

An overview of GST in India and its impact on Indian economy

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ABSTRACT

Goods and services tax (GST) which is often referred to as "One Nation, One Tax, One Market" in India is one of the biggest tax reform and revolution for indirect taxation for the whole nation which will make India one unified common market. The objective of the of GST is to replace all the indirect taxes with single comprehensive tax, bringing it all under single umbrella. It is a comprehensive tax system that will subsume all indirect taxes of States and Central governments and unified economy into a seamless national market. After the implementation of the GST in all goods and services it will create a business - friendly taxation policy as prices increase or decrease it would control the rates of prices. It is expected that the GST would provide some clearance and will have a positive impact on growth and development of the country. It is believed that GST will decrease the tax burden and will open doors with ease in starting and doing business. It is important that such procedures and policies under GST are followed at the ground level or else the same may prove to be regressive and full of inefficiencies like the previous indirect tax regime. GST is a comprehensive multistage destination based consumption tax which is levied at every stage of value addition in the life cycle of a product. Experts believe that GST will have a huge impact on the businesses whether big or small and will change the way the economy functions. The purpose of the present work is to analyze the concept and outline of GST in India ,the launch and time line of goods and services tax along with impact of GST on Indian economy. The paper is more focused on advantages, ambit of GST faced by India in execution.

Keywords:- GST, Economy, Indirect tax, Rates, Impact.

INTRODUCTION AND OUTLINE OF GST IN INDIA

Goods and Services Tax (GST) is a comprehensive, multi-stage and destination based consumption tax which is levied at every stage of value addition in the life cycle of a product. Goods and services tax (GST) is a comprehensive tax in the sense that it will subsume all the previous indirect taxes like : (a) Taxes levied and collected by the Center ie, Central excise duty (CENVAT), Additional duties of excise (goods of special importance), Additional duties of customs (generally known as CVD) Duties of excise (medicinal and toilet preparations), Special additional customs duty (SAD), Service tax and Central surcharges and Cesses so far as they relate to supply of goods and services. (b) State taxes that would be subsumed by the GST. GST is proposed to subsume the previous taxes like State VAT, central sales tax, luxury tax, Entry tax (all forms), Entertainment and Amusement tax (except when levied by the local bodies) Taxes on advertisement, Purchase tax, Taxes on lotteries, Betting and Gambling, state surcharges and Cesses so far as they relate to supply of goods and services. GST is a multistage tax which is proposed to be levied at all stages right from manufacture up to final consumption with credit of taxes paid at previous stages available as setoff. In short only value addition will be taxed and burden of tax is to be borne by the final consumer. This is the process of addition to the value of a product/ service at each stage of its production, exclusive of initial costs. Under GST, the tax is levied only on the value added. GST is to be collected at the point of consumption. The taxing authority with appropriate jurisdiction in the place where the goods/ services are finally consumed will collect the tax, that is why GST is said to be destination based tax. GST is a consumption based tax, i.e. tax will be payable in the State in which goods and services or both are finally consumed. Exports are not taxable, because the place of consumption is outside India. Imports are taxable, because the place of consumption is in India. GST is based on VAT system of allowing input tax credit of tax paid on inputs, input services and capital goods, for payment of tax on output supply. Thus, the States from which goods are supplied will not get any tax as goods are consumed in another State.

GST is a huge deal and is one of the biggest indirect tax reform for the entire country and which will make India one unified common market. GST is an indirect tax that will subsume almost all the indirect taxes of central and state governments into a unified common market. As the name suggests it will be levied on both goods and Service's at all stages of value addition. GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the succeeding stage of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages. The purpose of the GST is to eliminate the multiplicity of tax levies, there by decreasing the complexity and eradicate the effect of tax cascading.

Maximum countries have a single unified GST setup that means a single tax will be applicable to whole country. still in many countries like Brazil and Canada, there is a dual GST system where dual GST is charged by both the federal and state or provincial governments in the country. In India, a dual GST is proposed after that a Central Goods and Services Tax (CGST) and State Goods and Services Tax (SGST) will be charged on the tax value of every purchase or supply of goods and services. CGST will subsume central indirect taxes like central excise duty (CENVAT) central sales tax, service tax, special additional duty on customs, counter veiling duties whereas indirect taxes of state governments like State VAT, purchase tax, luxury tax, octroi, tax on lottery and gambling will be replaced by SGST. Integrated goods and service tax (IGST) also called interstate goods and service tax is also a component of GST. It is not an additional tax but it is a system to examine the interstate transactions of goods and services and to further assure that the tax should be received by the importer state as GST is a destination based tax. Under the Concurrent Dual GST Model taxes shall be levied as per place of supply of goods and services. In case of supplies within the State or Union Territory. (a) Central GST (CGST) will be payable to the Central Government. (b) State GST (SGST) or Union Territory GST (UTGST) will be payable to the State Government or Administrator of Union Territory (as applicable). CGST and SGST will also apply in Union Territories having legislature, i.e. Delhi and Puducherry. Area upto 12 nautical miles inside the sea is part of State or Union Territory which is nearest, so SGST or UTGST will be payable. IGST for inter state transactions in case of Inter-State supply of goods and services, there will be integrated GST (IGST) imposed by the Government of India. Equivalent IGST will be imposed on imports. The IGST rate will be equal to CGST plus SGST rate. IGST rates will be same all over India and will not vary State to State. Revenue from IGST will be apportioned among Union and States by the Parliament on the basis of recommendation of Goods and Service Tax council.

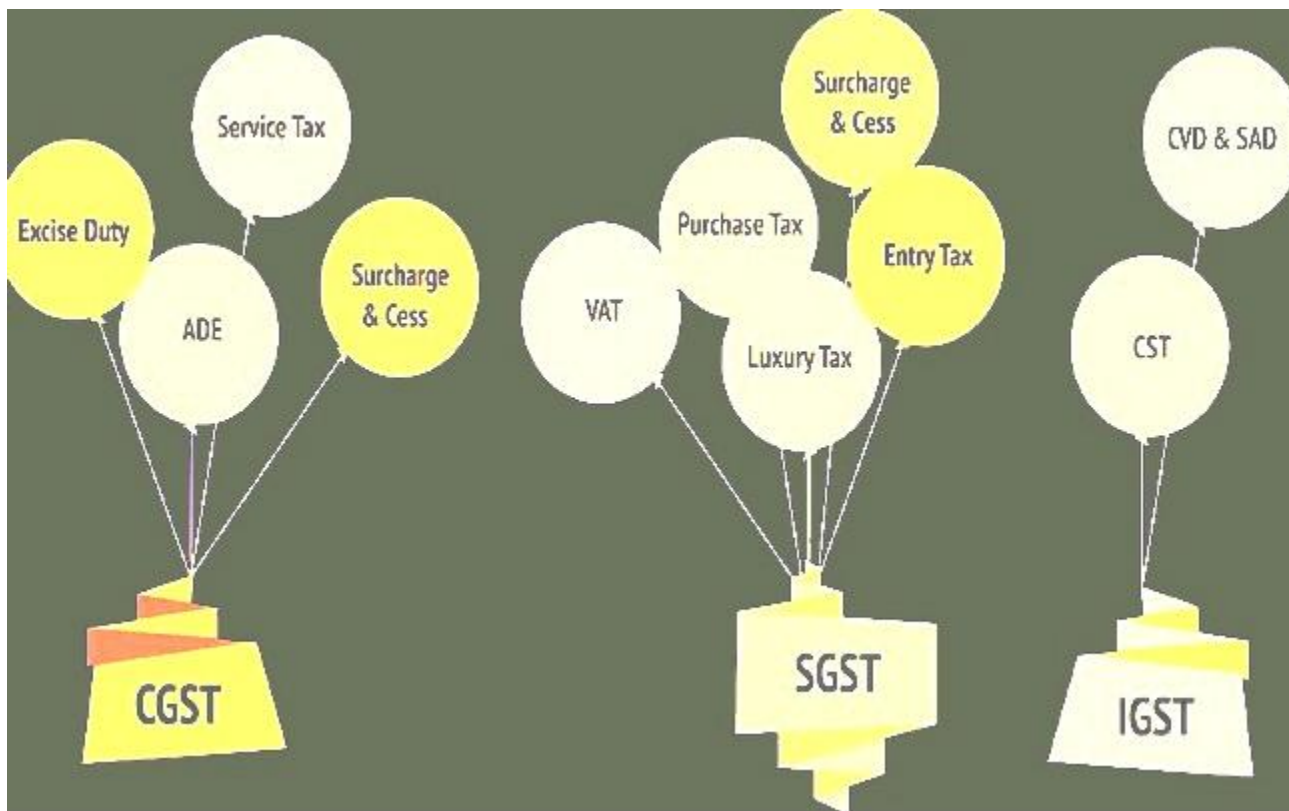


Figure 1.1

Goods and services tax possibly one of India huge indirect tax reforms contended to unify the multiplicity of indirect taxes in India and bring all goods and services under a single GST. It will not only boost economic growth but will also improve the ease of doing business in India by allowing a seamless flow of goods and tax credits across all categories of transactions and state borders without any hindrances or restrictions. GST would create a business-friendly taxation policy and will eliminate the complexities and multiplicity of taxes in India and bring all the goods and services under one roof.

Standard GST rates of various countries:

Country	Standard GST rate
India	28%
Denmark	25%
France	20%
Germany	19%
Tanzania	18%
Pakistan	14 - 16%
Japan	8%
Canada	5%

Figure 1.2

The GST council in its 23rd meeting on 10 November 2017 updated the GST rates and kept the highest tax slab of 28% and the GST council of India have classified the GST rates in five categories ie, 0%, 5%, 12%, 18%, 28%

- ★ Reduced rates from 28 % to 18% :- (a) Old and second hand motor vehicles (medium and large cars and SUVs) with a condition that no ITC is availed (B) Public transport buses that run on Biofuel
- ★ Rates reduced from 28% to 12% :- (a) For Old and second hand motor vehicles (other than medium and large cars and SUVs) with a condition that no ITC is availed
- ★ Rates reduced from 18% to 12% :- (a) Sugar boiled Confectionery (b) biodiesel (c) drip irrigation system including laterals, sprinkle methods (d) mechanical sprayer (e) bio-pesticides (listed), fertilisers grade phosphoric acid and bamboo wood building joinery (f) drinking water packed in 20 litres bottles.
- ★ Rate reduced from 18% to 5% :- (a) LPG supplied to Household Domestic Consumers (b) Raw materials and consumables needed for Launch vehicles, Satellites and Payloads (Both CGST and IGST Rates) (c) Tamarind Kernel Powder (d) Mehendi paste in cones
- ★ Rates reduced from 12% to 5% :- (a) Articles of straw, or esparto or of other plaiting materials (b) Velvet fabric (with a condition that no refund is claimed on ITC).

Launch and Timeline of Goods and services tax (GST) in India

Goods and services tax popularly known as GST was first time popularized in 2000 by the then Prime Minister Atal Bihari Vajpayee and sets up a committee under the finance minister Asim Das Gupta to design a GST model. In 2004 Vijay Kelkar the then advisor Of finance minister recommends the GST to replace the existing tax regime. In february 28, 2006 GST appears in the budget speech of the year 2006-07 by Finance Minister P. Chitambam and sets a strong desire to implement the GST and gave a deadline upto 1 April 2010 and he assured that the empowered committee of finance Minister will prepare a roadmap for GST. On 30 April 2008 the empowered committee submitted a report entitled as "A model and Road map of Goods and services tax in India" to the Government. In 2009 Finance Minister Pranab Mukherjee introduced the basic structure of GST as designed by Asim Das Gupta committee hold on to 2010 deadline and the finance ministry started a mission-mode computerisation of commercial taxes in state to lay the foundation for GST roll-out. Finance Minister Arun Jaitley announced the constitution 122nd amendment bill in the Lok Sabha in December 19, 2014 and Lok Sabha passes GST constitutional amendment bill in August 3, 2016 with two third majority and President Pranab Mukherjee gave assent to the bill. Finance minister Arun Jaitley in January 16, 2017 gave the deadline of GST roll-out.

The goods and services tax was launched at midnight on July 1, 2017 with profound implications for the economy by the former President of India Pranab Mukherjee and Prime Minister Narendra Modi. The launch was decided by a momentous midnight 30 June - 1 July session of both the houses of parliament held meeting at the center hall of the parliament. After the launch of GST the rates of GST have been modified multiple times the latest being on 15 November 2017. The tax came into effect from July 1, 2017 through the implementation of One Hundred and First Amendment of the Constitution of India by the Modi government. The step taken at the midnight to launch goods and services tax will eliminate all the indirect tax regime system.

OBJECTIVES OF THE STUDY

1. To identify and apprehend the concept of Goods and Services Tax in India.
2. To evaluate the impact of GST on Indian economy.

RESEARCH METHODOLOGY

The study is descriptive in nature and focuses on extensive study of Secondary data collected from various books, National & international Journals, government reports, publications and from various websites which focused on various aspects of Goods and Service tax.

REVIEW OF LITERATURE

Nitin Kumar (2014)¹: studied, "Goods and Service Tax- A Way Forward" and concluded that implementation of GST in India help in removing economic distortion by current indirect tax system and expected to encourage unbiased tax structure which is indifferent to geographical locations.

Monika Sehrawat and Upasana Dhanda (2015)²: The implementation of GST stands for a coherent tax system which will colligate most of the previous indirect taxes and in long term it will lead to higher output, more employment opportunities and flourish GDP by 1% -1.5%. It can also be used for an effective tool for fiscal policy management if implemented successfully due to nation-wide tax rate.

Dr. N Visalakshi and Dr. K. Kanaku Raja (2017)³ studied, "An overview of GST" they concluded by saying that the implementation of GST would be useful for the eradication of multiple taxes, remove the problems and issues in an economy, enhance the efficiency of distribution and manufacturing activities, widen tax basis for promotion of more revenue as a result the decrease in fiscal deficit, hence the economy will move from the developing countries to the developed countries.

Dr. R Rupa (2017)⁴ : studied, that Goods and Services Tax (GST) is most ambitious and biggest tax reform plan, which aims to stitch together a common market by dismantling fiscal barriers between states. In addition to the passage of the Bill, it is also imperative to have a robust country-wide IT network and infrastructure to make the implementation seamless.

Prime Minister Mr. Narendra Modi (2016)⁵ : calls GST Good and Simple tax and it is not just a tax reform, but a move towards economic reform. He further added in his speech that different taxes confused foreign investors now we will get rid of the indirect taxation system by launching Goods and Services tax. Goods and services tax will be a system that would check the corrupt and give opportunities to the honest. It will also give us an opportunity to us for better governance.

Finance Minister Mr. Arun Jaitley (2017)⁶: stated that the implementation of the new tax system i. e, GST is going smoother than expected in initial phase. The GST will bring the economy under a uniform tax system. The objective of the of GST is to replace all the indirect taxes with single comprehensive tax, bringing it all under single umbrella

Ambit and model of GST

It is the France which introduced the GST for the first time in 1954 in order to combat the tax evasion. India has picked the Canadian model of dual GST as it has a federal structure where the Centre and states have the powers to levy and collect taxes. In India, a dual GST is proposed after that a Central Goods and Services Tax (CGST) and State Goods and Services Tax (SGST) will be charged on the tax value of every purchase or supply of goods and services.

1. GST at Union Government Level Only (Central GST). (a) Taxes levied and collected by the Center i.e, Central excise duty (CENVAT), Additional duties of excise (goods of special importance), Additional duties of customs (generally known as CVD) Duties of excise (medicinal and toilet preparations), Special additional duty customs (SAD), Service tax and Central surcharges and Cess so far as they relate to supply of goods and services

2. GST at State Government Level Only (State GST). State taxes that would be subsumed by the GST i.e, State VAT, central sales tax, luxury tax, Entry tax (all forms), Entertainment and Amusement tax (except when levied by the local bodies) Taxes on advertisement, Purchase tax, Taxes on lotteries, Betting and Gambling, state surcharges and Cesses so far as they relate to supply of goods and services.

3. GST at both, Union and State Government Levels (Concurrent/Dual GST). Under the Concurrent Dual GST Model taxes shall be levied as per place of supply of goods and services. In case of supplies within the State or Union Territory, (a) Central GST (CGST) will be payable to the Central Government. (b) State GST (SGST) or Union Territory GST (UTGST) will be payable to the State Government or Administrator of Union Territory (as applicable). CGST and SGST will also apply in Union Territories having legislature, i.e. Delhi and Puducherry.

GST is applicable on the supply of goods or services and it is applicable to all goods and services except the exempted ones.

- ★ Alcoholic liquor for human consumption is exempted from GST and is outside the preview of GST.
- ★ Electricity (As per Entry 53 in List II (State list) of the Seventh Schedule to the Constitution of India, taxes on consumption and sale of electricity are under the ambit of the States).
- ★ Custom duty, and real estate are also outside the preview of GST.
- ★ Tobacco and tobacco products will be subject to GST. The centre may also impose excise duty on tobacco.
- ★ Petroleum products, motor spirit, natural gas, aviation turbine fuel, are initially exempted from GST. The GST council will decide when GST will be levied on them. GST to be levied from such date as may be notified by the Government on the recommendations of the GST Council (Section 9(2) of the CGST Act), Till then Central excise duty will continue on petroleum products.

Impact of GST on real estates

Goods and services tax due to the input credit benefits that most builders will get on the key raw materials they buy, the base price of property projects launched post 1 July 2017 will be comparatively cheaper. Buying under-construction properties will attract a net effective rate of 12% as against the earlier rate of 5.5% (including value added tax and service tax). Real estate players such as Proptiger and Quikr want to pass this cost benefit on to property buyers. For new projects with 100% input credit passed to the buyer and land cost being 50% of the project cost, we expect property prices to fall by around 1% in western and northern markets and around 3% in southern markets, said a report by Edelweiss. However, prices of ready-to-move-in apartments with completion certificates, before implementation of GST on 1 July, would remain steady as these properties are out of the GST ambit. Any price change in the segment will depend purely on demand and supply.

Impact of GST on E-commerce

The issue with the E-commerce websites like Flipkart, snapdeal and Amazon will have to collect TCS (tax collected at source) at a fixed 1% rate, and pay this collection to the sellers listed on their websites. This is likely to impact prices and make online shopping more expensive. Though the new circular issued by the government stated that the provisions of "TDS (Section 51 of the CGST/SGST Act 2017) and TCS (Section 52 of the CGST/SGST Act, 2017) will be brought into force from a date which will be communicated later." Also to deal effectively with GST, e-commerce polices police's are regularly engaging and training the sellers on their stores. While saying on GST's impact Rajiv Kumar, Founder, e-commerce website StoreHippo has stated: "We are thrilled to announce the reformation of our tax engine in accordance to GST. E-Commerce platforms need to provide flexible and powerful tax solutions after the implementation of GST and StoreHippo facilitates this through its new move, aimed at simplifying GST for all involved."

Impact of GST on Jewellery:-

The investment in gold will become noticeably expensive because there will be 3% GST on gold & 5% on the making charges. The earlier tax rate on gold was around 2% in most of the states and the GST is increased from the existing rate to around 2% to 3%.

Impact of GST on Telecommunication

At the present situation telecommunication industry faces several hindrances such as the cascading effect of taxes, issues with the categorisation of services, etc. that hamper the growth of this sector. One of the chief demerit of the GST system could be the direct spike in the service tax rate from 14% to 20-22%. The suggested GST arise to be silent on whether telecommunication can be taken under the category of goods or services. The whole issue of telecommunication sector assumes a serious proportion when India's rural teledensity is not even 50%.

Impact of GST on Agriculture

The agricultural sector is the largest supply sector the overall Indian Gross Domestic Product (GDP). It covers about 16% of Indian Gross Domestic Product (GDP). One of the major issues faced by the agricultural sector is the transportation of agri-products across state lines all over India. GST will resolve the issue of transportation and it may cater India with its first National Market for the agricultural goods. Pesticides and fertilizers an important element of agriculture was previously taxed at 6% (1% Excise + 5% VAT). In the present GST system the tax on fertilisers has been increased to 12%.

Impact of GST on Fast-Moving Consumer Goods (FMCG)

The Fast Moving Consumer Goods (FMCG) sector is experiencing important savings in logistics and distribution costs as the goods and services tax has removed the want for multiple sales depots. FMCG segment is the fourth largest sector in the Indian economy. Distribution costs for the fast moving consumer sector currently amount to 2-7 percent of the total cost, but are expected to drop to 1.5 percent after implementation of GST software. Aerated beverages have been fixed in the highest tax slab of 28% and will now drag an additional tax of 12%. Beverage companies have said the effective tax rate of 40% on sweetened aerated water and flavored water under GST is against the stated policy of maintaining parity with the existing weighted average tax, which is considerably below 40%. "This addition will have a negative flood like effect and hurt the whole ecosystem of farmers, retailers, distributors, and bottlers in India. This extension in tax will further limit the growth of the beverage industry," said the Indian Beverage Association (IBA) in a statement.

Positive impact of GST /Advantages of GST

- ★ It is believed that the GST will be enhanced by 2% ie, 70,000 to 80,000 crores of additional income to center and state governments as per FRBM report.
- ★ A strong and inclusive IT system would be the base of the GST system in India. Accordingly, all tax payer services such as registrations, returns, payments, etc. would be available to the taxpayers online, which would make compliance easy and transparent.
- ★ GST will certify that indirect tax rates and framework are common across the country, thereby enhancing certainty and ease of doing business. This will help in consistency and harmony of tax rates and framework.
- ★ A system of seamless tax-credits throughout the value-chain, and across borders of States, would guarantee that there is least possible cascading of taxes. This would reduce hidden costs of doing business.
- ★ contraction in transaction costs of doing business would hereafter lead to an reformed competitiveness for the trade and indus
- ★ GST regime will make the manufacturing sector free from cascading effect of taxes, thus by improve the unification and cost-competitiveness of goods and services..
- ★ GST would create a business-friendly taxation policy and will eliminate the complexities and multiplicity of taxes in India and bring all the goods and services under one roof.
- ★ GST will not only boost economic growth but will also improve the ease of doing business in India by allowing a seamless flow of goods and tax credits across all categories of transactions and state borders without any hindrances or restrictions.

Negative impact of GST /Disadvantages of GST

At present there are about 160 countries which have implemented the GST system including India and the prominent economists are very optimistic about its positive impact on the economy. However each country where GST was implemented experienced inflation for next 3 to 5 years. Few possible disadvantages are:

- ★ Economists believe that the GST would affect negatively on the real estate market. It would add up to 8% to the cost of new homes and reduce demand by about 12%.
- ★ Some of the economists who are at the opinion that the CGST (Central goods and services tax), SGST (State goods and services tax) are nothing but new names for Central Excise/Service Tax, VAT and CST.
- ★ All goods and services brought under the GST system with only few items are outside the preview of GST and make the common peoples life miserable.

FINDINGS OF THE STUDY

1. GST system will enhance the transparency and has widened the tax base and is expected to bring down the rate of inflation.

2. GDP is expected to be enhanced by 2%. This works out to rupees 70,000 to 80,000 crores of additional annual income to the central and state governments.
3. The goal of GST to serve the amalgamate of indirect tax system which will remove cascading effects in supply chain till the level of final consumption.
4. GST will Make the tax system simple and will reduce the complexities and multiplicity of taxes that currently exist will no longer remain in the picture. This will reduce the compliances to be fulfilled as compared to present situation.
5. GST will help to abolish the economic crookedness and bring about common national market. The dream of one country, one tax and one market can be accomplished.

SUGGESTIONS OF THE STUDY

1. The government must launch a massive awareness campaign, workshops, training and various seminars on GST to educate consumers about GST so that they may not be fleeced by traders in name of the new tax.
2. The government should monitor the implementation of GST (both at the centre and at the states) and the focus must be on the resolution of difficulties being faced by the consumers.
3. Handsomely the rates for GST, which captures a much larger tax base, ought to be considerably lower than current rates and induce contributing additional competitive strength to the economy.

CONCLUSION

The advent of GST (Goods and Services Tax) would be an important move in the reformation of indirect taxation in India. Merging/amalgamating of various central and state taxes into one roof tax system would check and alleviate cascading or double taxation and will facilitate a common national market. Goods and Services tax is expected to simplify and harmonise the complex indirect tax regime and multiplicity of taxes in the country. The government's bold decision of enacting the GST would serve a better reason to achieve the objective of streamlining of indirect tax regime in India which can remove cascading effects in supply chain till the level of final consumption. However to sum up the implementation of GST would greatly help in India in removing the economic distortions caused by the previous indirect tax system and will help in the development of common national market. Goods and services tax will not only boost economic growth but will also improve the ease of doing business in India by allowing a seamless flow of goods and services tax credits across all categories of transactions and state borders without any hindrances or restrictions.

Goods and services tax is much more than the tax change. GST is also a 'behaviour change' and its successful implementation depends on the government policies and strategies how well they are planned and executed and will greatly depend on how well our country as a nation adjusts to the new requirements of doing business. In the opinion of experts GST will have a huge impact on businesses whether big or small. Post the initial teething troubles, it is expected that GST will bring in much good for all sectors, including the fast moving consumer goods sector.

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