AN IMPACT OF GOODS AND SERVICES TAX (GST) 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 a single national uniform tax levied across India on all goods and services. More than 150 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 but is yet to be ratified by the Rajyasabha. However, there is a huge and cry against its implementation. It would be interesting to understand why this proposed GST regime may hamper the growth and development of the country.

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 GST scheme is aimed at reforming the indirect tax and as well dismantling all the inter-state barriers with respect to trade. This 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. GST is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a National level. The Government GST regime seeks to replace excise duty, import duties, VAT and service tax regulations, along with other cess and surcharges, with three separate legislations namely CGST, SGST and IGST. GST would be applicable to all transactions of goods and service, and it to be paid to the accounts of the Centre and the States separately. It has potential to end the longstanding distortions arising out of the differential treatment of the manufacturing and service sectors. The GST reform is expected to bring in a lot of changes in Indian economy. . 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. The present structure of Indirect Taxes is very Complex in India. There are so manytypes of taxes that are levied by the Central and State Governments On Goods & Services. This paper studies the impact of GST on Indian Economy.

KEYWOARDS: GST, Economy, cascading effect of taxes, GST Council, Cess, taxation reforms, Indirect tax, GST, final consumer, India, import duty, excise duty, economic growth Internet.

INTRODUCTION

GST stands for Goods and Service Tax. It is a kind of tax imposed on sale, manufacturing and usage of goods and services. Goods and Service Tax is applied on services and goods at a national level with a purpose of achieving overall economic growth. GST is particularly designed to replace the indirect taxes imposed on goods and services by the Centre and States. "Goods and Service Tax can be defined as a kind of Value Added Tax imposed by on various goods and services by different countries. The tax charged on goods and services may differ from country to country. Goods and service tax is imposed to collect revenues for the government. This tax is paid by the consumers of goods and services and collected and forwarded to the government by the business entities." To have a better understanding of GST, it is very important to understand the current indirect taxation system. Initially direct taxes such as income tax are borne by people liable to pay the tax; this means that the tax burden cannot be shifted to anyone else. On the other hand the liability of indirect taxes can be shifted to another person. Invariably this means that the person liable to pay the tax can collect the tax from someone else and then pay it to the government; thus shifting the tax burden. The GST tax system falls into this category. Initially it was agreed that there would be a national level of goods and service tax but after several deliberations it was later made clear that there would be a "Dual GST" in India i.e. both by the centre and state which will take the responsibility of levying the taxes on the goods and services. As GST is known to be another type of Value added Tax, imposed on various goods and services, several countries impose it on goods and services in various forms, and with that the taxes charged on the goods and services differ amongst countries. Like in China, GST applies only to goods and the provision of repairs, replacement and processing services. Countries like Singapore and New Zealand, tax applied is at a single rate while Indonesia has five positive rates and over 30 categories of exemptions. The GST rates of such various countries also differs and some could be stated as; Australia 10%, France 19.6%, Canada 5%, Germany 19%, Japan 5%, Singapore 7%, Sweden 25% and New Zealand15%. The Goods and Services Tax (GST) is a value added tax to be implemented in India, the decision on which is pending. GST is the only indirect tax that directly affects all sectors and sections of our economy. Ignorance of law is no excuse but is liable to panel provisions, hence why not start learning GST and avoid the cost of ignorance. Therefore, we all need to learn it whether willingly or as compulsion. The goods and services tax (GST) is aimed at creating a single, unified market that will benefit both corporate and the economy. The changed indirect tax system GST-Goods and service tax is planned to execute in India. Several countries implemented this tax system followed by France, the first country introduced GST**.**

WHAT IS GST?

GST (Goods & Services Tax), which is also known as VAT or the value added tax in many countries is a multi-stage consumption tax on goods and services. GST is levied on the supply of goods and services at each stages of the supply chain from the supplier up to the retail stage of the distribution. Even though GST is

imposed at each level of the supply chain, the tax element does not become part of the cost of the product because GST paid on the business input Hence, it does not matter how many stages where a particular good and service goes through the supply chain because the input tax incurred at the previous stage is always deducted by the businesses at the next in the supply chain. GST is a broad based consumption tax covering all sectors of the economy i.e. all goods and services made in Malaysia including imports except specific goods and services which are categorized under zero rated supply and exempt supply orders as determined by the Minister of Finance and published in the Gazette.

FEATURES OF GST

The proposed GST regime shall have the following features:

1. It shall be destination based taxation.
2. It shall have a Dual Administration – Centre and state.
3. State wise determination of taxable person – no more centralized registration.
4. Seamless credit amongst goods and services.
5. Inclusion of the concept of 'declared goods of special importance' as per the Indian Constitution.

NEEDS OF GST

1. VAT rates and regulation 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 for both the Central as well as State Government.
2. 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.
3. As business processes have evolved, the taxing lines between the State list and Central list have started to blur, leading to double taxation and extensive litigation.

BENEFITS OF GST

1. GST provide comprehensive and wider coverage of input credit setoff, you can use service tax credit for the payment of tax on sale of goods etc.
2. CST will be removed and need not pay. At present there is no input tax credit available for CST.
3. Many indirect taxes in state and central level included by GST, You need to pay a single GST instead of all .
4. Uniformity of tax rates across the states.
5. Ensure better compliance due to aggregate tax rate reduces.

ADVANTAGES

1. After the implication of Goods and Service Tax Act India will be a one market. All the products and services will be provided at same price in all the States. As the rate of tax will be same in all over India. This is the biggest advantages of GST Bill in India.
2. After this the tax will not applicable on manufacturing hand. So for manufacturers, it is easy to grow their business and develop it.
3. Excise and some other taxes will not applicable at the manufacturing point. After these will applicable at consumption point.

DISADVANTAGES

1. The service tax in India is now 15% but the proposed GST is about18-20%. All the services will be costlier and this will be one of the disadvantages of GST Bill for common person.
2. There are some retail products where the tax rate is only 4% but with GST it will be costlier like Garments and Cloths.
3. All credits will be online and some penalties will be like criminal activity. So it is threatening for small businessman who is now free from taxes.

HOW GST WORKS

GST proposes to abolish the varying levels of taxation between States, and consider the country as a single whole organism when it comes to taxes on goods and services instead of as a segmented creature. All the sundry taxes will be clubbed into just 2 levels i.e. Central level GST and State level GST. What a trader will essentially be able to do is claim a refund on the taxes already paid at different stages of value addition. The consumer who buys the product will have to pay only the GST charged by the last dealer in the supply chain, as everyone else would have the opportunity to set-off the taxes paid at the previous stages. If we take the example above under the GST system, the Cenvat on manufacturing the dress and the taxes paid on dyes and buttons can be offset at each level, thereby considerably reducing the total taxes paid.

IMPACT OF GOODS AND SERVICES TAX ON INDIAN ECONOMY

1. 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.
2. 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 service.
3. 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. As per the government notification, the Goods and Service Tax will be effective in India from April, 2016.

GST SLABS IN INDIA

According to GST Bill, there is a four tier tax rate structure in India implementing from 1 July 2017 On different products GST Rate

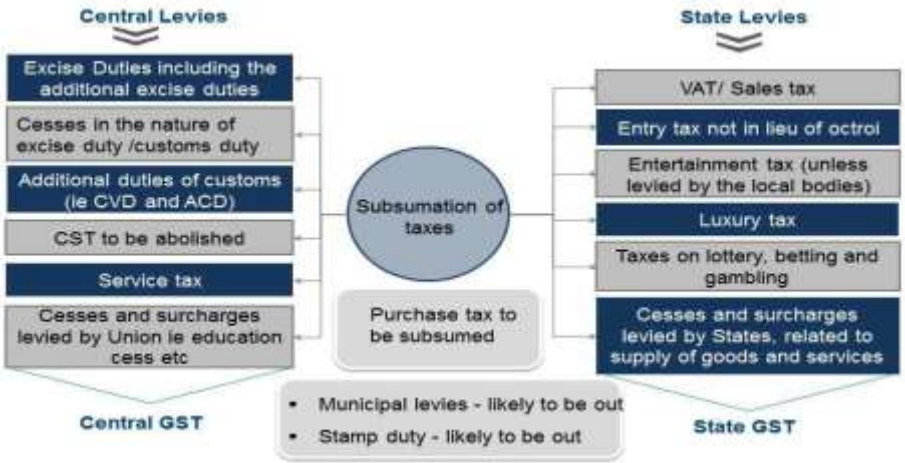
a. Edible Oil, spices, tea, coffee, daily needs Up to 9% 5%.
b. Computer, Laptop, Mobile Handset processed food 9% to 15% 12%.
c. Soap, Tooth paste, Watches, Furniture, Marble, Oil, Shaving sticks 15 to 21% 18%.
d. Luxury Goods, Car, LED, TV sets, Fridge, Washing Machine 21% 28% (sources www.zeenews.com).

For administration of GST in India there will be 3 tier structural systems in GST as

1) Central Goods and Service Tax (GST)
2) State Goods and Service Tax (SGST)
3) Integrated Goods & Service Tax (IGST)

Central Government would levy and collect Central goods and services tax (CGST). State Government will levy and collect the State Goods and Service Tax (SGST) within State. Integrated GST (IGST) will be levied by Central Government on Goods and services of Inter-state transactions. The revenue out of IGST will be shared by State

Government and central Government as per rates decided by the authorities.



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.

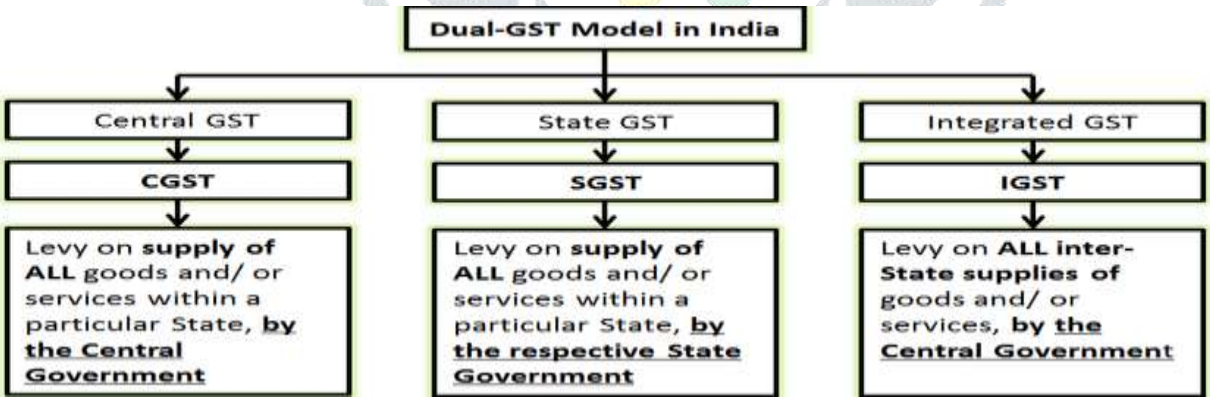
1. Mobile Bills: People will have to pay more on mobile phone bills as GST on telecom services is now 18%, as opposed to the earlier tax rate of 15%. However, telecom companies may absorb this 3% rise due to stiff competition.
2. Footwear & Apparels/Garments: Footwear costing more than INR 500 will have 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.

DUAL –GST MODEL

It has Dual-GST 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 customs; 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.



LITERATURE REVIEW

Girish Garg, (2014) Studied "Basic Concepts and Features of Good and Service Tax in India", and found that GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. GST will create a single, unified Indian market to make the economy stronger. 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 GST, the taxation burden will be

divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions.

Dr. R. Vasanthagopal, (2011) Studied "GST in India: A Big Leap in the Indirect Taxation System", and found that the positive impacts are dependent on a neutral and rational design of the GST, balancing the conflicting interests of various stakeholders, full political commitment for a fundamental tax reform with a constitutional amendment, the switchover to a flawless" GST would be a big leap in the indirect taxation system and also give a new impetus to India's economic change. It is also noted that, buoyed by the success of GST, more than 140 countries have introduced GST in some form to other and is fast becoming the preferred form of indirect tax in the Asia Pacific region.

Jana V. M., Sarma& V Bhaskar (2012) studied "The Road Map for implementation of Goods and Service Tax". He found that the steps to be undertaken to implement the Comprehensive tax system i.e., GST. The authors have thrown light on the constitutional amendment required for the implementation of GST in India.

REASEARCH METHODLGY

OBJECTIVE :

1. To study the impact of GST on Indian economy.

The study is descriptive in nature, based on secondary data. The study focuses on extensive study of Secondary data collected from books, National & international Journals, government reports, publications from various websites which focused on various aspects of Goods and Service tax and Commercial Taxes Department.

WORKING OF GST AND ITS IMPACT ON ECONOMY

The present structure of Indirect Taxes is very complex in India. There are so many types of taxes that are levied by the Central and State Governments on Goods & Services.

We have to pay 'Entertainment Tax' for watching a movie. We have to pay Value Added Tax (VAT) on purchasing goods & services. And there are Excise duties, Import Duties, Luxury Tax, Central Sales Tax, Service Tax. GST is collected on value-added goods and services at each stage of sale or purchase in the supply chain. GST paid on the procurement of goods and services can be set off against that payable on the supply of goods or services. The manufacturer or wholesaler or retailer will pay the applicable GST rate but will claim back through tax credit mechanism.

Economic union of India: The debate about India as one republic union versus a federation of states will be put to rest. Goods can easily move across the country with diffused state boundaries and that will encourage businesses to focus on pan India operations. Simpler tax structure: By merging all levies on goods and services into one, GST acquires a very simple and transparent character with less paperwork and reduction in accounting complexities. A simple taxation regime can make the manufacturing sector more competitive and save both money and time Uniform tax regime: With only one or two tax rates across the supply chain as against multiple tax structure at present, state specific advantages/disadvantages are gone. This provides a fair play ground for all stakeholders and focus can be brought in to efficiency rather than vantage points. Greater tax revenues: A simpler tax structure can bring about greater compliance, thus increasing the number of tax payers and in turn tax revenues for the government. By removing cascading effect, layers of taxes and simplifying structures, the GST would encourage compliance, which is also expected to widen the tax base.

POSITIVE IMPACTS ON THE ECONOMY

Implementation of a single National GST will have major beneficial impact on all stake holders.

The key highlight of such impact is given below:

- Eliminates cascading effect & barrier free tax structure: GST will eliminate cascading

(tax on tax / compounding tax)

1. Impact on the production and distribution cost of goods and services. This reduced cost of goods and service leading to accelerated GDP growth. GST without tax barriers will lead to economies of scale in manufacturing industry and reduces the supply chain cost.

- Expected to reduce the production cost: GST is expected to reduce the production cost by

2. 15% to 20% in many of the products in view of full input tax credit which will have favorable impact on the prices of product.

- Expected to increase the tax revenue: GST will widen the tax base and improve the tax

3. Compliance higher tax: GDP ratio. The Tax: GDP ratio is expected to increase by 2% as per FRBM report (Fiscal Responsibility and Budget Management). This works out to rupees 70,000 to 80,000 cores of additional annual revenue to the central and state governments economy. This will lead to sustainable higher growth based on competitive strength of the country.

Leads to sustainable growth in the economy: GST will remove the tax distortions from the

- Will lead to reduced chance for tax evasion: Since the proposed GST will charges full tax

NEGATIVE SIDE OF GST

The proposed GST may lead to following negative impact on the stake holders:

- Negatively affect the price level of essential goods and services: The proposed GST may
  1. Lead to increase the price of essential products and services which are presently exempted from the taxation.
- Negative effect on the real estate industry: As per the study undertaken by the Curtin
  2. University of Technology, Perth in 2000, GST would negatively impact the real estate market as it would add up to 8% to the cost of new homes and reduce demand by about 12%.
- Negative effect on working capital: As the firms are supposed to make the payment of the
  3. It is expected to generate revenue for the country as the tax base will increase as the GST rate will be somewhere around 27% with both goods and services covered. It is also expected to make exports from India competitive and India a preferred destination for foreign investment since GST is a globally accepted tax.

CONCLUSION

1. 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 are 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.

2. 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.
3. Tax policies play an important role on the economy through their impact on both efficiency and equity. A good tax system should keep in view issues of income distribution and at the same time, also endeavor to generate tax revenues to support government expenditure on public services and infrastructure development. The ongoing tax reforms on moving to a goods and services tax would impact the national economy, International trade, firms and the consumers. There has been a good deal of criticism as well as appraisal of the proposed Goods and Services Tax regime.

- The macroeconomic impact of GST is significant in terms of growth effects, price effects,

4. It is preferred every economy must adopt GST at national level to make their economy attractive for foreign investors. By implementing GST, the developing economy likes India can achieve sustainable and balanced development. Slowly, India shall move to join the worldwide standards in taxation, corporate laws and managerial practices and be among the leaders in these fields.

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