Financial Implications of GST on Indian Economy

An Appraisal

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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. More than 150 countries have implemented GST so far. However, the idea of GST in India was mooted by Vajpayee government in 2000 and the constitutional amendment for the same was passed by the Loksabha on 6th May 2015 but is yet to be ratified by the Rajyasabha. However, there is a huge hue and cry against its implementation. It would be interesting to understand why this proposed GST regime may hamper the growth and development of the country. After a lot of deliberation, our GST council has finalised the rates for all the goods and major service categories under various tax slabs, and the GST is expected to fill the loopholes in the current system and boost the Indian economy. This is being done by unifying the indirect taxes for all states throughout India. The tax rate under GST are set at 0%, 5%, 12%, 18% and 28% for various goods and services, and almost 50% of goods & services comes under 18% tax rate. But how is our life going to change post GST? Let's see how GST on some day-to-day good and services will have an impact on an end user's pocket.

IndexTerms - Goods and **service tax**; Indian economy

Introduction

The Goods and Services Tax (GST) is a vast concept that simplifies the giant tax structure by supporting and enhancing the **economic growth** of a country. GST is a comprehensive tax levy on manufacturing, sale and consumption of goods and services at a national level [1]. The Goods and Services **Tax** Bill or GST Bill, also referred to as The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014, initiates a Value added Tax to be implemented on a national level in India. GST will be an indirect tax at all the stages of production to bring about uniformity in the system.

On bringing GST into practice, there would be **amalgamation** of Central and State taxes into a single tax payment. It would also enhance the position of India in both, domestic as well as **international market**. At the consumer level, GST would reduce the overall tax burden, which is currently estimated at 25-30%.

Under this system, the consumer pays the final tax but an efficient input tax credit system ensures that there is no cascading of taxes- tax on tax paid on inputs that go into manufacture of goods [2].

In order to avoid the payment of multiple taxes such as excise duty and service tax at Central level and VAT at the State level, GST would unify these taxes and create a uniform market throughout the country. Integration of various taxes into a GST system will bring about an effective cross-utilization of **credits**. The current system taxes production, whereas the GST will aim to tax consumption.

The Goods and Services Tax or GST came into effect on the 1st of July 2017. The aim of introducing the tax was to replace all the existing indirect taxes with a single comprehensive tax. Through GST, all indirect taxes such as central excise tax, service tax, VAT and entertainment tax were consolidated. This major step has helped the citizens of India to file their taxes easily without the hassles they faced earlier. And, this article will discuss the impact of GST on the Indian economy.

Goods and Services Tax is levied on the manufacturing and sales of goods and services across the country. The tax is charged at every stage of the manufacturing process. GST is applicable for both the customer and the manufacturer. It is a destination-based tax. This means that GST is to be collected at the point of consumption. So, if a product is manufactured in Bihar and is sold in Bhopal, the tax will be levied in Bhopal. Moreover, at every stage of the manufacturing process where value is added to the product, GST is collected.

The types of GST are as follows:

(i) CGST (Central Goods and Services Tax): The tax is collected by the central government on the intrastate sale of goods and services. (ii) SGST (State Goods and Services Tax): The state government collects this tax based on the intrastate supply of services and products.(iii) IGST (Integrated Goods and Services Tax): The tax is charged on the supply of products and services between two states. The taxes are shared between the central and state governments.

Effect of GST on the Indian economy

The implementation of GST has significantly affected the Indian economy in the following ways:

Simplification of the tax structure:

GST has simplified the taxation system of the country. As GST is a single tax, calculating taxes at the multiple stages of the supply chain has become easier. Through this, both customers and manufacturers get a clear idea of the amount of tax they are charged and its basis. Further, hassles of handling tax officials and authorities can also be avoided.

Fostering production:

As per the Indian retail industry, the total tax component is around 30% of the product cost. Due to the impact of GST, the taxes have gone down. So, the end consumer has to pay lesser taxes. The reduced burden of taxes has enhanced the production and growth of the retail and other industries.

SME support:

Small and medium enterprises can now register under the Composition Scheme introduced by GST. Through this scheme, they pay taxes according to their annual turnover. Therefore, businesses having an annual turnover of Rs. 1.5 crores only have to pay 1% GST. Moreover, other enterprises having a turnover of Rs. 50 lakh are required to pay 6% as GST.

Enhanced pan India operations:

Companies can now avoid taxation roadblocks, such as toll plazas and check posts. Earlier, these created problems, including damage to unpreserved products while transporting them. So, manufacturers had to keep buffer stock to make up for the damages. These overhead costs of storing and warehousing hampered their profit. A single taxation system has reduced these problems. They can now transport their goods easily across India. This has resulted in the improvement of their pan India operations.

Increase in exports:

GST has reduced the customs duty on exporting goods. The cost of production in the local markets has also decreased due to GST. All these factors have increased the rate of exports in the country. Companies have become more competitive when it comes to expanding their businesses globally.

The introduction of GST has helped merge the taxes of the state and central governments. This has helped remove the cascading effect of multiple taxes. Therefore, the burden of taxes has reduced for companies and customers. Not just this, taxpayers have increased in number and hence, the tax revenues have also increased significantly. The overall taxation system is now easier to administer. Moreover, small- and medium-sized enterprises are able to enhance their businesses. It is expected that GST will help more Indian organisations to establish themselves in the international markets Experts have enlisted the benefits of GST as under:

• It would introduce two-tiered One-Country-One-Tax regime.

• It would subsume all indirect taxes at the center and the state level.

• It would not only widen the tax regime by covering goods and services but also make it transparent.

• It would free the manufacturing sector from **cascading** effect of taxes, thus by improve the cost-competitiveness of goods and services.

• It would bring down the prices of goods and services and thus by, increase consumption.

• It would create business-friendly environment, thus by increase tax-GDP ratio.

• It would enhance the ease of doing business in India.

Why no to GST?

However, the question is: is the picture as rosy as it is portrayed?

Wall Street firm Goldman Sachs, in a note 'India: Q and A on GST — Growth Impact Could Be Muted', has put out estimates that show that the Modi Government's model for the Goods and Services Tax (GST) will not raise growth, will push up consumer prices inflation and may not result in increased tax revenue collections [3].

There appears to be certain loopholes in the proposed GST tax regime which may be detrimental in delivering the desired results. They are:

India has adopted dual GST instead of national GST. It has made the entire structure of GST fairly complicated in India. The centre will have to coordinate with 29 states and 7 union **territories** to implement such tax regime. Such regime is likely to create economic as well as political issues. The states are likely to lose the say in determining rates once GST is implemented. The sharing of **revenues** between

the states and the centre is still a matter of contention with no consensus arrived regarding revenue neutral rate.

Chief **Economic** Advisor Arvind Subramanian on 4 December 2015 suggested GST rates of 12% for concessional goods, 17-18% for standard goods and 40% for luxury goods which is much higher than the present maximum service tax rate of 14%. Such initiative is likely to push inflation.

The proposed GST structure is likely to succeed only if the country has a strong IT network. It is a well-known fact that India is still in the budding state as far as internet connectivity is concerned. Moreover, the proposed regime seems to ignore the emerging sector of **e-commerce**. E-commerce does not leave signs of the transaction outside the internet and has anonymity associated with it. As a result, it becomes almost impossible to track the business transaction taking place through internet which can be **business** to business, business to customer or customer to customer. Again, there appears to be no clarity as to whether a product should be considered a service or a product under the concept of E- commerce. New techniques can be developed to track such transactions but until such technologies become readily accessible, generation of tax revenue from this sector would continue to be uncertain and much below the expectation. Again E-commerce has been insulated against taxation under custom duty moratorium on electronic transmissions by the WTO Bali Ministerial Conference held in 2014 [4].

Communication is considered to be necessity and one cannot do without communication. In modern times, communication has assumed the dimension of telecommunication.

The proposed GST regime appears to be unfavorable for telecommunication sector as well

“One of the major drawbacks of the GST regime could be the direct spike in the service tax rate from 14% to 20-22%” (GST: Impact on the **Telecommunications** Sector in India). The proposed GST appears to be silent on whether telecommunication can be considered under the category of goods or services. The entire issue of telecommunication sector assumes a serious proportion when India’s rural **teledensity** is not even 50% [5].

The proposed GST regime intends to keep petroleum products, electricity, real estate and liquor for human consumption out of the purview of GST

It is a well-known fact that petroleum products have been a major contributor to inflation in India. Inflation in India depends on how the government intends to include petroleum products under GST in future.

Electricity is essential for the growth and development of India. If electricity is included under standard or luxury goods in future then it would badly affect the development of India. It is said that GST would impact negatively on the real estate market. It would add up to 8% to the cost of new homes and reduce demand by about 12%.

The proposed GST regime "would be capable of being levied on sale of newspapers and advertisements therein"

This would give the governments the access to substantial incremental revenues since this industry has historically been tax free in its entirety" [6]. It sounds ridiculous but the provision of GST is likely to make the supervision of operations by its Board/senior managers across the company's offices in different parts of the country a taxable service by allowing each state to raise a GST demand on the company.

Again there appears to be lack of consensus over fixing the revenue rate as well as threshold limit. One thing is for sure, services in India are going to be steeply costly if GST is fixed above the present service tax rate of 14% which in turn will spiral up inflation in India. "Asian countries which implemented GST all had witnessed retail inflation in the year of implementation [6,7].

Footwear & Apparels/Garments:

Footwear costing more than INR 500 will have a GST rate of 18% from an earlier rate of 14.41 rate but rates for the footwear below INR 500 has been reduced to 5%. So, you need to shell out more for buying a footwear above INR 500/-. And with respect to the ready-made garments, the rates have been reduced to 12% from an existing 18.16% which will make them cheaper.

Cab and Taxi rides:

Now, taking an Ola or an Uber will be cheaper because the tax rate has come down to 5% from an earlier 6% for a cab booking made online.

Airline tickets:

Under the GST, tax rate for economy class for flight tickets is set at 5% but the tax for business class tickets will have a higher tax rate of 12%.

Train Fare:

There will not be much of an impact. The effective tax rate has increased from 4.5% to 5% in GST. But, passengers who travels for business trips can claim Input Tax Credit on their rail ticket which can help them to reduce expenses. People travelling by local trains or in the sleeper class will not be affected, but first-class & AC travellers will have to pay more.

Movie Tickets:

Movies tickets costing below INR 100 will be charged a GST rate of 18% but prices above INR 100 will have a higher tax rate of 28%.

Life Insurance Premium:

The Premium Amounts on policies will rise, with an immediate impact can be seen on your term and endowment policy premiums as the rates have been increased under GST across life, health and general insurance.

Mutual funds Returns:

GST impact on your returns from mutual funds investments will largely be marginal as the GST will be charged on the TER i.e. Total Expense Ratio of a mutual fund. The TER is commonly called as expense ratio of a mutual fund company, and the same is set to go up by 3%. The return what you get as an investor will be reduced to that extent unless the respective mutual fund company i.e. AMC absorbs it but that anyhow will be a marginal difference.

Jewellery:

The gold investment will become slightly 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%.

Buying a Property:

Under construction properties will be cheaper than read-to-move-in properties. The GST rate for an under-construction property is 18% but the effective rate on this kind of property will be around 12% due to input tax credits the builder will avail of.

Education & Medical Facilities:

Education and Medical sectors have been kept outside the GST ambit and both the primary education & healthcare is exempt from GST. It means a consumer will not pay any tax for the money you spent on these services. But due to increase in the rate of taxes for certain goods & services as procured by these organisations, they may pass on the additional tax burden to the consumers.

Hotel Stay:

For your hotel stay, If your room tariff is less than Rs 1,000, then there will be no GST, but anything above Rs 5,000 will attract 28% tax.

Buying a Car:

Most of the cars in the Indian market will become slightly cheaper, except for the hybrid cars because the GST rate will be 28% tax on all the vehicles irrespective of their make, engine capacity or model. However, over and above this 28%, an additional cess will be levied which can be either 1%, 3% or 15 %, depending on the particular car segment.

Mobile Bills:

People will have to pay more on mobile phone bills as GST on telecom services is now 18%, as opposed to the earlier tax rate of 15%. However, telecom companies may absorb this 3% rise due to fierce competition.

Restaurant Bills/EATING OUT:

Your restaurant bill would depend on whether you dined at an AC or Non-AC establishments which do not serve alcohol. Now dining at five-star hotels will be charged at 18% GST rate and the Non-AC restaurants will be charged 12% and a 5% GST will be charged from small hotels, dhabas and restaurants who do not cross an annual turnover of INR 50 Lakh.

IPL & other related events:

Events like IPL i.e. sporting events will have a 28% GST rate which is higher than the earlier 20%.rates. This will increase the price of your tickets. And the GST rate for other events like theatre, circus or Indian classical music shows or a folk dance performance or a drama show will be at 18% GST rate, this is lesser than the earlier tax rate.

DTH and cable services:

The money you pay towards your DTH (Direct-To-Home) connections or to your cable operator will reduce a bit as the rate is fixed at 18%, which is lower than the earlier taxes which were comprising of entertainment tax in the range of 10% to 30%, apart from the service tax of 15%.

Amusements Parks:

The ticket price for amusement parks and theme parks will increase as the earlier service tax of 15% will become 28% under the GST.

Here's is a list of some items which are completely exempt from the GST regime:

*The unprocessed cereals, rice & wheat etc.

*The unprocessed milk, vegetables (fresh), fish, meat, etc.

*Unbranded Atta, Besan or Maida.

*Kid's colouring book/drawing books.

*Sindoor/Bindis, bangles, etc.

These are just a few ways in which the GST will impact daily life. How has your experience with GST been so far Join the Tata Tea movement to pre-act against two of the most pressing issues in our society today - lack of women safety, and lack of a culture of sports in India. Petition today to build a safer society for women, by demanding compulsory gender sensitisation in schools, and to build a culture of sports in India by making Sports a compulsory subject in schools.

The term GST is defined in Article 366 (12A) to mean "any tax on supply of goods or services or both except taxes on supply of the alcoholic liquor for human consumption". Thus, all supply of goods or services or both will attract CGST (to be levied by Centre) and SGST (to be levied by State) unless kept out of purview of GST. GST will be applicable even when the transaction involves supply of both (goods and services). In effect, woks contracts will also attract GST. As GST will be applicable on supply the previous taxable events such as manufacture, sale, provision of services etc. will lose their relevance. GST is payable as per time of supply. The liability to pay CGST or SGST will arise at the time of supply as determined for goods and services. In this regard, separate provisions prescribe what will time of supply for goods and services. The provisions contemplate payment of GST at the earliest for **Goods :** Removal of goods or receipt of payment or issuance of invoice or date on which buyer shows receipt of goods. **Services:** Issuance of invoice or receipt of payment or date on which recipient shows receipt of services.

At present the inter-State supply of goods attract the Central Sales Tax and now it provide that an interstate supply of goods and/ or services will attract IGST ((i.e. CGST plus SGST). GST would be payable on the _transaction value. Transaction value is the price actually paid or payable for the said supply of goods and/or services between un-related parties. The transaction value is also said to include all expenses in relation to sale such as packing, commission etc. Even subsidies linked to supply will be includable. As regards discounts/ incentives, it will form part of transaction value if it is allowed after supply is affected. However, discounts or incentives given before or at the time of supply will be permissible as deduction from transaction value.

CONCLUSION

The proposed GST regime is a half-hearted attempt to rationalize indirect tax structure. More than 150 countries have implemented GST. The government of India should study the GST regime set up by various countries and also their fallouts before implementing it. At the same time, the government should make an attempt to insulate the vast poor population of India against the likely inflation due to implementation of GST. No doubt, GST will simplify existing indirect tax system and will help to remove inefficiencies created by the existing current heterogeneous taxation system only if there is a clear consensus over issues of threshold limit, revenue rate, and inclusion of petroleum products, electricity, liquor and real estate. Until the consensus is reached, the government should resist from implementing such regime.

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