

# IMPACT OF GOODS AND SERVICE TAX ON INDIAN ECONOMY: AFTER ONE YEAR

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## Abstract:

GST implementation is a hotly debated legislative mile stone in Indian economic system like the economic policy of 1991 by Narasimha Rao. With mixed responds of society, especially politicians and economists, about the GST implemented by Government of India from 1<sup>st</sup> April 2017. The rumors of opposite political parties created a fog among the people about GST. Like any implimentation of a law, firstly GST was included some draw backs and so on it brings some challenges and issues also. In this paper review about the GST bill in India briefly, and effect or impact on GST on Indian economy with analyzing new informations.

Key words: GST, SGST, CGST, IGST, Collection, Return.

## INTRODUCTION

The word 'Tax' was appeared in the English language only in the 13<sup>th</sup> and 14<sup>th</sup> century in the world. It derived from the Latin word 'taxure' which means to "assess". Before that English used the related word 'task', derived from old French, for a while, task requiring labor, the second money, tax. The first known system of taxation was in Ancient Egypt around 3000-2800 BC in the first dynasty of Egypt of the old kingdom of Egypt<sup>1</sup>. GST system was firstly introduced in France in the year 1954. Taxation in India rooted from the period of Manusmriti and Arthasathra. Present Indian Tax system is based on this ancient tax system which was based on the theory of maximum social welfare. Tax structure in India is divided in to direct and indirect taxes. While direct taxes are levied on taxable income earned by individuals and corporate entities, the burden to deposit taxes is on assesses themselves. On the other hand, indirect taxes are levied on the sale and provision of goods and services respectively and the burden to collect and deposit taxes is on the sellers instead of the assesses directly. Taxes in India are levied by the **Central government** and the **State Government**. Some minor taxes are also levied by the local authorities such as the Municipality and the Local Governments. In India the idea to introduce the GST was mooted in the year 2000 and Government appointed various committees and task force to study the impact of GST. Over the last few years, the Central and many State Governments have undertaken various policy reforms and process simplification to words great predictability, fairness and automation. This has consequently lead to India's meteoric rise to the top 100 in the world Bank's Ease of Doing Businesses (EoDB) ranking in 2017. The Goods and Sales Tax (GST) reform is one such reform to ease the complex multiple indirect tax regime in India. The year 2017 will forever be etched in Indian history as the year that saw the implementation of the biggest and most important economic reform since independence – **The Goods and Service Act (GST)**. The reform that took more than a decade of intense debate and studies was finally implemented and it effected from 1 July 2017, subsuming almost all indirect tax levied by central and state Governments. GST, which was publicized as 'one nation, single tax regime in line with the tax frame work applicable in several major economies across the world. This single tax system has helped streamline various indirect taxes that levied by central and state Governments, and brought it more energy in to economy.

## LITERATURE REVIEW

Evan Van Leemput and Ellen A. Wierneck(2017), in his study "The effect of GST on Indian Growth" try to draw about the effect of GST on Indian Economy, India's current tax system and describes the changes brings by GST, and analyze the impact of the new GST on Indian economy.

Garg and Guptha (2017) focused on the impact of GST (Goods and Sales Tax) with a brief description of the historical scenario and its tax structure and discussed the possible challenges, threats and opportunities that GST brings to strengthen our free market economy.

Shefali dani (2016) describes about evolution and impact of GST in Indian economic system and some loop holes in GST system. He indicates that government should study about the GST system in other 150 more countries implemented, in the case of excepting some crucial sectors like petroleum, telecom etc.

Sanjay Roy(2016) in his paper 'Transition to Goods and Service Tax (GST) In India' throws light on deferent aspects of the proposed Goods and Service Tax (GST) in India, its principles and objectives; its modus operandi, and its implications for Governments, industry and consumers.

## OBJECTIVES

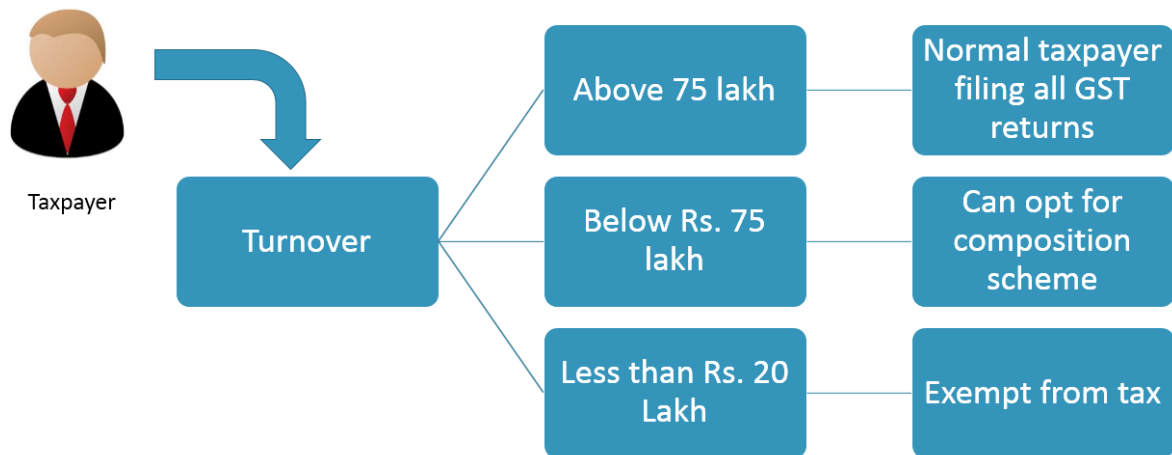
1. To briefly explain about GST, Eligibility to pay GST, and Types of GST.
2. To analyze collection and Return of GST after one year of GST Implementation.

## GST (Goods and Sales Tax)

**GST** is one indirect law for a whole country and it is an Indirect Tax which has replaced many Indirect Taxes in India. The **Goods and Services Tax Act** was passed in the Parliament on 29<sup>th</sup> March 2017, and it came in to effect on 1<sup>st</sup> July 2017. Goods and services Tax Law in India is a comprehensive, multistage, destination based tax that is levied on every value addition. It subsumes various taxes in India like sales tax, luxury tax etc. in a whole. In GST system, Goods and services are divided into five tax slabs for collection of tax - 0%, 5%, 12%, 18%, and 28% and Petroleum products, alcoholic drinks, electricity, are not taxed under GST and instead are taxed separately by the individual state governments, as per the previous tax regime. There is a special rate of 0.25% on rough precious and semi-precious stones and 3% on gold. In addition a cess of 22% or other rates on top of 28% GST applies on few items like aerated drinks, luxury cars and tobacco products. Pre-GST, the statutory tax rate for most goods was about 26.5%, post-GST, most goods are expected to be in the 18% tax range.

## Eligibility of pay GST

The diagram would help us to get the concept of working of GST in a better way.



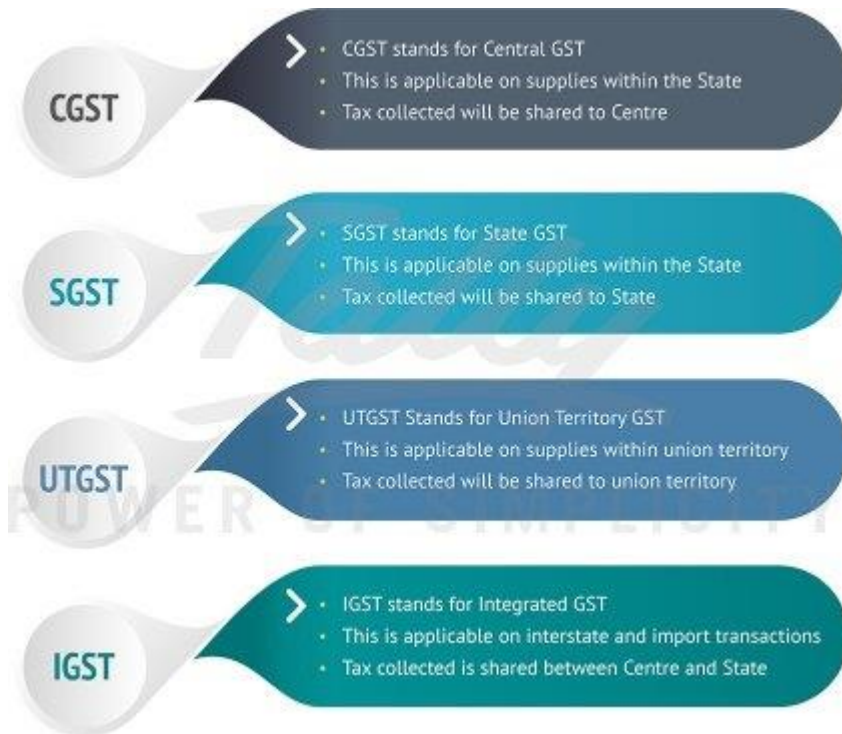
( <https://www.legalraasta.com/gst/wp-content/uploads/2017/06/gst-eligibility.png> source png)

## Types of GST

When GST was implemented in the year 2017 in India, it was the unification of all indirect taxes in to one .But due to several issues in its implementation, we ended up with not just one but four types of taxes under GST and multiple tax slabs ,namely:

- CGST-Central Goods and Services Tax
- SGST-State Goods Services Tax
- UTGST-Union Territory Goods and Services Tax
- IGST-Integrated Goods and Services Tax

It shows below



([http://www.quora.com/what - are different -types – and-forms –of –GST](http://www.quora.com/what-are-different-types-and-forms-of-GST)) Under the GST Act, the tax is levied at every point of sale. In the case of intra -state sales, Central GST and State GST are charged and Inter -state sales are chargeable to Integrated GST.

**COLLECTION OF GST**

The collection of GST of 2017 and 2018 are given below:

Month	2018-19 Collections	Change	2017-18 Collections	Change
April	₹103,459 crore (US\$14 billion)	▲	NA	
May	₹94,016 crore (US\$13 billion)	▼	NA	
June	₹95,610 crore (US\$13 billion)	▲	NA	
July	₹96,483 crore (US\$13 billion)	▲	NA	
August	₹93,960 crore (US\$13 billion)	▼	₹93,590 crore (US\$13 billion)	
September	₹94,442 crore (US\$13 billion)	▲	₹93,029 crore (US\$13 billion)	▼
October	₹100,710 crore (US\$14 billion) <sup>1</sup>	▲	₹95,132 crore (US\$13 billion)	▲
November	₹97,637 crore (US\$14 billion)	▼	₹85,931 crore (US\$12 billion)	▼
December	₹94,726 crore (US\$13 billion)	▼	₹83,716 crore (US\$12 billion)	▼
January	₹102,503 crore (US\$14 billion)	▲	₹88,929 crore (US\$12 billion)	▲
February	₹97,247 crore (US\$14 billion)	▼	₹88,407 crore (US\$12 billion)	▼
March	₹106,577 crore (US\$15 billion)	▲	₹89,264 crore (US\$12 billion)	▲

(www.gst.gov.in)

After launching GST on 2017 July 1<sup>st</sup>, the collection of just succeeding month august was RS 93590 crore. But in the next month September, collection was decreased by RS 561 crore. Just like this, GST collection is seems to increasing and decreasing trend in a whole years 2017 to 2019. In 2018 march, the collection of GST is increased, much more than any years Rs 106577 crore. Comparing the first month of GST launching, it increased by Rs 12987 Crore. It indicates that the tax is entering the growth phase as is evidenced by the stabilization of GST collections over the past years.

*RETURNS OF GST*

Around 38 lakh new taxpayers have registered under GST regime and the total count has crossed one crore if we include the 64 lakh earlier tax payers. According to the Economic Department's Statistics, Total number of taxpayers were above 1.14 crore in October 2018.

	2018-19		2017-18		
Month	No. of returns	Change	No.	Change	
March					
February					
January	73.30 lakh				
December	72.44 lakh		67 lakh		▼
November	69.60 lakh		64 lakh		▼
October	67.45 lakh		65 lakh		▼
September			69 lakh		▲
August			67 lakh <sup>[39]</sup>		▲
July			63 lakh <sup>[39]</sup>		
June					
May					
April					

(www.gst.gov.in)

## *Positive impact of GST seen in the first year*

1. **Improved tax compliances:** After one year of GST launch, 48 lakh enterprises have been added as compared with 66 lakh enterprises registered in all these years since Independence.
2. **Increase in tax revenues:** The initial concerns were of course born out of the roller-coaster nature of GST collections, and But with RS 1 lakh crore in April 2018, those concerns have been finally put to rest. Most of the states which implemented GST, have participated in this revenue gain and have almost retained their pre GST revenue shares in the total tax revenue.
3. **Not too rigid:** In November last year, the government slashed tax rates from 28% to 18% on as many as 177 items of daily consumption items .Thus trimming the list of items in 28% bracket from 228 to Just 50 items. GST is evolving and will expand to include excluded items , like petroleum products, telecom industry and real estate , inclusion of which will clean up the land market, taking down one of the biggest generators of black money.
4. **Improvement in ease of doing Business:** GST has subsumed around 17 different taxes to just a state GST and a State and a Central GST. This effect of the GST reform is a big deal for all businesses and consumers, especially small businesses for whom the cost and effort of compliance with complex and it often corruption ridden inter State trade was intimidating and discouraging.
5. **Inflation rate didn't rise as was expected :**It was widely feared that implementation of GST would cause rise in inflation rate, as has happened with many other countries which implemented a single tax regime and that didn't happen in India. Actually, the recent increase in the consumer inflation has been due to high fuel and food prices , unrelated to GST

## *Negative Impact of GST so far:*

1. **Technological Setbacks:** The biggest challenge for a smooth compliance process of GST is Information Technology glitches which took more than the anticipated time to get resolved. The filing system that was used in the initial stage was quickly abandoned as businesses struggled with compliances.
2. **Complicated registration system:** Multiple registration requirements have made the whole process of GST cumbersome for industry. In many cases, registration is mandatory in all states for GST and Due to multiple assessments and audits could make their life more difficult going forward.
3. **New cesses come up unexpectedly:** The whole point of GST was to scrap multiplicity cesses and taxes, but compensation cess has been introduced for luxury and sin goods and later expanded to include automobiles also. A new cess on sugar too is being examined.
4. **Refunds problem for exporters:** The refund system of GST for exporters, in addition to procedures governing them, have disturbed the sector, particularly smaller businesses that an increase saw in working capital requirements. Even though many efforts have been made to address this issue, it may require some more intervene by GST council.

## *CONCLUSION*

The first year's journey was one of ups and downs--registrations and revenues went up and multiple compliances for taxpayers went down, with ease in movement of goods eliminating all barriers. However, in spite of significant success in its first year of implementation, there still seems to be a long way to go for both the government as well as taxpayers in attaining a simplified GST policy. The government should bring down the slabs from four to three as collections have been above the mark and accordingly rate moderation should be warranted, encouraging certain sectors boosting the economic system. Proper and a deep analyze of GST's impact on the economy can only be done once the policy has fully taken shape. Undoubtedly, GST has received positive as well as negative responses. However, we hope further steps will bring out the true sense of One Nation One Tax.

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