

GST in Indian Economy: It's Benefits and Impact

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Abstract - This paper is an analysis of what the impact of GST (Goods and Services Tax) is on Indian economy. Goods and services Tax is the considerable positive indirect tax reform which spreads all over the world and showing an increasing trend in more than 160 countries. In India also, it was implemented on 1st July, 2017 through the constitution Act, 2016. The first concept of GST came in 2000 and many debates were arising for the implementation of GST. But, India committed to introduce in July 2017.

In GST, there is only one tax rate for both goods and a service to be levied by states and central governments and it is an indirect tax for the whole economy. GST replaces all the other indirect taxes like sales tax, excise, custom, VAT, service tax. It is a destination based tax i.e. where the goods and services are consumed. This paper throws an insight into to know about the advantages and impact on Indian economy.

Keywords - Value added tax (VAT), GST, cascading effect, input tax credit, CGST, SGST, IGST.

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INTRODUCTION

A best tax policy plays an important role in the economy of a country through the impact of it on effectiveness, efficiency and equity. The concept of one rate tax policy in all sales goods and services first came in the European countries and later same kind of tax policy is named as GST, which means for Goods and services Tax. At present, more than 160 countries have implemented GST in their tax policy.

GST is a comprehensive tax system which combines all the indirect taxes of states and central governments. It was made after replaces other taxes rather it is not made an additional tax. It is a simple, uncomplicated, clear, and effective system of indirect taxation. It is normally a tax levied on final consumption which reduces administrative and compliance cost. For intra-state sale, central GST (CGST) and state GST (SGST) are charged. And integrated GST (IGST) is chargeable on inter-state sales.

RESEARCH METHODOLOGY

This paper is based on secondary data. The data has been collected from internet, books, journals and other research papers

OBJECTIVES OF THE STUDY

- To study and understand the concept of GST
- To study how GST is beneficial for the growth of Indian economy.
- To examine benefits of GST
- impact on Indian economy
- To furnish some records for more research on GST.

ADVANTAGES OF GST

GST has removed cascading effects on the sale of goods and services, which have positive impact the cost of goods and many more benefits, are as follows:

1. GST eliminates the cascading effect of tax

Cascading tax effect means 'Tax on Tax'. And, GST is a comprehensive tax which makes stand all indirect taxes in one umbrella. It has reduced many frauds and helps a common man to reduce their price level. Moreover, the number of taxpayers will also increase due to availability of cheap goods and it will directly help the states by increasing tax revenue. 7. Conclusion From the above discussion we may conclude that GST

2. Higher threshold for registration

In old scheme or under VAT and service tax on any business having a turnover of more than Rs 5 lakh or Rs. 10 lakh respectively has to register and pay tax (it is different in different cities). But, for GST the limit has been increased to Rs. 20lakhs(exempt all small traders)

3. Composition scheme for small businesses

In GST, small businesses whose turnover is Rs. 20 to 75 lakh can take the benefit of composition scheme. This step reduces the burden of small businesses regarding tax and other burden.

4. Simple and easy online procedure

In GST, the registration and payment procedures are very easy. And, all the work has to be submitting online. Much more beneficial for start-up. Introduction of GST will reduce the accounting complexities in business as it subsumes almost all the indirect taxes to be levied states and centrals. This will make the manufacturing sector more competitive and will boost the economy by one to two percent.

A clear tax GST software is available for all registration and return filling.

5. The number of compliances is lesser

Under GST, only one return is to be filed. Therefore, the number of returns to be filed has reduces as earlier. There are total 11 returns under GST, out of which 4 are basic returns that is apply to all taxable persons under GST. The main GSTR-1 is manually populated and GSTR-2 and GSTR-3 will be auto-populated.

6. Defined treatment for E-commerce operators

In GST there is no any mediators and facilities which does not complicate the entire system. All these treatments have been removes and for the first time a proper system is made and applicable to the e-commerce sector and there is no complication related to the movement of goods.

7. Improved efficiency of logistics

The logistics industry in India had to manage multiple warehouses all the states to tackle the current CST and state entry taxes on inter-state movement. These warehouses were forced to operate below their capacity, giving room to increased operating costs. proposed GST system, IGST acts as an effective logistic system since it is levied on both of interstate commerce and supply of goods and services. Ultimately this will protect small and medium

enterprises to survive from the competition of large corporate.

Under GST, however, these restrictions on inter-state movement of goods have been lessened

8. Export with zero rates

Implementation of GST will bring a important change to the Indian domestic sector as no GST will be paid on exports. The domestic goods will be easily available with more competitive in the international market to acquire its focused 3.5% share of world exports by 2020

FINAL TAX RATES UNDER GST

The GST council has decided five-rates on 3rd November, 2016 moving a step ahead in progressing the dream to make India a single market from 1st July, 2017

- **0% rated item:** it includes Essential items food grains used by common people.
- **5% rated items:** Items of mass consumption including essential commodities will have low tax incidence.
- **12% and 18% rated items:** Two standard rates have been finalized as 12% and 18%
- **28% rated items:** White goods like Refrigerators, Washing Machine, Air conditioners, shaving stuff and soap, shampoos etc. that were taxed at 30 - 31% shall be taxed now at 28%.
- **28% with cess:** Demerit goods like tobacco and tobacco products, pan masala, aerated drinks and luxury cars will invite a tax of 28% plus the cess. The overall incidence with cess, thus could vary between 40-65% an additional tax on some luxury goods shall also be imposed.

IMPACT OF GST ON INDIAN ECONOMY

1). Employment Sector: From the history of GST which is implemented in different countries of the world, it is observed that international corporate houses will feel more comfortable in investing and expanding their business in the particular country, where GST is implemented, due to remove of tax horror. And hence foreign investment will follow the second largest consumer market of world. The flow of investment of corporate houses through starting their various business will definitely increase the job opportunities and hence erosion of unemployment.

Finally this will create a stable environment by avoiding a largest groups inclination towards illegal activities, anti-social activities etc., which is the most significant requirement for development of a country.

2). Manufacturing sector: The manufacturing sector of Indian Economy has complex tax structure in nature and it deals only 16% share in GDP. India is able to shift its agricultural economy to a manufacturing and service economy. The proposed GST in India will bring positive change by eliminating cascading effect of current taxation system. First step of manufacture concern is to calculate cost of production in financial statement and GST helps by reducing cost of production that create incremental value for customers and remain a challenge for every business.

3). Information Technology enabled Services: According to proposed GST if software is transferred through electronic form it would be regarded as service (intellectual property) and if it is transferred through media or any other tangible property then it should be treated as goods. Introduction of GST will help in uniform simplified and single point taxation and ultimately reduces its price.

4). Impact on Textiles: For smooth taxation, the textile Industry has been divided into some broad categories like: cotton, Silk, Woolen, Khadi and Handloom, Synthetic fiber, carpet weaving, artificial silk, Jute, Hemp and Mesta textiles, readymade garments and miscellaneous textile products etc. The present taxes vary based on these categories. Moreover, Textile sector is dominated by unorganized players who are given tax exemption on size basis of their operation. The key concern for textile industry includes the followings on the basis of these factors:

- Different taxation is for cotton and manmade fiber
- Dispute over fabric vs. garments classification
- Zero duty for cotton fibers as compared to high Excise
- duty structure on man-made fiber segment.
- Composite milks are taxed at higher rate in comparison to power looms.

However, as the current taxation system is production based, it leads to block input taxes which results in higher cost of production. But, as GST is consumption based Tax, after its implementation it will eliminate block input taxes for its uniform role of tax.

5). Impact on small enterprises: In GST tax regime, the small scale enterprises are categories in three ways: Below Threshold: need not to register for GST Between threshold and composition turnovers: will have the option to pay a turnover based tax or opt to join the GST regime Above threshold limit: will need to be within framework of GST. With the implementation of GST will help the manufacturers and traders by reducing payable taxes. It is expected to encourage compliance as well as widen tax base adding up to 2% GDP.

6). Fast moving consumer goods (FMCG) sector: FMCG sector is the major taxation contributor in the economy of a country. It consists 50% Food and Beverage sector and 30% is Household and Personal Care. The multiplicity of the taxation leads to the company's decision on manufacturing location and distribution of goods by keeping in mind to avail tax benefits. Thus implementation of GST will really influenced on FMCG sector and ultimately it will impact on the economy of our country.

CONCLUSION

From the above discussion we may conclude that GST will reduce cascading effect of current indirect taxation system that will provide relief to the producers and consumers by subsuming the several indirect taxes. After introduction of GST, manufacturer, wholesaler and retailer can be easily recovered input taxes in form of tax credits. Moreover, GST has a positive impact on different sectors like manufacturing sector, employment sector, FMCG sector, I.T sector and so on. Thus implementation of GST will lead commercial benefit, more employment opportunities and would essentially lead to economic development that will improve GDP of the country. It is noteworthy to mention that GST will give India a world class tax system by grabbing different treatment to manufacturing and service sector. But these will critically depend on a neutral and rational design of the GST. Further, tax payer education or public awareness programmed, workshops, training and various seminars on GST must be conducted in all states by their respective state governments

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