

Goods and Services Tax and Its Impact on Indian Economy

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Abstract – The research paper is regarding impact of GST on Indian Economy. With the introduction of GST there is a condition chaos and confusion among common man. The aim this research paper is to explain the mechanism of GST and its effects on Indian economy. The concept of Goods and Service Tax popularly known as GST was introduced on 1st July, 2017. 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

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1. INTRODUCTION

GST (Goods and Services Tax) is a single indirect tax aimed at making the country a unified common market. It is imposed on the supply of goods and/or services within India. Multiple indirect taxes that the Central Government or State Governments impose on suppliers and consumers are subsumed by GST.

The taxes levied and collected by the Centre until 1 July 2017, that are subsumed by GST include Central Excise duty, Duties of Excise (medicinal and toilet preparations), Additional Duties of Excise (goods of special importance), Additional Duties of Excise (textile and textile products), Additional Duties of Customs, Special Additional Duties of Customs, Service Tax, and Central surcharges and cesses. The State taxes subsumed under GST include State VAT, Entry Tax, Central Sales Tax, Entertainment and Amusement Tax, Luxury Tax, Purchase Tax, Taxes on advertisements, Taxes on gambling, betting and lotteries, and State surcharges and cesses relating to the supply of commodities and services.

The implementation of GST by Prime Minister Narendra Modi is considered a historical move, considering the fact that it significantly reformed indirect tax in India. The consolidation of several different taxes into one is forecast to help the country move forward by eliminating the cascading of taxes. The reform is also set to pave the way for a common national market, thereby making Indian commodities and services increasingly competitive in both local as well as global markets.

2. OBJECTIVE 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 the working mechanism of GST in India.

3. 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.

4. RESEARCH METHODOLOGY

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

5. GST IMPACT

GST has simplified the taxation structure in India that is for sure. However, in addition to this, the new taxation regime also has several other impacts on the economy from which will help the ease of

business. Let's look at some of the GST impact on the economy.

Positive GST Impact

Listed below are some impacts of the implementation of the GST that will benefit the Indian economy:

- **Removal of cascading effect of taxes/ Tax on Tax/ Double Taxation**

This effect of taxes stacking upon one another for services providers. This had been a major issue for all businesses as they were aggrieved with paying taxes twice. Under the previous tax regime, the transfer of goods came under the service contract. This meant that every invoice had the value of goods as well as services. Both of these attracted a rate of 70% each giving a total rate of 140%. Under GST, the taxes are unified under the supply of services and the taxation system is unified.

- **Increase in Competitiveness**

Under the old taxation system, taxes used to constitute about 25-30% of the retail price of the goods and services. The implementation of GST, prices have gone down since the burden of paying tax has fallen onto the end consumer of the goods and services. Therefore, there is a scope for businesses to produce more at lesser effective costs, leading to a rise in competition

- **Simplification of Tax Structure**

The tax calculation under the system of GST has become much more simplified. This replaces the multiple stages of taxation under the old tax regime. This saves a lot of resources for calculation of taxes. It has also united the taxation laws under various state governments.

- **Clarity for Software Industry**

The software and IT giants of the country have some clarity for the payment of taxes. Under the old system of taxation, there was some dispute on as to whether they need to apply for VAT or Service Charge on their products. GST clearly distinguishes between products and services and the way taxation is applied to them.

- **Economic Union**

The GST impact on the transportation of goods and services from state to another has been a very welcoming change. Goods can be easily transported from one place to another under the new regime. This encourages businesses to have a PAN India presence. The movement of goods across state borders can be done easily via the procedure of generation of the e-way bill.

- **Inputs held in Stock**

The service providers will be able to access the CENVAT credit of input that is held in the stocks. The provision is best applicable when users migrate from taxation form to the other such as from exempt category to a taxable category.

- **Increase in exports**

The cost of production in the domestic markets has dropped due to the implementation of the Goods and Services Tax. This leads to a positive influence in increasing competitiveness in the international markets leading to excessive exports.

- **Repairs and Maintenance**

Service Providers dealing with delivery of repairs and Maintenance services will enjoy the benefits of both the credit of input and credit of input services with the accordance with the GST system. Under the old regime, the repair service providers could only benefit from the credit of input services which, was a very limiting compensation for the service providers.

- **Reduction of Input Costs**

Since the abolishing of the multiple levels of taxation and the introduction of a single tax on value addition, the cost of inputs will decrease. The taxation on inputs such as VAT, Excise duty is no longer valid and no longer a headache of services providers.

Negative GST Impact

The newly implemented tax regime is not entirely perfect and there are some inherent flaws with the system of the Goods and Services Tax. Some of these are listed below

- **Lack of a Centralized Registration**

The previous taxation system allowed the taxpayers to register from all over the country via a central authority. However, with the implementation of GST, taxpayers have to register GST from their state and pay the Central Tax.

- **Taxation for Free Services**

Even if a particular provide any service(s) for free they are still eligible to be taxed for it. Supplies made without consideration will now be taxable.

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- **Service Costs to Consumer**

The rates of taxation to the end consumer will increase. The GST is destination based tax which means the burden of the tax falls on to the end consumer

- **Lack of centralized System of Accounting**

Businesses in every state have to maintain their personalized accounting records since there is no centralized registration of business. Every state is financially accountable to that state for taxation. Accounts will be separate for central and state taxation for each business

- **Return Filing**

As a business owner, you have to file GST returns listing detailing all the business transactions such as purchases sales etc periodically. The decentralized registration is the cause of filing for so many returns as you have to file the returns for every state your business expands into. A business owner has to file close to 37 returns in a financial year. This procedure could be very burdensome

- **Public Education**

As the new taxation system is put in place, taxpayers and businesses have to be educated on the inner workings of the taxation system. The GST tax regime has changed the system completely and hence taxpayers and the general public have to be informed on how this will impact day to day business activities. This will take up a lot of resources and money.

6. INDUSTRY-WISE GST IMPACT

In the above section, we discussed how the overall economy India will feel the GST impact. Following is the breakdown of the GST impact sector-wise of different parts of the economy.

1. Consumer Goods and Services

The GST Rates for the products by the FMCG industry has been set at 18-20%

2. Transportation Industry

The tax rates for cabs as well as air travel has been reduced to 5% which has been seen as a welcome move.

3. E-Commerce Industry

Since the inception of GST, e-Commerce operators collect 1% of the net value of taxable supplies. This tax is also called the Tax Collected at Source (TCS).

4. Entertainment and Hospitality Sector

This is one sector which was affected heavily with the tax rates increasing to 28%. As a result of this, movie tickets, hotel rates etc. will be much costlier than before.

5. Financial Products and Services

Financial Products and services have been affected the most such as funds and insurances and loans from NBFCs etc have seen drastic taxation changes under GST

6. Start-Ups and MSMEs

GST has become very friendly for startups, as well as, companies with MSME/SSI Registration. Schemes and provisions for empowering these sectors of the economy have been put in by the government to enable ease of doing business in India. One of these provisions is One-Day Company Registration.

7. Inflation and Economic Activity

The rise in tax rates under GST is said to raise inflation.

8. Export of Goods and Services

Exports have been exempt under the provisions of GST. In addition, the availability of the input tax credit is welcome by the government. All an exporter has to do is to register IEC (Import Export Code).

9. Gold and Gold Jewellery Prices

The tax rate for Gold and Gold Jewellery has been brought down to 5%.

10. Rent

There is no GST on house rent. The exemption limit for renting out commercial property is 20 lakhs.

11. SEZ

The GST taxation regime has exempted SEZs completely from any kind of taxes. 0% tax rate.

12. Affordable Housing

The purchase of housing is not at all taxable, an under construction houses carry a GST tax rate. GST rates for houses bought under CLSS, EWS, LIG, MIG1/11, will be 8%, after the deduction of the cost of the land. Houses out of these categories will be levied 12% Tax.

13. Real Estate Sector

The real estate sector is benefitting from this taxation system because it has introduced transparency in the system with the agents, as well as, builders have to do RERA registration.

14. Logistics

The pre-GST tax rates for logistics was a gigantic 26% which has been reduced to a moderate 18-21% and brings a huge relief to the logistics sector.

15. Automobile Industry

The introduction of GST means the absorption of many indirect taxes and duties which were levied on the sale of vehicles. These have been done away with.

16. Chemical Industry

The implementation of GST has been touted to be very beneficial for the chemicals industry.

17. Tobacco Industry

The new rates under GST for the tobacco industry are in total less than the combined taxes during the pre-GST era.

18. Stainless Steel Industry

The introduction of GST has been a welcome change for the stainless steel industry. The new taxation system facilitates the stainless steel industry. The GST for primary steel industries has been set at 18 %. This helps them grow better as an industry

19. Coal Sector

The implementation of GST has drastically lowered the rate of transportation of coal which now stands at 5% via trains, simplifying and facilitating logistics with regards to coal transportation.

20. Power Sector

The electric and lighting sector are benefitting nicely from the implementation of the new tax regime as the rate of taxation has now become 18%.

21. Exports

As we mentioned above, under GST, the indirect taxes and excise duties with exports have been done away with. An integrated GST, IGST, has replaced all the indirect tax and hence exports have been promoted in this new taxation structure.

22. Domestic Appliances and Electrical Machinery

GST impact on electrical appliances isn't significant since the rates of taxation under the new regime are 25% which is close to the pre-GST rates.

23. Job Works

Special provisions have been put in place for the removal of goods for job-work and receiving back goods after processing from the job-worker carrying no GST number. The benefit of provisions is extended both to the principal and the job worker.

24. Indian Railways

The railways have been affected very little by the implementation of GST as the tax rates have been kept at a lowest of 5% in order to benefit the passengers.

25. Hospitality Industry

This is one of the industries which have been benefitted from the implementation of GST, the rates of GST have been reduced from the previous 27%

26. Aviation Sector

The GST rates for airline fuel have been increased causing unrest in the industry.

27. Pharmaceuticals Industry

The Pharma industry has had an increase in cost GST impact, with the costs of medicines rising by 2.3% for medicines in the 12% bracket and medicines with 5% tax rate will see no rise in MRP.

28. Cement Industry

The tax rates for this industry will get absorbed in the cost of cement production.

29. Digital Advertising Industry

The fast-growing will have none to very little GST impact as these methods are very cost-effective in comparison to traditional marketing techniques.

30. Sweet Makers

There is a bit of confusion surrounding the taxation on sweets. This confusion arises mostly because taxpayers are confused whether to pay 28% tax or not since many variants contain 5% or higher cocoa content. In addition to this, Badam Milk, Basundi, and Rasmalai are also a source of confusion as should they be classified under sweets 5% tax or beverages 12% tax.

31. Handicraft Sector

Handicrafts have been taxed heavily by the government in the the new tax system which has not been a popular decision with many artisans.

32. Alcohol Industry

GST isn't imposed on alcohol; however the prices of alcohol have been increased. Beer prices are going to rise by 15%, and hard drinks, as well as, the wine will have a 4% increase in price attributing to the GST impact.

7. CONCLUSIONS

GST is at the infant stage in Indian economy. It will take some time to experience its effects on Indian economy. GST mechanism is designed in such a way that it is expected to generate good amount of revenue for both central and state government. Regarding corporate, businessmen and service providers it will be beneficial in long run. It will bring transparency in collection of indirect taxes benefiting both the Government and the people of India.

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