

# GST AND IT'S IMPACT 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 enhances the economic growth of a country. GST is one of the biggest indirect tax reforms in the country. GST is expected to bring together state economies and improve overall economic growth of the nation. GST is a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. It will replace all indirect taxes levied on goods and services by states and Central Govt. More than 160 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 However, there is a huge hue and cry against its implementation. It would be interesting to understand how this proposed GST regime may affect the growth and development of the country. This research paper highlights the positive and negative impact of the GST in the Indian Tax System.

## Keywords

Indian economy- GST in India, Impact of GST, feature, prices.

## INTRODUCTION

Goods & Services Tax is a comprehensive, multi-stage, destination-based tax that will be levied on every value addition. Goods and Service Tax (GST) implemented in India to bring in the 'one nation one tax' system, but its effect on various industries will be slightly different. The first level of differentiation will come in depending on whether the industry deals with manufacturing, distributing and retailing or is providing a service. It is a single indirect tax for the whole nation, one which will make India a unified common market. It is a single tax on the supply of goods and services, right from the manufacturer to the consumer. The GST Bill was introduced in Lok Saba in 2009 by UPA government but they failed to get it passed. The NDA government introduced a 'slightly modified' version of the GST Bill in the Parliament and both the Houses passed it. Through GST, the government aims to create a single comprehensive tax structure that will subsume all the other smaller indirect taxes on consumption like service tax, etc.

## OBJECTIVE OF STUDY

The study has following objectives:

- To cognize the concept of GST
- To study the features of GST
- To study the impact of GST on Indian economy
- To study the benefits of GST

## What is GST?

**GST** or Goods and Services Tax as the name implies, it is an indirect tax applied both on goods and services at a uniform rate. In the previous system, tax was levied at each stage separately by the Union government and the States at varying rates, on the full value of the goods. But under the GST system, tax will be levied only on the value added at each stage. It is a single tax (collected at multiple points) with a full set-off for taxes paid earlier in the value chain. The GST Bill, 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. Thus, the final consumer will bear only the GST charged by the last dealer in the supply chain with set-off benefits at all the previous stage. GST is a destination based tax where the tax is collected by the State where goods are consumed.

## Features of GST

- 1 A single unified indirect tax system.
- 2 Remove cascading effect of taxes
- 3 reductions in manufacturing cost
- 4 Unify India as a one marketplace
- 5 A consumption based tax
- 6 Dual system of tax:
  - A SGST-collected by state
  - B CGST-collected by centre
  - C IGST-collected by centre

7Replaces other indirect taxes such as VAT, Central sales tax, service tax, purchase tax, excise duty.

### **GST Benefits and Impact on Indian Economy**

Amidst economic crisis across the globe, India has posed a beacon of hope with ambitious growth targets, supported by a bunch of strategic undertakings such as the Make in India and Digital India campaigns. The Goods and Services Tax (GST) is another such undertaking that is expected to provide the much needed stimulant for economic growth in India by transforming the existing base of indirect taxation towards the free flow of goods and services. GST is also expected to eliminate the cascading effect of taxes. India is projected to play an important role in the world economy in the years to come. The expectation of GST being introduced is high not only within the country, but also within neighboring countries and developed economies of the world.

#### **Benefits of GST to the Indian Economy**

- Removal of bundled indirect taxes such as VAT, CST, Service tax, CAD, SAD, and Excise.
- Less tax compliance and a simplified tax policy compared to current tax structure.
- Removal of cascading effect of taxes i.e. removes tax on tax.
- Reduction 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 the common man i.e. public will have to shed less money to buy the same products that were costly earlier.
- Increased demand and consumption of goods.
- Increased demand will lead to increase supply. Hence, this will ultimately lead to rise in the production of goods.
- Control of black money circulation as the system normally followed by traders and shopkeepers will be put to a mandatory check.
- Boost to the Indian economy in the long run.

These are possible only if the actual benefit of GST is passed on to the final consumer. There are other factors, such as the seller's profit margin, that determines the final price of goods. GST alone does not determine the final price of goods.

#### **How will GST impact the Indian Economy?**

- Reduces tax burden on producers and fosters growth through more production. The current taxation structure, pumped with myriad tax clauses, prevents manufacturers from producing to their optimum capacity and retards growth. GST will take care of this problem by providing tax credit to the manufacturers.
- 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.
- There will be more transparency in the system as the customers will know exactly how much taxes they are being charged and on what base.
- GST will add to the government revenues by extending the tax base.
- GST will provide credit for the taxes paid by producers in the goods or services chain. This is expected to encourage producers to buy raw material from different registered dealers and is hoped to bring in more vendors and suppliers under the purview of taxation.
- 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.

##### **1. Effect on Consumer Goods and Services**

When it comes to consumer goods and services, the main concerns are food and the services sector. For these, the GST brings good and not so good news. The good news is that food products are charged 0%. The not so good news is that services in general are seeing an increase of 18% from 15%. the other hand, the implementation of GST increases the tax on footwear and garments priced at INR 500 from the previous 14.41% to 18% but those priced lower than INR 500 are taxed lower at 5%. For ready-made garments, the rates are lowered to 12% from 18.16%. Mobile services rates are slightly increased, though, because of the new 18% rate, from 15% before. When it comes to direct-to-home and cable services, the new fixed rate of 18% can be considered a general reduction as compared to the previous 10%-30% range and the additional service tax of 15%.

##### **2. Effect on Transportation**

Under GST, cab and taxi rides are taxed lower, from 6% to 5%. For those who who travel by air, GST is favorable 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.

##### **3. Effect on the Entertainment and Hospitality Industries**

Amusement park rates increase with GST taking effect as the previous tax rate of 15% has been raised to 28%. Movie tickets are similarly increasing as they are categorized under the 28% rate. For hotels, no GST are to be charged for room rates priced lower than INR 1,000. However, room rates higher than INR 5,000 get a 28% tax rate. For 5-star hotel restaurants, the rate is 18% for those that serve alcohol and 12% for those that don't. Smaller hotels and restaurants are only charged 5% if their annual turnover does not exceed INR 50 Lakh.

#### 4. Major Property or Asset Acquisitions

GST reduces under-construction property costs as the tax rate is set at 18% but this can still be lowered to an effective rate of 12% as the property builder can avail of input tax credits. On the other hand, buying a car (most models) in India can become slightly less expensive as the tax rate is fixed at 28% with an additional cess of either 1%, 3%, or 15% depending on which segment the car being purchased belongs. In contrast, investing in jewelry can become slightly more expensive because of the 3% (from 2% in most states of India) rate on gold and the 5% charged on the crafting of the jewelry.

#### 5. Effects on Financial Products and Services

Indians who buy insurance policies, unfortunately, are seeing increases in their premiums with the implementation of GST as the tax rates have been raised for general, health, and life insurance. On the other hand, the tax rate change on mutual fund returns under GST is mostly minimal. This is because the GST is charged on the mutual fund's Total Expense Ratio (TER). The rate is only 3% so the effect is going to be marginal.

Since they belong to the service industry, banking services and the services provided by other financial service companies are subject to the 18% rate, which is higher than the previous 15%. Debit cards, fund transfers, ATM withdrawals, cheque book or draft issuance, bills collections, charges on cash handling, and more are affected. Even money sending services are affected. Companies that provide money transfer services, nevertheless, are expected to try to be competitive so it's worth observing how they change their rates.

#### 6. Effect on Startups

The GST regime is believed to be good for the Indian startup sector as it carries with it tax credit on purchases, a simple compliance model, increased limits for registration, and the ability to promote the free flow of goods and services. It takes away the complication and confusion of the previous VAT laws, especially for those in the ecommerce industry. GST may stir inflation but there's the optimistic view that the undesirable effects will not last long, and will eventually be offset by the positive impact of an improving economy.

#### 7. Effect on Inflation

Given the sampling of effects mentioned earlier, it can be said that GST is mostly viewed as an inflationary measure. However, the Indian government believes otherwise. Hasmukh Adhia, Revenue Secretary, says that consumer price inflation with GST implemented will go down by 2% by the end of 2017. Naturally, not many are convinced by this claim. The fact that the tax rate on services has been raised to 18% from around 15% is already expected to raise inflation above levels experienced before the institution of GST.

MS Mani, a senior director of Deloitte, in an interview with Forbes India, said that the inflationary effect of GST will be temporary or short-term. This is because, according to Mani, the rates have been kept close to the existing excise duty and state tax rates. For Mani, the exemption (0% rate) of consumer products for the masses and the higher (28%) taxes on those consumed by the rich will keep inflation in check. This is expected to improve the flow of input credit with GST in place.

#### 8. Effect on Economic Activity

It's difficult and too early to evaluate whether or not GST has positively affected economic activity. The Indian government, however, believes that they are on the right track with GST. At least one Indian business executive shares this optimistic view of GST. In a report by The Indian Express, ICICI Bank CEO Chanda Kochhar was quoted to have said that GST is a transformational structural reform which has multiple benefits. These benefits include the establishment of a national market, improved ease of doing business in India, better productivity and efficiency, and improved compliance among taxpayers.

The GST reform package is ambitious and is undoubtedly a major move for the \$2 Trillion Indian economy. Its main selling point for the Indian economy is its supposed advantage of making it easier for businesses to do business. It provides a simplified taxation scheme for goods and services, something businessmen will appreciate. It's far from perfect, though, and it's definitely worth paying attention to non-political criticisms, especially in relation to how it affects poorer Indians.

GST's impact on the Indian economy can go either way: good or not so good. Fortunately, there aren't that many analysts who express damningly averse views on the matter. With honest and efficient administration, GST may be a good move for the world's third largest economy.

#### GST: The Short-Term Impact

From the viewpoint of the consumer, they would now have pay more tax for most of the goods and services they consume. The majority of everyday consumables now draw the same or a slightly higher rate of tax. Furthermore, the GST implementation has a cost of compliance attached to it. It seems that this cost of compliance will be prohibitive and high for the small scale manufacturers and traders, who have also protested against the same. They may end up pricing their goods at higher rates.

### What the Future Looks Like

Talking about the long-term benefits, it is expected that GST would not just mean a lower rate of taxes, but also minimum tax slabs. Countries where the Goods and Service Tax has helped in reforming the economy, apply only 2 or 3 rates – one being the mean rate, a lower rate for essential commodities, and a higher tax rate for the luxurious commodities. Currently, in India, we have 5 slabs, with as many as 3 rates – an integrated rate, a central rate, and a state rate. In addition to these, cess is also levied. The fear of losing out on revenue has kept the government from gambling on fewer or lower rates. This is very unlikely to see a shift anytime soon; though the government has said that rates may be revisited once the RNR (revenue neutral rate) is reached.

The impact of GST on macroeconomic indicators is likely to be very positive in the medium-term. Inflation would be reduced as the cascading (tax on tax) effect of taxes would be eliminated. The revenue from the taxes for the government is very likely to increase with an extended tax net, and the fiscal deficit is expected to remain under the checks. Moreover, exports would grow, while FDI (Foreign Direct Investment) would also increase. The industry leaders believe that the country would climb several ladders in the ease of doing business with the implementation of the most important tax reform ever in the history of the country.

### Summing Up

GST- Goods and Services tax, is indirect tax introduced, replacing multiple taxes.

A well planned and implemented tax policy can bring about qualitative change in tax system of a nation. GST- India is expected to bring about this qualitative changes leading to business reforms in India. GST, being a simplified tax policy, removes cascading effect of taxes leading to cheaper cost of various products (eg. FMCG), more job opportunities, more transparency, reduction of tax burden on end consumers, improvement in Indian economy in long run, etc. On the contrary it may have few drawbacks such as initial inflation leading to higher prices of products, rescheduling budgets, higher compliance cost, etc. At a macro level, GST will greatly influence Indian economy, leading to increased FDI, increased in overall government revenue, seamless flow of credits, transparency in tax system, increased exports, etc. All in all, GST is expected to be a boon for nation like India.

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