

# GST AND INDIAN ECONOMY

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## ABSTRACT

GST also known as Goods and service tax is defined as the giant indirect tax structure designed to support and enhances the economic growth of the country. More than 150 countries have implemented GST so far. However, the idea of GST in India was first raised by former Prime Minister of India Atal Bihari Vajpayee and his council. After being subject to months of dilly-dallying, late on August 3, 2016, the constitution (122<sup>nd</sup> Amendment) bill was passed by the Rajya Sabha. The much awaited passing of the bill immediately hailed as historic, landmark, game-changer and giant leap in the path of ongoing economic reforms in the country. The government's ability to steer the constitution amendment through choppy political waters was seen as a test of its commitment to economic reforms. The paper highlights the background, structure, benefits of GST, importance, impact on various sectors and Implementation of Goods and Service Tax in India. Finally, the paper examines and draws out a conclusion.

## INTRODUCTION

The Goods and service tax is a vast concept that simplifies the giant tax structure by supporting and enhancing the economic growth of the country. In other words GST will replace different state and local taxes with a single unified value added tax system to turn the country into world's biggest single market. The GST has two components keeping in mind the federal structure of India. The Central GST(CGST) and the State GST (SGST). The GST will make the system more efficient and increase tax compliance. Tax avoidance will become more difficult as it will be detected at some stage or the other. Also, there will be no cascading effect of tax on tax and certain items which will either attract lower rate of tax or no tax at all. It will make movement of goods seamless across India's 1.3 billion people strong markets. The GST is seen as potentially transformative for Indian economy, adding as much as 1.5 to 2 percentage points to the GDP while also improving the ease of doing business and encouraging investment in manufacturing.

## MEANING

GST stands for 'goods and service tax' and is proposed to be comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. Its main objective is to consolidate all indirect taxes into a single tax, overcoming the limitations of existing indirect tax structure and creating efficiency in tax administration.

## STRUCTURE OF PROPOSED GST

- ❖ Dual GST: Both center and state will simultaneously levy GST across the value chain. Center will levy as well as collect Central Goods and Service Tax (CGST) and state would levy and collect State Goods and Service Tax (SGST) on the transactions within a state.
- ❖ Inter State transaction and the IGST mechanism: The Integrated Goods and Service Tax (IGST) have been designed to ensure seamless flow of input tax credit from one

state to another. The center will levy and collect the IGST on all inter-state supply of goods and services.

- ❖ Central taxes subsumed:
  - a) Central excise duty
  - b) Additional excise duty
  - c) Service tax
  - d) Additional custom duty commonly known as countervailing duty(CD)
  - e) Special additional duty on custom(SAD)
  - f) Cesses and surcharges related to goods and services.
- ❖ State taxes subsumed:
  - a) Vat/ sale tax
  - b) Central sale tax
  - c) Entertainment tax
  - d) Octroi and entry tax
  - e) Purchase tax
  - f) Luxury tax
  - g) Taxes on lottery, betting and gambling
  - h) State cesses and surcharges related to goods and services.
- ❖ Destination-based consumption tax: GST will be a destination based tax. This implies that all SGST collected will ordinarily accrue to the state where the consumer of the goods or services sold resides.

### **BENEFITS OF GST**

The implication of GST assures a single taxation system in the entire country for all goods and services making tax compliance easier and more effective. The major benefits of this proposal as per the report of Task Force on Implementation of GST are: -

- ❖ To the Economy- It will simplify India's tax structure, broaden the tax base, and create a common market across states. This will lead to increased compliance and increase India's tax-to-gross domestic product ratio.
- ❖ To the Corporate- It will be beneficial for India Inc. as the average tax burden on companies will fall. Reducing production costs will make exporters more competitive.
- ❖ To the Exporters- The subsuming of major Central and State taxes in GST, complete and comprehensive setoff of input goods and service and phasing out of Central Sales Tax(CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian Goods and Services in the international market and give boost to Indian exports.
- ❖ To the Industry- Manufacturing sector in India is one of the highly-taxed sectors in the world. A complex and high taxation structure has the tendency to render products uncompetitive in the international market or consume large portions of the cost arbitrage available in manufacturing set-ups in low cost economies.

### **IMPORTANCE OF GST TAXATION SYSTEM.**

GST will overcome various issues of development via greater interactions between VAT/GST systems along with overcoming the potential risks of double taxation and unintended non-taxation systems. GST will lay a strong foundation of collecting tax at early stage of value addition. Every business/tax payer would be a part of controlling and collecting the tax and remitting the proportion of tax corresponding to its margin. GST will thereby flow through the business to tax supplies made to the final consumer.

GST Reforms will play a crucial role for trade, government and consumers in the following manner:

- i. **TRADE:** In order to harmonize trade and bring significant reforms to boost up development, GST will act as a stepping stone for the following parameters:
  - a) Multiplicity of taxes will be reduced
  - b) Tax neutrality, especially for export goods
  - c) Development of one nation or one common economic market
  - d) Simpler tax with fewer rates and exemption
  - e) Effectiveness in reducing cost for domestic industries.
- ii. **GOVERNMENT:** GST promises transparent working system for the government in the following manner:
  - a) Easy and simple taxation system- one common tax across the country
  - b) Tax base broadening
  - c) Great improvement towards collection of revenues
  - d) Resource utilization would be more effective
  - e) Investments out of savings by consumers- due to mitigation of cascading effect, which contributes to increase in availability of funds out of savings of consumer, which may be used for development.
- iii. **CONSUMER:** For a normal Indian citizen, GST promises a lot in terms of better taxation system as follows:
  - a) Reduction in the cost of goods and services due to significant elimination of cascading effect on taxes
  - b) Increase in household income and purchasing power
  - c) Increase in savings of common man
  - d) High increase towards investment potential.

### GST IMPACT ON VARIOUS SECTORS

SECTOR	IMPACT	DESCPRITION
Manufacturing and Retail Sector	Positive	<ul style="list-style-type: none"> <li>• Increased Input tax credit</li> <li>• Full credit of tax on interstate sales.</li> </ul>
	Negative	<ul style="list-style-type: none"> <li>• Job work transactions and stock transfers likely to be taxed</li> </ul>
FMCG	Positives	<ul style="list-style-type: none"> <li>• Reduced logistics and distribution cost</li> <li>• Warehouse rationalization.</li> </ul>
	Negatives	<ul style="list-style-type: none"> <li>• Food companies may not get the benefit of concessional excise rates.</li> </ul>
E-Commerce	Positives	<ul style="list-style-type: none"> <li>• Ease of doing business index and single unified market across India.</li> <li>• Free movement of goods across the country.</li> </ul>
	Negative	<ul style="list-style-type: none"> <li>• Increased administration, documentation costs.</li> </ul>
Automobiles	Positives	<ul style="list-style-type: none"> <li>• On road price of vehicles in turn boost volume of sales</li> </ul>
	Negative	<ul style="list-style-type: none"> <li>• Demand for commercial vehicles may be hit.</li> </ul>
Pharmaceuticals	Positive	<ul style="list-style-type: none"> <li>• Concessional tax structure for this sector is expected to continue.</li> </ul>

	Negative	<ul style="list-style-type: none"> <li>If GST tax rate are higher than the current rate, then medicines will be expensive.</li> </ul>
Banking and Financial Services	Positive	<ul style="list-style-type: none"> <li>Smooth and effective disbursement of loans and allied services</li> </ul>
	Negative	<ul style="list-style-type: none"> <li>Loan processing fees, debit/credit card charges, insurance premiums expected to increase.</li> </ul>

## IMPLEMENTATION OF GST IN INDIAN ECONOMY

At the stroke of mid night when calendar turned the leaf to bring in July 1, 2017, India adopted the biggest tax reform in its 70 years history after independence and moved towards one nation one tax with the Goods and service tax coming into effect. It has taken more than a decade for the idea of the GST to reach this level and brighten the prospects of a uniform indirect tax structure across the country. The 68-year-old constitution, which gives power to centre to levy taxes like excise, and empowers states to collect retail sales taxes, was amended through the 122<sup>nd</sup> Constitutional Amendment Bill. Prime Minister Mr. Narendra Modi immediately after passing of the bill said that the GST will also be the best example of co operative federalism and with this together we will take India to new heights of progress. Prime Minister Mr. Narendra Modi in his signature style, gave a new meaning to GST terming it as “Good and simple tax” because it liberates us from layers of taxation and simple because it uniformly implemented in India.

The indirect taxes in India have driven businesses to restructure and model their supply chain and systems owing to multiplicity of taxes and cost involved. With the GST set to see the light of the day, the way India does business will change forever. Earlier the total tax collection in India (direct and indirect) stood at Rs. 14.6 lakh crore, of which almost 34 percent comprised of indirect taxes. With the implementation of the GST, the entire indirect tax system in India is expected to evolve. The tax revenue mix can change as per the economic condition of the country. In the developing countries, indirect taxes comprise a higher share of total taxes, while in the developed countries their contribution is significantly lower. For example, In Australia, indirect tax contributes just 13 percent of total tax collection.

GST ensures availability of input credit across value chain, minimizes cascading effect of taxation, simplification of tax administration and compliance, harmonization of tax base, laws and administrative procedures across the country, minimizes tax rate slabs to avoid classification issues, prevention of unhealthy competition among states, increasing the tax base and raising compliance, competitiveness in foreign markets will increases.

Both the Central and State government will have to face many challenges in implementing such a historic reform for the first time in independent India like lack of adaptation, lack of trained staff, double registration can increase compliance and cost, lack of clear mechanism to control tax evasion, hard to estimate the exact impact of GST, create economic as well as political issues.

## CONCLUSION

The passage of the bill not only created excitement in India, but also brought the country at the centre of the global economy. The unity of the country despite of diversity, the bill is a big step towards unifying the country even further. GST would attract greater foreign investment to India. This reform is an improved investment environment as an opportunity rather than threat. At the same time, the government should make an attempt to protect the vast poor population of India against the likely inflation due to implementation of GST. No doubt, GST will simplify indirect tax system and will help to remove inefficiencies created by the heterogeneous tax system only if there is a clear agreement over the issues of threshold limit, revenue rates etc. Until the agreement is reached, the government should resist from implementing such regime.

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