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Effects of Goods and Services Tax on India's Economy: A Conceptual Analysis

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Abstract

One of India's most significant examples of indirect change is the rollout of the Goods and Services Tax or GST. Under the framework of this indirect tax system, all of the current indirect taxes on the production, trade, or selling of goods and services have been consolidated into a single, destination-based tax known as the GST.

Eliminating the "cascading impact" of taxes is the primary objective of implementing the Goods and Services Tax (GST). This will result in Indian goods being more affordable and readily available to everyone, which would, in turn, stimulate the expansion of the Indian economy. This article introduces the Goods and Services Tax (GST) and discusses its implications for different parts of the Indian economy.

Keywords: Goods and Services Tax (GST), Indian Economy, Taxation, Value Added Tax.

Introduction

The Republic of India operates under a federal system of government, which gives the Central and State Governments the ability to function independently of one another. A federal structure of the country's monetary system serves as the foundation for the efficient running of the Indian government, allowing for both independent and sufficient financial provision.

Taxation is the method through which a government or the taxation authority imposes or levies a tax on its individual inhabitants and commercial organizations in the country. Every person and every level of society is subject to some taxation, whether a direct tax on income or an indirect tax on goods and services. The power to impose taxes is given to both the central government and the individual state governments, according to Article 246 of the Indian constitution. Nevertheless, an important limitation on this power is imposed by Article 265 of the Constitution, which states that "No tax shall be levied or collected except by the authority of law." This provision places a significant limitation on the scope of this power. In light of this fact, each and every sort of tax, regardless of whether it is imposed or collected, must be supported by associated legislation that must be approved by either the Parliament or the State Legislature.

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The idea of a unified indirect taxation system was envisioned in the year 2000 by the Prime Minister of India at the time, Sh. Atal Bihari Vajpayee, and as a result, a committee was established to create the GST model for the nation. The GST stands for the Goods and Services Tax. The Central Government established a Fiscal Responsibility and Budget Management task force in 2003. In 2004, this task force recommended the Central Government replace the existing Central level VAT and State level VATs with a unified tax that would be applied to all goods and services. The Kelkar Task Force on the Fiscal Responsibility and Budget Management (FRBM) Act, 2003, recommended the implementation of a comprehensive Goods and Services Tax (GST) based on the Value Added Tax principle. This would replace all indirect taxes, except for the customs duty, with a value-added tax on all goods and services, with a full deduction available at each stage of the value chain.

In his budget address for the 2006-07 fiscal year, the Union Finance Minister at the time, P. Chidambaram was instrumental in swaying support for implementing a nationwide Goods and Services Tax (GST), first proposed to take effect in India on April 1, 2010. The Empowered Committee of State Finance Ministers (EC), which was also responsible for formulating the design of State VAT, was tasked with drafting the Design and Road Map to implement the Goods and Services Tax (GST). Officials from both the central government and the individual states were included in the Joint Working Groups that were established to investigate the various aspects of the Goods and Services Tax (GST) and compile reports, focusing in particular on exemptions and thresholds, the taxation of services, and the taxation of inter-State supplies.

The Empowered Committee produced its First Discussion Paper on Goods and Services Tax in 2009, which debated the many elements of GST and the obstacles in its implementation. These talks and comments came from the Central and State Governments. The Thirteenth Finance Commission's Task Force on Goods and Services produced a report in which it recommended replacing the present indirect tax system to eliminate distortions and tax consumption. This recommendation was included in the report. The "flawless GST" that the task group advocated focused on numerous goals, such as fostering cooperative federalism, merging the Indian market into a single common market, and optimizing the efficiency and equality of the system, amongst other things.

The GST Council and the Central Board of Indirect Taxes and Customs (CBIC) have been instrumental in helping taxpayers and companies resolve their concerns by providing handholding and other support services. During the meeting of the GST Council, important decisions and recommendations were made regarding a variety of topics, including but not limited to rationalizing the tax base for commodities that are kept in higher tax brackets, sector-specific relief measures, compliance simplification by extending the due dates for return filing; introduction of a simplified return filing system; introduction of the nationwide e-way bill; and several other related topics. The Council suggested the establishment of a

Group of Ministers with the responsibilities of analyzing the trends in revenue along with the reasons for structural patterns that are affecting revenue collection in some of the states, as well as researching the tax rate and issues in specific industries such as real estate, lottery, and so on. The Group of Ministers would also study the tax rate and issues in specific sectors such as real estate, lottery, etc.

The Central Board of Indirect Taxes and Customs (CBIC) gave effect to the recommendations of the Goods and Services Tax Council by extending several Suo-moto reliefs to the taxpayers. These reliefs included extending the due date for various return filings, waiving certain interests and penalties, and other similar measures. The Goods and Services Tax (GST) system also includes a provision for a National Anti-Profiteering Authority (NAA), which is responsible for ensuring that the benefits of reduced tax rates on goods or services, as well as the benefits of input tax credits, are passed on to customers in the form of price reductions. It is reasonable to anticipate that the reforms will continue to concentrate on further simplifying compliance requirements and introducing relief measures for specific industrial sectors that have been negatively impacted due to the implementation of GST.

The overarching goal of the indirect tax reform is to promote the concept of "one nation, one tax, and one market," which improves the ease with which taxpayers can conduct business, ensures transparency and timely compliance, and, as a result, lowers the overall tax burden that is placed on the average person. The voyage the taxpayers have been on ever since its implementation has been nothing short of a roller coaster. The most sophisticated approach to eliminating distortions and taxing consumption is implementing a destination-based value-added tax on all goods and services. (*Report of the Task Force*, n.d.)

Literature Review

Based on her research (Ramya, 2017) concluded that implementing GST would affect all aspects of the economy, including the industry, the commercial sector, government departments, and the service sector. The Goods and Services Tax (GST) will directly impact all aspects of the economy, including but not limited to large, medium, and small-scale enterprises, intermediaries, importers, exporters, merchants, professionals, and consumers.

(Sharma et al., 2016) remarked that the Goods and Services Tax (GST) will promote ease of doing business and will reduce the transaction costs of businesses, thereby boosting the manufacturing of goods and the supply of services, increasing the price-cost margins of manufacturers, generating employment opportunities with enhanced production possibility frontiers, and ultimately enhancing the overall growth of GDP in the economy.

The research done by (Vasanthagopal, R., 2011) concluded in his study titled "GST in India: A Big Leap in the Indirect Taxation System" that switching to a seamless GST system from the pre-existing, complicated, and confusing indirect tax system in India is going to be an impactful step that will lead to a boom in the Indian economy. He also concluded that if the Goods and Services Tax (GST) is successful in its implementation, it would be adopted by more than 130 nations across the globe and become the new preferred type of indirect tax system throughout Asia.

(Mussaiyib, 2016) observed that while there are a few problems in implementing GST, if these issues are handled diplomatically, it would lead to the effective implementation of GST.

(Upashi, 2017) proposed that because GST on the sale of goods between states would be creditable, there is an opportunity to remodel the current supply chain structure to ensure lower logistics costs and bring in significantly improved operational efficiency, ultimately increasing the amount of money that a company makes.

According to a report that was published in 2016 by the Ph.D. Chamber of Commerce and Industry, it was recommended that the standard rate of GST is set at 18%, with a slab of lower (2-4%) and median GST (12%) rates, and that it be progressively raised over the subsequent years. The report also recommended that implementing GST will promote ease of doing business and reduce transaction costs, positively affecting the manufacturing of goods and supply of services in the country. This recommendation was included in the report's conclusion that implementing GST will promote ease of doing business and reduce transaction costs.

Objectives of the Study

1. To understand the theoretical underpinnings of the Goods and Services Tax in India.
2. To investigate the effects of the Goods and Services Tax on the many different parts of the economy.

Research Methodology

The research is based on secondary data sources, which have been collected from a variety of discussion papers and reports of the government regarding the implementation of Goods and Services Tax, as well as a literature review from journal papers and an extensive collection of newspaper articles and reports on GST. The study's goals are determined by analyzing the data gathered from the sources described above.

Conceptual Framework of GST

The Goods and Services Tax (GST) is not a novel idea since it has previously been put into practice in many other countries. France was the first nation to establish the GST in the year 1954. More than 150 nations, including Canada, New Zealand, and Australia, have implemented a goods and services tax (GST). The unified structure of the Goods and Services Tax (GST) has replaced several other taxes and levies, such as the central excise duty, services tax, extra customs duty, surcharges, state-level value-added tax, and Octroi, among others. The introduction of the Goods and Services Tax (GST) has been met with approval in 150 nations all over the globe, and it is expected to have a similarly favorable effect on the economy of India (Neha & Manpreet, 2014). It is the most significant reform of the country's indirect tax system, and the commendable efforts that made it possible on the part of all of the stakeholders, including the Central Government, the State Governments, the Goods and Services Tax Network (GSTN), MSP, and the businesses that were prepared to participate, are what made it possible (Sharma et al., 2016). A paradigm change occurred when the conventional production-linked tax was replaced with a consumption-based tax with the implementation of the Goods and Services Tax, often known as the GST.

The new system brought together formerly separate forms of taxation, including the value-added tax (VAT), sales tax, octroi/entry tax, and the central excise tax and the service tax. In exchange for the federal government passing on its revenue share under the GST and compensating them for probable revenue losses in the program's first five years, the states agreed to give up some of their taxation powers. Even though the 14% growth rate in tax income has been compounded over the base year 2015-16, collections have stayed at the same level for the previous three years. The base year was 2015-16. Even more than that, several states have requested that the 15th Finance Commission prolong the compensation period for the Goods and Services Tax (GST) beyond the required year of FY 2022.

A single tax known as the Goods and Services Tax (GST) will replace all the indirect taxes that came before it. This tax will be imposed on the supply of goods or services at every stage of the distribution chain, beginning with the point of manufacture or import and ending with the point of retail sale. The Goods and Services Tax (GST) is a dual-levy system in which the Central Government and State Governments are responsible for levying and collecting the Central GST (CGST) and State GST (SGST) correspondingly on the intra-state supply of goods or services.

When goods or services are supplied across states, the Central government assesses and collects the Integrated Goods and Services Tax (IGST). As a result, the Goods and Services Tax (GST) has brought together several different taxes imposed by the central government and the individual states. It offers a basis for the formation of economic unity throughout the nation. This results in establishing a unified national market, a unified tax base, and unified tax regulations at the federal and state levels. The input tax credit is available at every level of supply for the tax paid at an earlier stage of supply, which is another extremely important element of the Goods and Services Tax (GST). Because of this characteristic, the cascading or double taxation impact on the economy is reduced, which results in the goods being substantially more affordable. This tax reform is made possible by the extensive use of information technology [through the Goods and Services Tax Network (GSTN)], which results in greater transparency in the tax burden, accountability of the tax administrations of the Centre and the States, and also improves compliance levels while reducing the cost of compliance for taxpayers.

The Goods and Services Tax is a tax levied on tangible goods and intangible services. It is essentially a tax only on value addition at each stage, and the supplier at each stage is permitted to set off, through a tax credit mechanism, the GST paid on the purchase of goods and services as available for set-off on the GST that is to be paid on the supply of goods and services. This reduces the total amount of GST that must be paid on the supply of goods and services. Only the GST imposed by the last dealer in the supply chain will be borne by the ultimate customer, with set-off advantages accruing at each of the earlier steps.

When it comes to categorizing goods, the Goods and Services Tax (GST) uses the Harmonized System of Nomenclature (HSN) code. On the other hand, a classification scheme has been implemented to categorize services, according to which services of varying descriptions are categorized according to several different headings and sections. An optional composition scheme has been introduced to benefit small businesses that engage in intrastate supply transactions. Under this scheme, registered taxpayers with a turnover of up to 75 lakhs (or 50 lakhs for a few states) are permitted to pay quarterly tax at a rate determined by a prescribed percentage of their turnover rather than at the standard rate of tax.

The Goods and Services Tax (Compensation to States) Act, 2017, was passed to compensate states for the loss of revenue that will occur as a direct result of implementing the Goods and Services Tax (GST) until the first of July in 2022. This is yet another remarkable aspect of the Goods and Services Tax. The Goods and Services Tax (GST) is charged on most consumer goods and services, except alcoholic beverages intended for human use and petroleum-based items. Goods and Services Tax Network (GSTN) is a not-for-profit, non-Government Company that was registered under the Companies Act, 2013 to provide shared information technology infrastructure and services to Central and State Governments, taxpayers, and other stakeholders to facilitate the implementation of the Goods and Services Tax (GST) across the country. This was done in conjunction with the Central and State Governments. The provision of a standard and consistent interface to taxpayers, as well as common infrastructure and services for Central and State/UT governments, are the primary goals of the Goods and Services Tax Network (GSTN).

Impact of Goods and Services Tax on Various Sectors of the Indian Economy

A. Real Estate

Before introducing the Goods and Services Tax (GST), the real estate industry was subject to many indirect taxes, including stamp duty, value-added tax, and service tax. The Real Estate Regulation Act, often known as RERA, and the Goods and Services Tax are like two ends of a rope that are supposed to pull the real estate industry to new heights. RERA offers a legal framework for the sector, while GST will hasten the process by assuring a competitive and hassle-free business climate. The rules both seek to target distinct aspects of real estate, but RERA is the more comprehensive of the two. It is anticipated that implementing GST would provide significant benefits to the real estate sector. The tax structure is anticipated to serve as a driver of growth and a silver bullet for all of its problems. Because of the Goods and Services Tax (GST), there has been a significant increase in the amount of openness and accountability inside the industry (Haryana, 2019).

B. Fast Moving Consumer Goods (FMCG)

As a result of the Goods and Services Tax (GST), businesses will no longer have to maintain several sales depots, which will result in significant cost savings. It was previously not allowed for FMCG distributors and retailers to set off input credit from services (such as transport, rent, and so on) against their GST duty; however, this is now available. This makes them more at rest.

C. Export & Import Sector:

Before implementing the Goods and Services Tax (GST), taxes such as VAT, Excise Duty, Service Tax, and Customs Duty regulated export and import. However, all these taxes have been unified into one, except the Basic Customs Duty (BCD) charged on import bills. There is no levy of GST on the export of goods and services, and exporters are eligible to claim Integrated Goods and Services Tax (IGST) paid by them as inputs, which leads to an increase in exports of the country and promotes its growth. When it comes to imports, an importer of goods can claim the full amount of the Input Tax Credit of IGST that he has paid on the import of goods and services; however, when it comes to certain matters, a tax credit on the paid custom duty will not be obtainable, and the importer will be responsible for covering the cost.

D. Information Technology

The GST rate for software services will be set at 18%, and the numerous commodities utilized in this industry, such as printers, fax machines, ink cartages, and so on, would be subject to a GST rate of up to 28%. The cost of these organizations' infrastructure will skyrocket due to the Goods and Services Tax (GST), which requires them to maintain various hardware and software systems.

E. Warehousing

The process of warehousing The demand for the movement of consumer and capital goods across the country, from entry ports to manufacturing or distribution locations or from manufacturers and distributors to consumers and exit ports, has significantly increased as a result of the rapid growth of industries such as retail, the automotive industry, the pharmaceutical industry, and the fast-moving consumer goods (FMCG) industry. As a result of the expansion of organized warehousing and the anticipated simplification of the current tax structure, the warehousing industry in India is predicted to see a paradigm shift toward bigger logistic parks in the state that have a high level of amenities (Sharma et al., 2016).

F. Automobile

The base tax rate that will be imposed on two-wheelers will decrease to 28% from the current level of 30.2%. Therefore, there won't be much of an effect from this change (Upashi, 2017). The Goods and Services Tax (GST) has a favorable effect on the automobile industry, principally due to the increased efficiency and the elimination of the cascade effect.

G. Agriculture and Food Processing

Food prices are anticipated to increase during the initial phase of the Goods and Services Tax (GST). Still, it will bring several benefits for the industry and consumers in the form of reduced perishable commodities that can cover longer distances without hindrance.

H. Pharmaceutical Sector

The Goods and Services Tax (GST) has significantly streamlined the tax structure for the pharmaceutical industry, making it possible for generic medicine manufacturers to compete on an equal footing with their branded counterparts.

Conclusion

The Goods and Services Tax (GST) eliminates the negative consequences of cascading or double taxation. It establishes a common national market by consolidating many different Central and State taxes into a single tax. The reduction in the total tax burden placed on goods and services presents the consumer market with the most significant opportunity for an advantage. The customer has a better understanding of the true burden that is imposed by indirect taxes on products and services. The introduction of the Goods and Services Tax (GST) has established a common national market for goods and services. It has paved the way for reducing tax cascading through the provision of Input Tax Credit (ITC) across the value chain of supply of virtually all goods and services, except for a few goods and sectors exempted from applying the GST. The Goods and Services Tax (GST) brought about nationwide consistency in tax rates and the formats of registration forms, reports, and challans. As a result of the complete neutralization of input taxes throughout the whole value chain of production and distribution, the introduction of GST makes Indian goods competitive in both the home market and the international market. Being open and honest makes it simpler to manage, which makes it easier to encourage people to move from the informal to the formal economy.

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