

Introducing GST and Its Impact on Indian Economy

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Abstract – India's historic approval of the GST marked a benchmark in the development of the economy of the country but impact of GST on Indian economy may disrupt the economy for a short-term. Till now, an introduction of VAT (Value Added Tax) at the state level and CENVAT at central level are considered to be largest indirect tax reforms in the country and GST is the next logical step towards making India a unified market. The GST is arguably one of India's most significant and ambitious reforms ever attempted. Hence, the impact of GST on Indian Economy is going to be very significant. However, determining the exact economic effect hinges on the GST Rates. The macroeconomic impact of GST is significant in terms of growth effects, price effects, current account effects and the effect on the budget balance. It is preferred every economy must adopt GST or VAT at national level to make their economy attractive for foreign investors. By implementing GST, the developing economy like India can achieve sustainable and balanced development.

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INTRODUCTION

The Goods and Services Tax has revolutionized the Indian taxation system. The GST Act was passed in the Lok Sabha on 29th March, 2017, and came into effect from 1st July, 2017. GST is a broad based, single, comprehensive tax levied on goods and services at each point of sale of goods or provision of service, in which, the seller or service provider may claim the input credit of tax which he has paid while purchasing the goods or availing the service; the final consumer will thus bear only the GST charged by the last dealer in the supply chain. With the introduction of GST at the State level, the additional burden of CENVAT and services tax would be comprehensively removed and major Central and State taxes will get subsumed into GST which will reduce the multiplicity of taxes. Thus it marks a major improvement over the previous system of VAT. Again, the transparent and complete chain of set-offs, GST will help-widening the coverage of tax base and improve tax compliance. This may lead to higher revenue which further results in lowering of tax burden. Although there are many hurdles to be crossed before the implementation of GST like consensus over rates, constitutional amendment, compensation mechanism for States losing out on revenue, varying models, dispute resolution etc. the Central government has reiterated its commitment towards the adoption of a 'flawless' GST for the survival of the India's economy in the face of increasing international competition consequent to globalization and liberalization. Despite the various impediments to the proposed transition, until the time GST is implemented, it would be worthwhile to assess

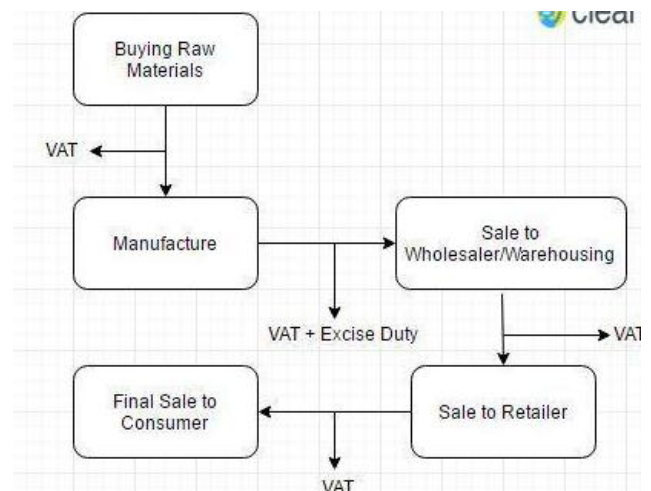
its positive impacts on the various development areas in India. This aspect is the subject matter of this paper.

What is GST?

Goods & Services Tax Law in India is a **comprehensive, multi-stage, destination-based tax** that will be levied on every **value addition**.

In simple words, GST is an indirect tax levied on the supply of goods and services. GST Law has replaced many indirect tax laws that previously existed in India.

So, before GST, the pattern of tax levy was as follows:



Multi-stage

There are multiple change-of-hands an item goes through along its supply chain: from manufacture to final sale to consumer.

Let us consider the following case:

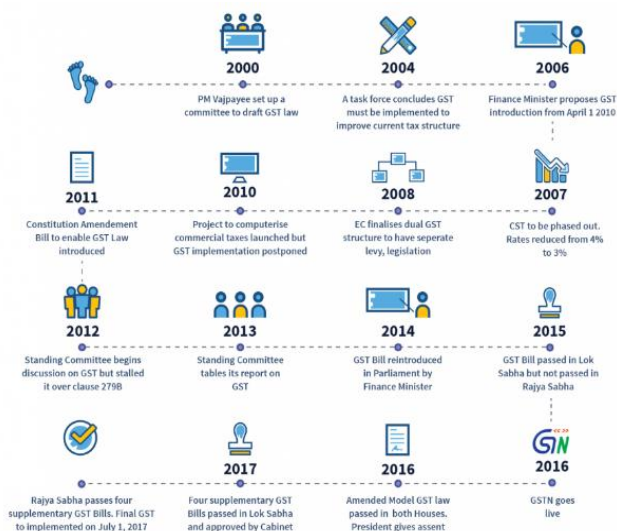
- Purchase of raw materials
- Production or manufacture
- Warehousing of finished goods
- Sale of the product to the retailer
- Sale to the end consumer

Goods and Services Tax will be levied on **each** of these stages, which makes it a multi-stage tax.

Value Addition The manufacturer who makes shirts buys yarn. The value of yarn gets increased when the yarn is woven into a shirt. The manufacturer then sells the shirt to the warehousing agent who attaches labels and tags to each shirt. That is another addition of value after which the warehouse sells it to the retailer. The retailer packages each shirt separately and invests in the marketing of the shirt thus increasing its value. GST will be levied on these value additions i.e. the monetary worth added at each stage to achieve the final sale to the end customer.

Destination-Based Consider goods manufactured in Rajasthan and are sold to the final consumer in Karnataka. Since Goods & Service Tax (GST) is levied at the point of consumption, in this case Karnataka, the entire tax revenue will go to Karnataka.

History of GST in India

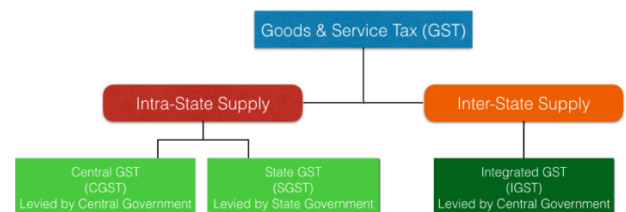


What are the components of GST?

There are 3 applicable taxes under GST: **CGST**, **SGST** & **IGST**.

- **CGST:** Collected by the Central Government on an intra-state sale (Eg: Within Karnataka)
- **SGST:** Collected by the State Government on an intra-state sale (Eg: Within Karnataka)
- **IGST:** Collected by the Central Government for inter-state sale (Eg: Karnataka to Tamil Nadu)

Overview of GST Levy



OBJECTIVES OF THE STUDY

1. To study the concept of Goods and Services Tax (GST) and its impact on Indian Economy.
2. To understand how GST will work in India.
3. To know the advantages and challenges of GST in Indian context. Research Methodology The study focuses on extensive study of Secondary data collected from various books, National & international Journals, government reports, publications from various websites which focused on various aspects of Goods and Service tax.

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GST AND ITS IMPACT ON INDIAN ECONOMY

GST stands for Goods and services tax and it has done away with all the indirect taxes on commodities and services and replaced all of them with a single tax which is called GST. It has eliminated the indirect taxes of the central government and state government also. State government levies its own taxes and central government levies its own taxes on various items from manufacturer to the end user. GST and its impact on Indian economy. Now all these indirect taxes have been replaced by a single GST. India has acquired a double structure of GST where both center and state government will levy tax on a single commodity simultaneously and the tax will be divided in equal proportion. For example if a service tax is 18% then 9% of the GST will go to Central government while another 9% will go to the state government.

Some of the presumed impacts of GST on Indian Economy are as under:

- Reduce tax burden on producers and foster growth through more production. This double taxation prevents manufacturers from producing to their optimum capacity and retards growth.
- GST would take care of this problem by providing tax credit to the manufacturer.
- Various tax barriers such as check posts and toll plazas lead to a lot of wastage for perishable items being transported, a loss that translated into major costs through higher need of buffer stocks and warehousing costs as well.
- A single taxation system could eliminate this roadblock for them. A single taxation on producers would also translate into a lower final selling price for the consumer.
- Also, there will be more transparency in the system as the customers would know exactly how much taxes they are being charged and on what base.
- GST would add to government revenues by widening the tax base. GST provides credits for the taxes paid by producers earlier in the goods/services chain. This would encourage these producers to buy raw material from different registered dealers and would bring in more and more vendors and suppliers under the purview of taxation.
- GST also removes the custom duties applicable on exports. Our competitiveness in foreign markets would increase on account of lower cost of transaction.
- The proposed GST regime, which will subsume most central and state-level taxes, is expected to have a single unified list of concessions/exemptions as against the current mammoth exemptions and concessions available across goods and services

GST Rate:

At present the GST rate which is in practice across the world is ranges between 5% to 40%, some of the European and Asian countries are charging minimum 102 Introducing GST and Its Impact on Indian Economy rate of 5%, where as some of the African countries are charging maximum rate of 38%- 40% on the goods and services. And most of the countries in

the world are charging within the range of 15% - 25%. In India it is proposed 18% rate on goods and services but, still it is under discussion. It is expected that the GST will implement with 16% -22% as against the aggregate rate of around 24%- 36% which is presently collected on the goods which is consumed. At present the GST rate which is in practice across the world is ranges between 5% to 40%, some of the European and Asian countries are charging minimum

Advantages of GST

- Removing cascading tax effect.
- Higher threshold for registration.
- Composition scheme for small businesses.
- Online simpler procedure under GST.
- Lesser Compliances
- Defined Treatment for e-commerce
- Increased efficiency in logistics
- Regulating the Unorganized sector.

CONCLUSION

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. It is considered to be a major improvement over the pre-existing central excise duty at the national level and the sales tax system at the state level, the new tax will be a further significant breakthrough and the next logical step towards a comprehensive indirect tax reform in the country. GST is not simply VAT plus service tax, but a major improvement over the previous system of VAT and disjointed services tax – a justified step forward. A single rate would help maintain simplicity and transparency by treating all goods and services as equal without giving special treatment to some 'special' goods and/or services. This will reduce litigation on classification issues. It is also expected that implementation of GST in the Indian framework will lead to commercial benefits which were untouched by the VAT system and would essentially lead to economic development. Hence GST may usher in the possibility of a collective gain for

industry, trade, agriculture and common consumers as well as for the Central Government and the State Government. Sooner or later, the GST will surely knock the doors of India. And when that happens, we as future torch bearers of the profession are required to be prepared and fully equipped with our knowledge regarding GST. Forewarned is forearmed. Thus we must be ready to deal with GST and many other changes that are going to take place in India. Slowly, India shall move to join the world wide standards in taxation, corporate laws and managerial practices and be among the leaders in these fields.

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