of software-only services would rise as a result of GST.

E-commerce

E-commerce in India is expanding rapidly. However, the long-term impacts of GST on the e-com sector are especially intriguing since the legislation proposes a Tax Collection at Source (TCS) approach, with which many online businesses take issue. The TCS rate is 1% right now.

Pharma

The medical and pharmaceutical sectors stand to gain from GST. It will streamline the tax system, encourage medical tourism, and level the playing field for manufacturers of generic drugs. The price structure is the only potential source of unease (as per latest news). With any luck, a tax break for the pharmaceutical industry will help make quality healthcare more accessible to more people.

Services

The costs of things like cell phone and credit card bills are going up. With the addition of GST, the current tax rate of 15.5% on certain services would increase to 18%, significantly increasing the price.

Diamonds, Jewellery, Garments

Diamonds, jewellery, and ready-to-wear may all end up being more expensive if GST is implemented, since these items are already subject to a 3% tax and might see that number rise.

Textile

Many people in India, both educated and uneducated, find work in the textile business. It accounts for roughly 10% of yearly export, a figure that is expected to rise under GST. Most SMEs in the textile sector opt for the cotton value chain because of the lack of central excise charge under GST (under optional route).

Agriculture

When considering the total contribution to India's GDP, agriculture stands out as the clear winner. As much as 16% of India's GDP falls within its purview. Logistics of moving agricultural goods across different Indian states is a huge challenge. The transportation problem will be solved by GST.

FMCG

Since the GST has done away with the requirement for various sales depots, the FMCG industry has seen considerable savings in logistics and distribution expenses.

Real Estate

When it comes to creating jobs in India, the real estate industry is one of the most essential pillars of the economy. The real estate market's reaction to GST is very variable and hence difficult to predict. However, the industry as a whole will profit greatly from GST since it has introduced much-needed openness and accountability.

Automobiles

India's big population is a major driver of the country's booming auto sector, which produces millions of vehicles each year. Excise, value-added tax, sales tax, road tax, motor vehicle tax, and registration fee were all taxes that applied to the transportation industry before GST was implemented; now, they would all be rolled into one.

Telecommunications

After GST is implemented, prices in the telecom industry would decrease. Reduced expenses may be achieved via better inventory management and warehouse consolidation by manufacturers. Since GST eliminates the need for handset makers to establish separate organisations in each state and transfer inventory, it will be much simpler for them to sell their products throughout the country. They'll also be able to save money on transportation and storage.

Source: https://www.google.com/search

Benefits of GST

- The GST system, as was previously said, would create a unified national market and attract foreign investment.
- Removing the cascading effect.
- All laws, tax rates, and processes will be same throughout all 50 states.
- To that end, proponents of the GST system claim it would boost production and shipping. As a consequence, the economy would benefit from the creation of more employment.
- That India's exports will do better in international markets.
- Procedures including registering, receiving refunds, filing GST returns, making tax payments, etc., may all be done mechanically and easily.
- The computerised matching would improve accuracy and openness of the input tax credit procedure.
- The New GST rates will lead to a decrease in the final cost of most products. Input tax credits will be easily transferred between the service provider, merchant, and manufacturer.
- Due to the mechanism of compounding, a sizable number of small-scale shops may be free from taxes or benefit from very low tax rates. It is in the best interest of consumers to support small mom-and-pop shops.

Positive Impact of GST

- Manufacturing and commercial enterprises may pay less in taxes if they increase output.
- A unified tax structure eliminates the several taxing hurdles that now exist.
- As a consequence of implementing the GST, tax collections have improved.
- The price of doing business must be reduced.
- A larger pool of people who pay taxes, fewer instances of "black money," etc.

Negative Impact of GST

- Prior to the introduction of the GST, different tax rates applied to various goods and services. Now, however, the GST tax rate may be anywhere from 0% to 28%, and it applies to the whole tax system.
- Inflationary pressures may be altered by the GST.
- Businesses may confront obstacles such as technological developments and the need for expertise, and the division of monies between the federal government and the states is still a matter of controversy.

Conclusion

The Goods and Services Tax system is a fundamental reorganisation of India's existing vital Indirect Tax system. The government has stated that GST would minimise the compliance burden, and if it is implemented properly, there will be no price difference between imported items and Indian goods, and they will be taxed at the same rate and prices will be the same. There would be a singular tax system, i.e., GST, which will lessen the current burden of compliance with several Indirect Taxes like Sales Tax, VAT, service tax, etc. After being put into effect, GST will be met with numerous obstacles, but it will ultimately provide many advantages. The aforesaid substantial research leads us to the conclusion that GST plays a vital role in the progress and prosperity of our nation. The benefits of the government's GST proposal will only become apparent in the very long run. Changing to a GST system would be good for the economy in many ways. The implementation of GST has both beneficial and bad consequences for a country. Positives may be considered while negatives are disregarded.

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