GST AND ITS IMPACT ON INDIAN ECONOMY

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ABSTRACT

Goods and service tax (GST), the biggest tax reform in India is constituted on the notion of “One Nation- One Tax”. It is a path breaking indirect tax reform which has created a common national market by dismantling inter-state trade barriers. Beyond shadow of doubt, Goods and Services Tax (GST) has become a reality from 1st July, 2017.

The main rationale behind GST is to eliminate cascading effect (tax on tax) and to replace existing taxes like value-added tax (VAT), excise duty, service tax and sales tax with single comprehensive tax, bringing it all under single umbrella. It will subsume all indirect taxes of Central and State Governments and unified economy into a seamless National Market. It is expected to reduce cost of production and inflation in the economy, thereby making the Indian trade and industry more competitive, domestically as well as internationally.

The paper presents an overview of GST concept, explains its features and also shows the positive and negative impact of GST on Indian Economy.

KEYWORDS: Goods And Service Tax (GST), Indian Economy, India.

INTRODUCTION

GST scheme was first introduced in France in the year 1954 and now practically 150 countries are following the system. In India the idea to introduce GST was mooted in the year 2000 and Government appointed various committees and task force to study the impact of GST. The effort to implement GST was floated in the Union budget 2006-07 by the then Finance Minister. As the 115th amendment bill has been lapsed, the 122nd amendment bill was introduced in 2014 and the bill has been conceded in Lok Sabha on 2015 and Rajya Sabha on 2016.Finally the long designed reform roll out on 1st July 2017. GST execution is a landmark in Indian tax system. It is a comprehensive indirect tax levied on manufacture, sale and consumption of goods and services. It transforms the country into one unified common market. It has reduced the existing complexity of taxes as it subsumes VAT, Excise duty, Service tax and Sales tax. It is a consumption based tax applied on goods and services at the place of its consumption. The replica of GST is -Dual GST comprising of Central and State component charging simultaneously on the common base and also addresses the cascading effect of tax on cost of goods and services. Other countries experience in GST has proven to be an efficient tax collection system.

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The implementation of GST generates more revenue as it broadens the tax base and erodes the tax evasion. GST is composed of three types of taxes and those are CGST, SGST/UTGST, and IGST which are determined by the movement of the goods or service i.e., Intra State Movement or Inter State Movement. Many economists and experts have predicted that the GST bill will boost up the economy in long run but we see some short-term impact on the economy too. India is a collective economy where each state has its own set of rules for them. This makes the growth of the country slow, causes difficulties for the businesses and higher possibilities of tax evasion and corruption. In addition that previous tax system was complex, so small businesses used to ignore it. To make the tax payment process simpler and create a win-win environment for both, Government as well as businesses, and to reduce the corruption, GST bill is introduced in India.

**LITERATURE REVIEW**

Ansuman Sahoo and Anasuya Swain (2007) studied, “Implementation and its impact of GST on Industrial Sector: An Analytical Study” and concluded that GST will surely have a positive impact on the industrial sector subject to the conflicting interests are addressed in best possible way.

Ehtisham Ahmed and Satya Poddar (2009) have studied, “Goods and Service Tax Reforms and Inter-Governmental Consideration in India” and found that GST introduction will provide simpler and transparent tax system with increase in output and productivity of economy in India. But the benefits of GST are critically dependent on rational design of GST.

R. Vasanthagopal (2011) studied “GST in India: A Big Leap in the Indirect Taxation System” and came to the conclusion that switching to seamless GST from current complicated indirect tax system in India will be a positive step in blooming Indian economy. Accomplishment of GST will lead to its acceptance by more than 150 countries in world and a new favored form of indirect tax system in Asian pacific also.

Nishita Guptha (2014) in her research work “Goods and Service tax: Its Impact on Indian Economy”, stated that execution of GST will lead entrée to commercial benefits which were untouched by the VAT system and would essentially lead to economic development. Hence predicting GST is a new possibility of collective gain for industry, trade, agriculture and common consumers as well as for the Central and State Government.

Pinki, Supriya Kamma and Richa Verma (July 2014) studied, “Goods and Services Tax- Panacea for Indirect Tax System in India” and concluded that the new NDA Government in India is positive towards accomplishment of GST and it is valuable for Central Government, State Government as well as for consumers in long run if its execution is backed by strong IT infrastructure.

Jaiprakash (2014) in his research study mentioned that the GST at the Central and the State level are probable to give more release to industry, trade, agriculture and also to consumers through a more inclusive and wider exposure of input tax set-off and service tax setoff, subsuming of several taxes in the GST and phasing out of CST. Responses of industry and also of trade have been certainly expectant. Thus GST offers us the best option to broaden our tax base and we should not miss this opportunity to introduce it when the circumstances are quite favourable and economy is enjoying powerful growth with just mild inflation.

Sehrawat and Dhanda (2015) studied, “GST in India: a Key Tax Reform” and concluded that due to dissilient atmosphere of Indian economy, it is demand of time to execute GST.

Tom Bolton and Brian Dollery (2017) in their research work, “An empirical note on the
comparative Macroeconomic effects of the GST in Australia, Canada, New Zealand” concluded that GST is significant in terms of growth effect, price effect, current account effect and in a highly developed open economy with a high growing service sector, a change in the tax mix from income to consumption is likely to yield fruitful source of revenue.

Alpana Yadav (2017) studied “Impact of Goods and Service Tax on Indian Economy”, concluded that implementation of GST will have positive impact on India’s tax collection and economic development.

OBJECTIVES OF THE STUDY

• To study the concept of Goods and Services Tax (GST)
• To study and understand the features of GST
• To study the positive and negative impact of GST on Indian Economy

RESEARCH METHODOLOGY

The study focuses on Secondary data collected from various books, national & international journals, Government reports, publications from various websites which has been published and focused on various aspects of Goods and Service tax.

CONCEPT OF GST

GST is a complete, multi-stage, destination-based tax that is levied on every value addition. It is the historical reform in the history of Indian taxation system. The long pending reform finally saw the new dawn on 1st July, 2017. GST is a comprehensive value added tax on supply of goods and services. It is collected on value added at each stage of sale and purchase in the supply chain without state boundaries. In GST regime, goods and services are not differentiated as it moves through the supply chain. The fundamental feature of GST is the eligibility of manufacturers and dealers to claim credit for ‘input tax’ paid at each stage without any limit or the barriers of state boundaries till it reaches the ultimate consumer. In GST structure, different stages of production and distribution are interpreted as a mere tax pass-through, and the incidence of tax is essentially borne by the final consumer within a tax jurisdiction. The main underlying principle of GST is to eliminate cascading effect, reduce tax evasion and sleaze, and unify the national market and to eliminate distortions. GST in Indian context integrated all taxes levied earlier by Central and State Governments on goods and services like Excise Duty, Service tax, state VAT/Sales tax, entry tax or Octroi, State Excise, countervailing Custom Duty, telecom license fee, luxury tax, tax on consumption/sale of electricity, entertainment tax etc. It consolidates at least ten types of indirect taxes into a four-tier schedule of 5, 12, 18 and 28 percent. While goods of basic necessity are taxed at 5 percent and luxury and consumer durables at 28 percent, most of the goods and services are taxed at 12 or 18 percent.

GST has bought a new dimension to the Indian economy by making a common market and reducing the cascading effect of tax on the cost of goods and services. It will affect the entire indirect tax system the tax structure, tax incidence, tax computation, compliance, input credit utilization and reporting procedures. India had adopted the dual system of GST as CGST and SGST. The need for a concurrent dual GST model is based on the following:

• As per constitution of India concurrent power to levy tax on domestic goods and services is provided to both Central and State Government
• As per the dual GST model tax can be levied independently by the Central and State Government but both will operate in common platform for imposition of taxes, liabilities would be identical.
FEATURES OF GST

1. All transactions on goods and services will be covered up except exempted goods and services.
2. There are two segments of GST, one is central GST and other is state GST. Central GST will be paid to Central Government and State GST will be paid to respective State Government.
3. Significance of taxable person, taxable events, chargeability, measure to levy tax, etc would be same in CGST and SGST.
4. Administration of CGST will be controlled by Central Government and administration of SGST will be controlled by respective State Government. The power of making law on taxation of goods and services lies with both Central and State Government. A law imposed by Central Government on GST will not overrule State GST law.
5. Pan card based identification number would be allotted to the taxpayer to facilitate tax payment and return.
6. Tax return to be filled separately to Central Government for CGST and State Government for SGST.
7. Input credit can be claimed from respective department where GST paid, i.e., central GST paid on inputs can be claimed against Central GST only and same for State.
8. GST would be applicable if there is an import of goods and services.
9. The GST slabs have been set at 0%, 5%, 12%, 18% and 28% for different goods and services.
10. Integrated goods and services tax (IGST) also known as interstate goods and services tax is a component of GST which is charged on supply of goods and services in the course of interstate trade which is collected by Central Government and distributed to imported states as destination based tax. Additional 1% tax on interstate supply of goods which is levied by Central Government and directly apportion to the exporter state. This tax will be charged for a period of two years or more as per the recommendation of GST council.
11. The Union Government will compensate the states for a period of 5 years or more on recommendation of GST council for the loss of revenue arising out of GST implementation.
12. GST council had been set up President and chaired by Union Finance Minister. It will constitute of union Minister of State in charge of revenue and minister in charge of finance or any other field nominated by State.

POSITIVE IMPACT OF GST ON THE INDIAN ECONOMY

An economy of a country can grow only if its populace and their businesses grow as well as there is an increase in the Government revenue in the long run. The following points assert how the GST will have a positive impact on the Indian economy:

- It introduced two-tiered, i.e., One-Country-One-Tax regime system by reducing a number of indirect taxes in India.
- It subsumed all indirect taxes under a single roof at the Centre and State level.
- It not only widens the administration by covering goods and services but also makes it translucent. The customers now know how much taxes they are being charged and on what base.
- Besides improving the cost-competitiveness of goods and services, GST has gratis the manufacturing sector from cascading effect (i.e., tax on tax) of taxes.
- It had brought down the prices of goods and services ultimately leading to an increase in demand and consumption of goods and services. Thus, this system has proved to be beneficial for the individuals who were fed up of paying high prices.
- Footwear tax rates (<Rs 500) to reduce to 5% from 9.5% and <Rs500 to reduce to 18% from 24-30%.
• A business-cordial environment has been bent by increasing Tax-GDP ratio.
• GST regime will boost the 'Make in India' programme as manufacturers will get input tax credits for capital goods.
• Effective tax rate in essential goods (soaps, toothpaste, edible oil and hair oils) under various tax slabs.
• The indirect tax laws are more transparent after the implementation of GST. Since under the GST, the whole supply chain will be taxed at every stage with credit of taxes paid at the previous stage is available for set off at the next stage of supply. This will make it easier to distinguish the economics and tax value of supplies.
• Industrialized expenses are abridged due to lower burden of taxes on the manufacturing sector; hence prices of consumer goods have come down. For this reason, this system of tax collection has enhanced the ease of doing business in India.
• Custom duties applicable on exports have been removed under this taxation system, therefore leading to an increased competitiveness of the nation in foreign markets by lowering the costs of transaction.
• A unified tax regime has led to corruption-free taxation system. Black money circulation system, normally followed by shopkeepers and traders, had been put to a mandatory check under GST.
• In the long run, GST will add to the Government revenues by extending the tax base, thus providing a boost to the Indian economy.
• Apart from the above mentioned positive impact, the implementation of GST also raised many inexplicit arguments. India adopted a dual system of GST instead of national GST system which is likely to create political as well as economic issues in the country.

NEGATIVE IMPACTS OF GST ON THE INDIAN ECONOMY
• GST is a perplexing term where double tax is charged in name of a single tax.
• The Real Estate Market is affected badly by the introduction of GST. Home buying prices were increased by 8% hence leading to a reduction in the buyer’s market by 12%.
• In favour of consumers, GST did not prove to be beneficial since prices of some goods were decreased whereas; the prices of others were increased at a much higher ratio.
• Services like Telecom, Banking, Airline, etc., has now became expensive than before. Major drawback of the GST regime was the direct hike in service tax rate from 14% to 20-22%. The entire issue of telecommunication sector assumes a serious proportion when India’s rural teledensity is not even 50%.
• Tax rate on fine dining restaurants increased to 28% from 15%. This will result in room rentals hikes, with consequent impact on hotel occupancies.
• Tax increased to 18% from 15%. This tax revision will affect the fine dining restaurant industry which has already seen significant pressure on its sales due to macro environment slowdown.
• Garments >Rs 1000 will be taxed at 12% instead of 7%. This will adversely impact business as price hikes would lead to late recovery in sales.

CONCLUSION
The introduction of Goods and Service Tax (GST) in India is now on the horizon. The Constitution Amendment Bill replaced multiple indirect taxes by uniform GST across India. No doubt it is the biggest tax reform in 70 years after independence of India, the Goods and Services Tax (GST) was finally launched on the midnight of 30 June 2017, though the process of forming the legislation took 17 years (since 2000 when it was first
proposed). It was launched at midnight 30th June – 1st July 2017 session in both the houses of parliament convoked at the Hall of the Parliament, but which was immediately boycotted by the opposition by staging a walk out to show their disapproval of the same.

Before 1st July 2017, some taxes were levied by the State Govt. and some were levied by Central Govt. Govt. levied only one unified tax rate instead of all different types of taxes, GST is applied on goods and services at the place where actual consumption happens. It is based on the Destination Principle. GST levied and collected at each stage of sale or purchase of goods and services. Goods and services are not distinguished and are taxed at single rate in supply chain till the goods and services reach consumer. It is the consumer of goods and services who bears the tax. The manufacture/wholesaler/retailer pays the applicable GST rate but can claim back through tax credit mechanism. The current taxes like excise duties, service tax, custom duty etc. have been merged under GST. The taxes like sales tax, entertainment tax, VAT, and other state taxes will be included in GST.

There is a fall in prices of Auto Commercial Vehicle, Two wheelers, Small cars, Midsized cars and SUV, essential items, Footwear, Building Materials etc. and education, healthcare are going to be exempted from GST but on the other hand, price of some other goods and services increased after GST like Hotel room rental, Restaurants & fine dining and Branded Apparels. There was threat of inflation before GST rolled out.

Thus, Finance Minister, Arun Jaitley at GST launch event in the Parliament rightly said that, “Inflation will come down, tax avoidance will be difficult, India’s GDP will be benefitted and extra resources will be used for welfare of poor and weaker sections”, so now GST is going to be a historical record for its fullfledged implementation and hopefully this biggest historical reform will result in ease of doing business in India.

REFERENCES