

An Exploratory Study on “Goods and Service Tax (GST)” & its impact on Indian economy.

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Abstract

GST is an Indirect Tax which has replaced many Indirect Taxes in India. The Goods and Service Tax Act was passed in the Parliament on 29th March 2017. The Act came into effect on 1st July 2017; Goods & Services Tax Law in India is a **comprehensive**, multi-stage, destination-based tax that is levied on every value addition. In simple words, Goods and Service Tax (GST) is an indirect tax levied on the supply of goods and services. GST is **one indirect tax** for the **entire country**. The GST will have a ‘dual’ structure, which means it will have two components- the Central GST and the State GST. GST is expected to simplify tax administration, ensure ‘Ease of Doing Business’ and promote ‘Make in India.’ 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.

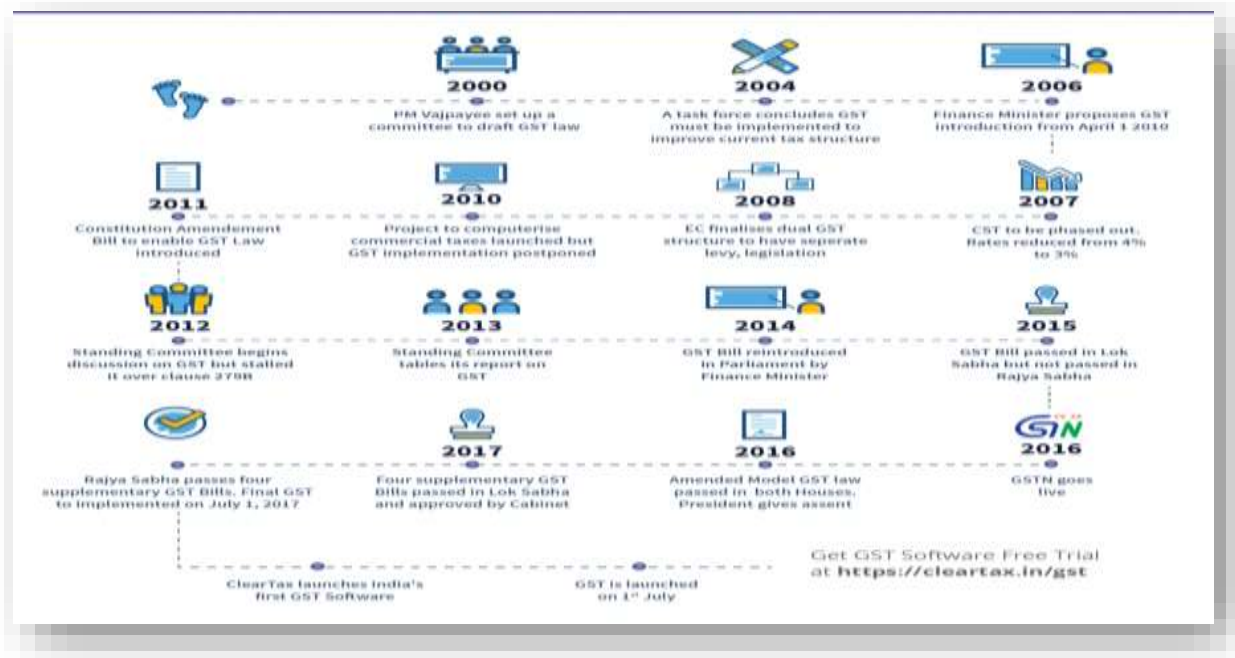
Keywords: Goods and Service Tax; Indian economy; Indirect tax

Introduction

GST is an indirect tax which will subsume almost all the indirect taxes of central government and states governments into a unified tax. As the name suggests it will be levied on both goods and services at all the stages of value addition. It has dual model including central goods and service tax (CGST) and states goods and service tax (SGST). CGST will subsume central indirect taxes like central excise duty, central sales tax, service tax, special additional duty on custom; 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 GST regime, the tax will be levied at every point of sale. In case of intra-state sales, Central GST and State GST will be charged. Inter-state sales will be chargeable to Integrated GST.

Journey of GST in India

The GST journey began in the year 2000 when a committee was set up to draft law. It took 17 years from then for the Law to evolve. In 2017 the GST Bill was passed in the Lok Sabha and Rajya Sabha. On 1st July 2017 the GST Law came into force.



Source: <https://Cleartax.in/gst>

Literature Review

Agogo Mawuli (May 2014) studied “Goods and Service Tax-An Appraisal” and found that GST is not good for low-income countries and does not provide broad based growth to poor countries. If still these countries want to implement GST then the rate of GST should be less than 10% for growth.

Dr. R. Vasanthgopal (2011) studied GST in India: A Big Leap in the Indirect Taxation System” and concluded that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy. Success of GST will lead to its acceptance by more than 130 countries in world and a new preferred form of indirect tax system in Asia also.

What are the components of GST?

There are 3 taxes applicable under this system: CGST, SGST, IGST

- **CGST:** Collected by the Central Government on an intra-state sale (Eg: Within Maharashtra)
- **SGST:** Collected by the State Government on an intra-state sale (Eg: Within Maharashtra)
- **IGST:** Collected by the Central Government for inter-state sale (Eg: Maharashtra to Tamil Nadu)

In most cases, the tax structure under the new regime will be as follows:

Transaction	New Regime	Old Regime	

Sale within the State	CGST + SGST	VAT + Central Excise/Service tax	Revenue will be shared equally between the Centre and the State
Sale to another State	IGST	Central Sales Tax + Excise/Service Tax	There will only be one type of tax (central) in case of inter-state sales. The Center will then share the IGST revenue based on the destination of goods.

GST RATES IN INDIA



5%	Cane sugar, Beet sugar, Bio gas plant, Wind mills, Kerosene lantern, Coal, Coffee (not instant), Tea, Groundnut, Fish, Transport services, Restaurants (turnover of Rs 50 lakh), Ola and Uber	EXEMPT ■ Blind ■ Glass bangles ■ Handlooms ■ Hearing aids ■ Handmade musical instruments ■ Healthcare ■ Education ■ Metro travel ■ Local train ■ Religious travel (including Hajj)
12%	Mobile phones, Fountain pen ink, Tooth powder, incense sticks, Feeding bottles, Braille paper, Colouring books, Umbrellas, Pencil sharpeners, Tractors, Bicycles, Contact lenses, Spectacle lenses, Utensils, Sports goods, Fishing rods, Combs, Pencils, Hand paintings, Live husbandry, Fruit juices, Meat, Non-AC restaurants	
18%	Helmets, LPG stoves, Nuclear reactors, Clocks, Military weapons, Electronic toys, Plastic buttons, Butter, Cheese, Condensed milk, AC restaurants and those with liquor licence, Telecom, financial services	
28%	Aerated drinks, Perfumes, After-shave lotions, Deodorants, Fur skin, Razor blades, Cars, Revolvers, Pistols, Betting and Cinema halls	

No tax (0 per cent GST)

Unpacked food grains, fresh vegetables and fruits, unbranded Atta, Maida, besan, gur, milk, eggs, curd, lassi, unpacked paneer, unbranded natural honey, salt, fresh meat, fish, chicken, butter milk, cereal grains hulled

Objectives of the Study

- To understand the GST and its impact on Indian Economy.
- To know the benefits of Goods and Service Tax to business, consumer and industry.

Methodology

The data used in the research was collected through external resources like websites, Articles on the internet, previous researches to analyze and used analytical study.

Impact of GST on most used services

0 per cent

Education services, health services, hotels and lodges with tariff below Rs 1,000, grandfathering service. Rough precious and semi-precious stones (0.25 per cent)

5 per cent

Transport services (Railways, air transport)

12 per cent

State-run lotteries, non-AC restaurants, business class air ticket, fertilizers, work contracts

18 per cent

AC hotels that serve liquor, telecom services, IT services, financial services, room tariffs between Rs 2,500 and Rs 7,500, restaurants inside five-star hotels, movie tickets below Rs 100

28 per cent

Private-run lotteries authorized by the states, hotels with room tariffs above Rs 7,500, 5-star hotels, race club betting, movie tickets above Rs 100

IMPACT OF GST ON HOUSEHOLD ITEMS

0 per cent

Prasad, phool bhari jhadoo

5 per cent: Agarbatti, domestic LPG, bio gas, coir mats, matting and floor covering

12 per cent: Umbrella, sewing machine, spoons, forks, ladles, skimmers, cake servers, fish knives, tongs

28 per cent: Paint, wallpaper, ceramic tiles, water heater, dishwasher, washing machine, vacuum cleaner

Impact of GST on Health/aids

5 percent: Medicines, stent, insulin, Braille paper, Braille typewriters, Braille watches, hearing aids and other appliances to compensate for a defect or disability

12 per cent: Ayurvedic medicines, all diagnostic kits and reagents, glasses for corrective spectacles and flint buttons

HOW WILL GST AFFECT PRICES OF ELECTRONIC DEVICES

12 per cent

Mobile

18 per cent

Computers, printers, printed circuits, camera, speakers and monitors, Electrical Transformer, CCTV, Optical Fiber

IMPACT OF GST ON STATIONARY

0 per cent

Children's drawing and colouring books, printed books, newspapers, stamps, judicial papers

5 per cent

Postage or revenue stamps, stamp-post marks, first-day covers

12 per cent

Exercise books and note books

OTHERS**0 per cent**

Jute, bones and horn cores, bone grist, bone meal, hoof meal, horn meal, Human hair

5 per cent

PDS Kerosene, coal, lifeboats, ice and snow, kites

12 per cent

Playing cards, chess board, carom board, ludo and other board games

18 per cent

Bidi Patta, mineral water, tissues, envelopes, steel products, Aluminum foil, weighing Machinery (non-electrical or electronic), bamboo furniture, swimming pools and padding pools

28 per cent

Automobiles, motorcycles, aircraft for personal use, bidis, pan masala, aerated water, weighing machine, ATM, vending machines

Gold and rough diamonds do not fall under the current rate slab and will be taxed at 3% and 0.25% respectively.

BENEFITS OF GST TO THE INDIAN ECONOMY**For business and industry**

- **Easy compliance:** comprehensive IT system would be the foundation of the GST regime in India. Therefore, all tax payer services such as registrations, returns, payments, etc. would be available to the taxpayers online, which would make compliance easy and transparent.
- **Uniformity of tax rates and structures:** GST will ensure that indirect tax rates and structures are common across the country, thereby increasing certainty and ease of doing business. In other words, GST would make doing business in the country tax neutral, irrespective of the choice of place of doing business
- **Removal of cascading:** A system of seamless tax-credits throughout the value-chain, and across boundaries of States, would ensure that there is minimal cascading of taxes. This would reduce hidden costs of doing business.
- **Improved competitiveness:** Reduction in transaction costs of doing business would eventually lead to an improved competitiveness for the trade and industry.

For Central and State Governments

- **Simple and easy to administer:** Multiple indirect taxes at the Central and State levels are being replaced by GST. Backed with a robust end-to-end IT system, GST would be simpler and easier to administer than all other indirect taxes of the Centre and State levied so far.

- **Better controls on leakage:** GST will result in better tax compliance due to a robust IT infrastructure. Due to the seamless transfer of input tax credit from one stage to another in the chain of value addition, there is an in-built mechanism in the design of GST that would incentivize tax compliance by traders.
- **Higher revenue efficiency:** GST is expected to decrease the cost of collection of tax revenues of the Government, and will therefore, lead to higher revenue efficiency.

For the consumer

- **Single and transparent tax proportionate to the value of goods and services:** Due to multiple indirect taxes being levied by the Centre and State, with incomplete or no input tax credits available at progressive stages of value addition, the cost of most goods and services in the country today are laden with many hidden taxes.
- **Relief in overall tax burden:** Because of efficiency gains and prevention of leakages, the overall tax burden on most commodities will come down, which will benefit consumer.
- **Removal of manufacturing costs:** Removal of manufacturing costs due to lower burden of taxes on the manufacturing sector. Hence prices of consumer goods will be likely to come down.
- **Lower the burden on common men:** Public will have to shed less money to buy the same products that were costly earlier.

How will GST impact on Indian Economy?

- **Remove the custom duties:** GST will remove the custom duties applicable on exports. The nation's competitiveness in foreign markets will increase on account of lower costs of transaction.
- **Eliminate the different tax barriers:** Different tax barriers, such as check posts and toll plazas, lead to wastage of unpreserved items being transported. This penalty transforms into major costs due to higher needs of buffer stock and warehousing costs. A single taxation system will eliminate this roadblock.
- **Reshapes Indirect tax structure:** It will reshape the indirect tax structure by a subsuming majority of indirect taxes like excise, sales and services levies.
- **GDP growth:** GST is a key for India's gross domestic product in times of challenging global environment. GST could boost India's GDP growth by 0.9-1.7 percent.
- **Foreign Exchange:** The passing of GST will be welcome news for the Indian rupee (INR). GST will lead to higher foreign direct investment inflows and a narrow current account deficit- factors that should help the rupee increase.
- **Impact on Make-in-India:** The impending GST promises a progressive tax system which avoids tax cascades and helps establish India as a true common market.

Conclusion

It can be concluded from the above discussion that GST will provide relief to producers and consumers by providing wide and comprehensive coverage of tax credit set-off. More than 150 countries have implemented GST. Efficient formulation of GST will lead to resource and revenue gain for both Centre and States. It can be further concluded that GST have a positive impact on Indian sectors and industry.

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