

A STUDY ON GOODS AND SERVICE TAX AND IT'S IMPACT ON INDIAN ECONOMY

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ABSTRACT

This study is intended to access the Impact of GST in India economy. This is the biggest tax reform that took place in India which was founded on the notion of “one nation, one market, one tax”. The main objective of GST scheme is reforming the indirect tax and as well dismantling all the inter-state barriers with respect to trade. The study is going to examine how the reform process of the indirect tax started in India which gave birth to the current GST scheme we have today. The Objectives and benefits of the Goods and service tax will be stated in the study and a detailed description of how GST works and operate in India will be discussed. GST is known to be a type of Value added Tax which is imposed on various goods and services, with that, several countries impose it on goods and services in various forms, and the taxes charged on the goods and services differ amongst countries, in that case the study will discuss the main characteristics of GST in India. The study will also examine the advantages and disadvantages of implementing GST and also the impact of GST on the final consumer.

KEY WORDS: *Indirect tax, GST, final consumer, India*

INTRODUCTION

GST stands for Goods and Services Tax levied by the Government in a move to replace all of the indirect taxes. In India, the idea of GST was contemplated in 2004 by the Task Force on implementation of the Fiscal Responsibility and Budget Management Act, 2003, named Kelkar Committee. The Kelkar Committee was convinced that a dual GST system shall be able to tax almost all the goods and services and the Indian economy shall be able to have wider market of tax base, improve revenue collection through levying and collection of indirect tax and more pragmatic approach of efficient resource allocation. Under the Goods and Service Tax mechanism, every person is be liable to pay tax on output and shall be entitled to enjoy credit on input tax paid and tax shall be only on the amount of value added . The principal aim of GST is to eliminate cascading effect i.e. tax on tax and it will lead to bringing about cost competitiveness of the products and services both at the national and international market. GST System is built on integration of different taxes and is likely to give full credit for input taxes. GST is a comprehensive model of levying and collection of indirect tax in India and it has replace taxes levied both by the Central and State Governments. GST be levied and collected at each stage of sale or purchase of goods or services based on input tax credit method. Under this system, GST-registered commercial houses shall be entitled to claim credit of the tax they paid on purchase of goods and services as a part of their day to day businesses.

The historic GST or goods and services tax has become a reality. The new tax system was launched at a function in Central Hall of Parliament on 1st July ,2017 (Friday midnight). GST, which embodies the principle of "one nation, one tax, one market" is aimed at unifying the country's \$2 trillion economy and 1.3 billion people into a common market. Under GST, goods and services fall under five tax categories: 0 per cent, 5 per cent, 12 per cent, 18 per cent and 28 per cent. For corporates, the elimination of multiple taxes will improve the ease of doing business. And for consumers, the biggest advantage would be in terms of a reduction in the overall tax burden on goods. "Inflation will come down, tax avoidance will be difficult, India's GDP will be benefitted and extra resources will be used for welfare of poor and weaker section," Finance Minister Arun Jaitley said at GST launch event in Parliament. The Lok Sabha has finally Passed the Goods and Services Tax Bill and it is expected to have a significant impact on every industry and every consumer. Apart from filling the loopholes of the current system, it is also aimed at boosting the Indian economy. This will be done by simplifying and unifying the indirect taxes for all states throughout India.

II. Research Methodology

The research paper is based on empirical study. It is a type of descriptive research paper. **Objectives of Study:**

1. The first objective of the paper is to highlight the impact of GST on Indian Economy.
2. The second objective is to explain advantages and disadvantages of GST in India.

Importance of the Study:

1. The study will highlight the effect of GST on Indian Economy.
2. It will prove to be of great help to a common man to understand the concept the GST.
3. It will remove the morbid fear of GST from among the business community members.

Data Collection: This paper is a descriptive paper based on secondary data collected from different books , news-paper articles and research journals.

Need for Goods and Service Tax:

1. The main reason behind introducing GST is to improve the economy of the nation.
2. VAT rates and regulations differ from state to state. And it has been observed that states often resort to slashing these rates for attracting investors. This results in loss of revenue for both the Central as well as State government.
3. On the other hand, GST brings in uniform tax laws across all the states spanning across diverse industries. Here, the taxes would be divided between the Central and State government based on a predefined and pre-approved formula. In addition, it would become much easier to offer services and goods uniformly across the nation, since there won't be any additional state-levied tax.

4. GST rollout missed several deadlines due to disagreement among many states over certain important issues on the new tax reform. However GST is scheduled for a nation-wide rollout on July 1st, 2017.

Features of GST

1. GST is one indirect tax for the entire nation, which will make India “one unified common market”.
2. It will replace multiple taxes like VAT, CST, Excise Duty, Entry Tax, Octroi, LBT, Luxury Tax etc.
3. There are four types of GST namely:
 - a) SGST – State GST, collected by the State Govt.
 - b) CGST – Central GST, collected by the Central Govt.
 - c) IGST – Integrated GST, collected by the Central Govt.
 - d) UTGST – Union Territory GST, collected by the Union Territory
4. Tax Payers with an aggregate turnover in a financial year up [Rs. 20 Lakhs & Rs. 10 Lakhs for North Eastern States and Special Category States] would be exempted from tax.
5. GST slabs are pegged at 5%, 12%, 18% & 28%.

Impact of GST in India : Positive Impact of GST in India:

1. GST is a single taxation system that will reduce the number of indirect taxes. From now, a single taxation term would cover all of those indirect taxes.
2. The prices of products and services would reduce, thus this system would prove to be beneficial for the people who are fed up of paying high prices.
3. This would reduce the burden from the state and the central government. With the introduction of GST, all indirect taxes would come under a single roof.
4. GST would not be charged at every point of sale like other indirect taxes so in this way, market would be developed.
5. Corruption-free taxation system. GST would introduce corruption-free taxation system.
6. For consumers, it will be a mixed bag as some goods become cheaper while others will be expensive.
7. Removes cascading effect of taxes.
8. Manufacturing costs will be reduced, hence prices of consumer goods likely to come down.
9. Due to reduced costs some products like cars, FMCG etc. will become cheaper.
10. A unified tax regime will lead to less corruption which will indirectly affect the common man.

Negative Impact of GST in India:

- The introduction of GST in the country will impact real estate market. This would increase new home buying price by 8% and reduce buyers’ market by 12%.

- GST is a mystifying term where double tax is charged in the name of a single tax.
- Most of the dealer's don't pay central excise tax and cheat the government by simply giving the VAT. But all of those dealers would now be forced to pay GST.
- The short-term impact of GST is expected to be neutral-to negative for the broader economy.
- Production processes are likely to take some time to align with the new framework as firms adjust to the input tax credit system and better manage working capital requirements.
- For consumers, it will be a mixed bag as some goods become cheaper while others will be expensive.
- Services will become expensive e.g. Telecom, banking, airline etc.
- Being a new tax, it will take some time for the people to understand its implications.
- It is easier said than done. There are always some complications attached. It is a consumption based tax, so in case of services the place where service is provided needs to be determined.
- If actual benefit is not passed to consumer and seller increases his profit margin, the prices of goods can also see a rising trend.

However, GST is a long term strategy and the positive impact shall be seen in the long run only. Let us hope GST proves to be a game changer in a positive way and proves to be beneficial to the common man.

IMPACT OF GST IN INDIA

It is expected that the creation of the Goods and Service Tax act and its implementation will have a great impact on various aspects of business in India by changing the traditional pattern of pricing the products and services. The Goods and Service Act will also have a great impact on the tax system in India by reducing the unfavorable effect of tax on the cost of goods and services. GST is expected to change the whole indirect tax system by impacting the tax structure, tax computation, credit utilization and tax frequency. It will also help in supply chain optimization. . It will help in creating a single national market by merging several Central and State taxes under a one single tax procedure. 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. Let's now examine how GST on some day-to-day good and services will have an impact on the final consumer.

1. 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 stiff competition.

2. 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, one will spend more in purchasing a footwear above INR 500/-. And with respect to the ready-made

garments, the rates have been reduced to 12% from an existing rate of 18.16% which will make the goods cheaper.

3. **Cab and Taxi rides:** Taking an Ola or an Uber now will be cheaper because the tax rate has fallen to 5% from an earlier 6% for a cab booking made online.

4. **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%.

5. **Train Fare:** In the case of the train fare, there will be no much impact because the effective tax rate has increased from 4.5% to 5% in GST. But, passengers who travel 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 travelers will have to pay more.

6. **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%.

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

8. **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%.

9. **Property:** Under construction properties will be cheaper than ready-to-move-in properties. 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 off.

10. **Education & Medical Facilities:** Education and Medical sectors have been kept outside the GST scope and both the primary education & healthcare is exempted from GST. It means a consumer will not pay any tax for the money spent on these services. But due to increase in tax rates for certain goods & services as procured by these organizations, they may pass on the additional tax burden to the consumers.

11. **Hotel services:** For any hotel stay, if a room tariff is less than Rs 1,000, there will be no GST, but anything above Rs 5,000 will attract 28% tax.

12. **Car purchase:** 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.

13. **Restaurant Bills:** This will depend on whether one 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 that do not cross an annual turnover of INR 50 Lakh.

14. **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. Hence, this will increase the ticket price. 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.

15. DTH and cable services: The amount paid for DTH (Direct-To-Home) connections or to cable operators 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%.

16. 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.

There is no doubt, the implementation of GST will take time, but it is likely to create more employment opportunities and economic inclusion. After a lot of deliberation, the GST council finalized 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.

CONCLUSION

Introduction of GST is the most reasonable step taken towards the reform of indirect tax in India since its independence. It is imposed on all supply of goods and provision of services as well combination of all. Other sectors of economy be it the industry, business, and service sector shall have to bear the impact of GST, and those sectors such as the small and medium scale enterprises, intermediaries, importers, exporters, traders, professionals and consumers shall be directly affected by GST. This is one of the greatest taxation reforms in India, and is all set to integrate State economies and boost overall growth and development. GST will create a single, unified Indian market to make the economy stronger. However, experts say that GST is likely to improve tax collections and boost India's economic development by breaking tax barriers between States and integrating India through a uniform tax rate. Under the GST scheme, taxation burden will be divided equally between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions.

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