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Impact of Goods and Services Tax on Indian Economy

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ABSTRACT

GST also known as the Goods and Services tax is defined as the giant indirect tax structure designed to support and enhance the economic growth of a country. With the introduction of GST, initially there was a lot of chaos and confusion among common man. GST bill will be a form for economic integration of India. The main trait of the GST is to transform India into a unified market by dismantling the present fiscal barrier among states and can expect improved tax compliance. There would be only one tax, that too at the national level, monitored by the central government. GST is also different in the way it is levied - at the final point of consumption and not at the manufacturing stage. This research paper is an attempt to study the impact of GST on Indian Economy.

Keywords: GST, Indian Economy, Positive Impact, Negative Impact, Central Government, State Government.

INTRODUCTION

GST stands for Goods and Services Tax levied by the Government in a move to replace all of the indirect taxes. In India, the idea of GST was contemplated in 2004 by the Task Force on implementation of the Fiscal Responsibility and Budget Management Act, 2003, named Kelkar Committee. The Kelkar Committee was convinced that a dual GST system shall be able to tax almost all the goods and services and the Indian economy shall be able to have wider market of tax base, improve revenue collection through levying and collection of indirect tax and more pragmatic approach of efficient resource allocation. Under the Goods and Service Tax mechanism, every person is be liable to pay tax on output and shall be entitled to enjoy credit on input tax paid and tax shall be only on the amount of value added. The principal aim of GST is to eliminate cascading effect i.e. tax on tax and it will lead to bringing about cost competitiveness of the products and services both at the national and international market. GST System is built on integration of different taxes and is likely to give full credit for input taxes. GST is a comprehensive model of levying and collection of indirect tax in India and it has replace taxes levied both by the Central and State Governments. GST be levied and collected at each stage of sale or purchase of goods or services based on input tax credit method. Under this system, GST-registered commercial houses shall be entitled to claim credit of the tax they paid on purchase of goods and services as a part of their day to day businesses. The historic GST or goods and services tax has become a reality.

The new tax system was launched at a function in Central Hall of Parliament on 1st July, 2017. GST, which embodies the principle of "one nation, one tax, one market" is aimed at unifying the country's $2 trillion economy and 1.3 billion people into a common market. Under GST, goods and services fall under five tax categories: 0 per cent, 5 per cent, 12 per cent, 18 per cent and 28 per cent. For corporates, the elimination of multiple taxes will improve the ease of doing business. And for consumers, the biggest advantage would be in terms of a reduction in the overall tax burden on goods. "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 section," Finance Minister Arun Jaitley said at GST launch event in Parliament. The Lok Sabha has finally passed the Goods and Services Tax Bill and it is expected to have a significant impact on every industry and every consumer. Apart from filling the loopholes of the current system, it is also aimed at boosting the Indian economy. This will be done by simplifying and unifying the indirect taxes for all states throughout India.

METHODOLOGY

The present paper is based on the secondary data collected from the secondary source i.e. published literature of the subject concern. Descriptive and analytical method has been applied in the entire study.

OBJECTIVE OF THE RESEARCH STUDY

The specific objective of the study was to assess the impact of Goods and services (GST) tax on Indian economy.

RATIONALE

This research study will highlight the effect of GST on Indian Economy and It will prove to be of great help to a common man to have a conceptual understanding of GST.

V. Impact of GST on various Sectors of Indian Economy

Goods and Services Tax will unite the Indian economy into one common market under a single umbrella of taxation rates leading to easiness of starting and doing businesses, leading to increase in savings and cost reduction among various sectors. Some industries will be empowered by GST because of reduction in tax rates while some will lose because of higher rate of GST interests.

Real Estate: The effective GST rate on under construction real estate projects will be 12 per cent only and not 18 per cent as there will be abatement for land cost according to a report by PTI quoting tax consultant EY.

Effect on transportation: Under GST, cab and taxi rides are taxed lower, from 6% to 5%. For those who travel by air, GST is favourable as the tax rate is lowered to 5% for the economy class and 12% for business class. Train fare, meanwhile, is mostly unaffected as the change is minimal from 4.5% to 5%. Those who travel by sleeper are not affected by the tax rate change but those who travel first class are charged more

Construction Materials: Under revised order from the government, GST on under construction flats and properties will be taxed at 18% which includes 9% SGST plus 9% CGST. The government has also allowed deduction of land value equivalent to one-third of the total amount charged by a developer, thus, making the effective tax rate as 12%. The 12% slab offered for the real estate sector will not affect at the price of the flat but it will be on building materials.

FMCG Goods: Fast moving consumer goods sector will benefit from the GST due to the present of big unorganised market. GST rate for products like hair oil, soaps and toothpaste has been lowered by 500-600 bps from the previous rates. Companies such as Colgate-Palmolive, HUL, Britanina, Heritage food etc. will benefit from the move.

Cement industry: The implementation of GST in the country will somehow create a menace in the cement industry. GST council has decided heavy tax rates over cement industry of 28 percent which seems to overburden the sector with already prevailing tax entities and under developing area in the urbanization. Indian cement industry is aimed to grow at a CAGR of 11.14% in volume terms during FY 2011-FY 2017 and is expected to reach 407 million tons by March 2017.

Pharma: On the whole, GST is expected to benefit the pharma and healthcare industries. It will create a level playing field for generic drug makers, boost medical tourism and simplify the tax structure. If there is any concern whatsoever, then it relates to the pricing structure (as per latest news). The pharma sector is hoping for a tax respite as it will make affordable healthcare easier to access by all.

Telecommunications: In the telecom sector, prices are expected to come down after GST. Manufacturers will save on costs through efficient management of inventory and by consolidating their warehouses. Handset manufacturers will find it easier to sell their equipment as GST will negate the need to set up state-specific entities, and transfer stocks. The will also save up on logistics costs.

Textiles: The Indian textile industry provides employment to a large number of skilled and unskilled workers in the country. It contributes about 10% of the total annual export, and this value is likely to increase under GST. GST would affect the cotton value chain of the textile industry which is chosen by most small medium enterprises as it currently attracts zero central excise duty (under optional route).

Agriculture: Agricultural sector is the largest contributing sector the overall Indian GDP. It covers around 16% of Indian GDP. One of the major issues faced by the agricultural sector is transportation of agricultural products across state lines all over India. It is highly probable that GST will resolve the issue of transportation. GST may provide India with its first National Market for the agricultural goods. However, there are a lot of clarifications which need to be provided for rates for agricultural products.

Banking, Financial Services and Insurance: Among the services provided by Banks and NBFCs, financial services such as fund based, fee-based and insurance services will see major shifts from the current scenario. Owing to the nature and volume of operations provided by banks and NBFC vis a vis lease transactions, hire purchase, related to actionable claims, fund and non-fund based services etc., GST compliance will be quite difficult to implement in these sectors.

Features of GST

- **Applicable On the supply side:** GST is applicable on 'supply' of goods or services as against the old concept on the manufacture of goods or on sale of goods or on provision of services.
- **GST rates to be mutually decided:** CGST, SGST & IGST are levied at rates to be mutually agreed upon by the Centre and the States. The rates are notified on the recommendation of the GST Council.
- **Multiple Rates:** Initially GST was levied at four rates viz. 5%, 12%, 16% and 28%. The schedule or list of items that would fall under these multiple slabs are worked out by the GST council.
- **Destination-based Taxation:** GST is based on the principle of destination-based consumption taxation as against the present principle of origin-based taxation.
- **Dual GST:** It is a dual GST with the Centre and the States simultaneously levying tax on a common base. GST to be levied by the Centre is called Central GST (CGST) and that to be levied by the States is called State GST (SGST).Import of goods or services would be treated as inter-state supplies and would be subject to Integrated Goods & Services Tax (IGST) in addition to the applicable customs duties.

Positive Impacts of GST Implementation

- GST is expected to build a more transparent and corruption-free tax system in India.
- It is easy to start a business in the post-GST regime and tax regulations are easier than before.
- Composition mechanism is there to reduce the tax burden from small businesses and startups.
- Input credit (ITC) mechanism ensures an uninterrupted flow of cash for businesses and reduced price of goods/services for the end consumers.
- The merging of all the indirect taxes makes it easier to process the tax payment for the government as well as for the taxpayers.
- Tax harmonization
- More simplified movement of goods and/or services between states and within the country.
- GST is calculated on the total amount, irrespective of the type of sales and services.
- GST has eliminated the cascading effect of taxes by introducing a unified tax system.
- Since it is a destination based tax, the tax will only be paid by the consumer upon delivery of goods/services.
- The implementation of Goods & Services tax puts India in the line of international tax standards, making it easier for Indian businesses to sell in the global market.
- Inflation is expected to stay under control after the implementation of GST.
- GST is expected to reduce the price of production, operational and others costs that will benefit the end consumers.
- The cost of collecting the tax is reduced thus resulting in a higher revenue for the government.
- GST has the mechanism of integrated tax that makes sure that the tax burden is split impartially between manufacturing goods and services.
- The complexity of tax compliance is reduced as all the returns are being filed and taxes are being paid through a single platform.
- Since all the records and data are now available on a single platform, it has become easier for the tax authorities to identify and deal with tax evasions.
- One major benefit of GST is that the government is now receiving more taxpayer registrations than ever before.

Negative impacts of GST Implementation

- GST compliance and tax filing has increased the implementation cost for businesses, as they are required to invest in computers, accounting (GST) software and/or trained GST experts (CAs and accounting experts).
- The process of GST compliance is also proving daunting as most businesses are not yet fully aware of the rules, provisions and processes of the new tax system, including the process of return filing, GST registration, returns filing schedule, invoicing and billing, etc.
- The overall cost of doing business is going to increase, at least in the first few months of GST.
- The implementation of GST in the middle of the financial year is creating a lot of confusion among business, as to whether to follow the old tax rules or new ones or both.
- Many businesses, especially small businesses and startups, do not usually have the money or tech resources to get compliant with the digital GST system. A cloud-based (online) GST software like the Gen GST could be a perfect solution to this problem.

- The tax relaxation limit for small manufacturing businesses, which was 1.50 crores earlier, is now Rs. 20 lakh under the GST system. This has effectively increased the tax burden for such businesses.
- No clarification about tax holidays has further increased operation costs for textile, pharma and other manufacturing industries.
- The chaos among businesses has ended up creating a disruption in the industry.
- Consumers are not very hopeful about GST benefits and implementation and therefore, they are reluctant to adapt to the new system.
- The tax rate has been increased for many products, thus increasing their costs.
- Although there is a provision of input credit in GST, some businesses are not willing to pass on its benefits to their consumers.
- The cost of refurbishing has increased due to increased tax, thus increasing the price of refurbished products.
- Businesses are required to have separate registrations for multiple business entities in different states. It will increase the burden of tax compliance.
- GST has reduced the tax revenue of some states as they are now required to share revenues with the central government.
- The tax will be paid by the end consumer, which makes it a non-consumer-friendly tax system.

CONCLUSION

GST will give Indian economy a strong and smart tax system for economic development. GST mechanism is designed in such a way that it is expected to generate good amount of revenue for both central and state government. All sectors in India - manufacturing, service, telecom, automobile etc. will bear the impact of GST. While comparing challenges with its advantages, it is clearly visible that its advantages are more compared to challenges; but for gaining those benefits, country will need to build strong administrative machinery and institutional mechanism.

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