

GST In India & Its Impact on Indian Economy

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Abstract:

GST is a broad taxation policy that system that include all indirect taxes of central and state governments. Taxation is a kind of resource to the government for the revenue generation. There are different types of taxes prevailing in India like corporate tax and income tax, custom and excise duty. The GST will be the levied on the manufacture, sale and the consumption of goods and services in India. The council of the GST will be headed by the Union Finance Minister that is currently Arun Jaitley. The main purpose of GST is to fetch on the single tax system for the manufacture and the sale of goods at the both central and the state level in the country. Essentially GST is implemented to get rid of all other taxes like VAT (Value-Added Tax), Excise duty and Sales Tax.

The Government of India is not satisfied with the present tax system because it has some short comings. At present; the Government of India is going to reinstate Value Added Tax (VAT) with GST to minimize the complexity of multiple taxes. This paper focuses on the overview of the concepts of GST and its impact and implications on various sectors in Indian economy. Through this paper we can understand about the concepts, objectives, impact and the implications of the goods and services in India.

Key words: Goods and Service Tax, Value Added Tax, Economy, Central Sales Tax.

1. Introduction:

The word "TAX" which is derived from the Latin word "TAXARE" means 'To Assess'. In simple terms, it means to imply something wearisome or challenge. Indian tax system comprises of direct tax and indirect tax.

In world around 160 countries have GST in place. GST is a destination based taxed where the tax is paid by the consumer. The Goods and Service Tax or GST which is how it is popularly called world over, was first introduced in France in the year 1954. It was consequently after France that countries like Canada, Japan, South Korea, UK and Australia implemented the GST law. India is going to implement the GST Law 2017 from July 1st and it has adopted the Dual GST model, the one followed by Canada. The fundamental aspect of this tax regime is the rate of GST that prevails on the various categories of products. Higher rates of taxation are one of the core reasons behind tax evasions. Although the developed countries like United States, France and others used to see companies manipulating their books to avoid tax.

1.1 Objectives of the Study:

The main objectives of the study are

- To cognize the concept of GST
- To outline the structure of the proposed GST in India.
- To examine the impact of GST in various sectors of India.

1.2 Research Problem:

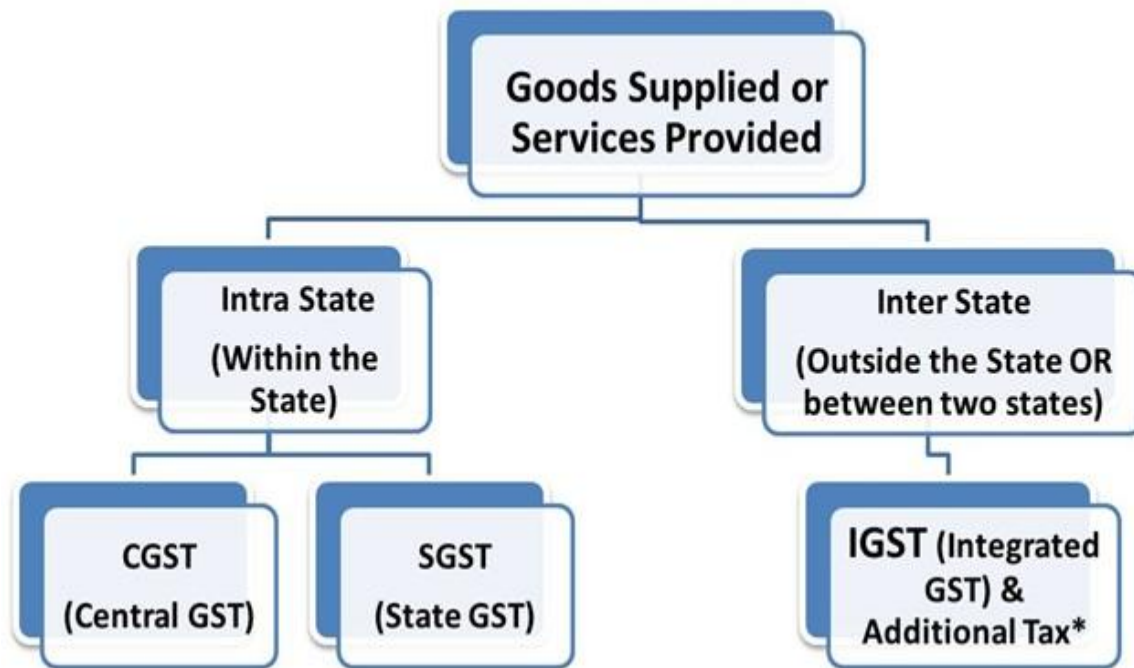
The concept of Goods and Service Tax (GST) is one of the biggest revolutions in decades around the world. But it seems that India is taking very slow steps to meet target. This research intends to focus on understanding concept of goods and service tax and its impact on Indian economy.

1.3 Methodology:

The study is completely based on secondary sources. The study of the proposed GST is the result of journals, magazines, books and internet sources.

2. CONCEPT OVERVIEW - GST AT A GLANCE

In order to bring the advantages to the nation, the Government of India is planning to implement the GST in to the below discussed pattern. This system is called Dual GST which is divided into 'Central Goods and Service Tax and State Goods and Service tax'. Apart from the current two elements another element has been summed i.e. Integrated Goods and Service Tax (IGST) is include the Central Goods and Services Tax and State Goods and Services Tax imposed on all inter-state business transactions with suitable requirements for stock transfer products as well as services.



Central taxes to be subsumed:

- A. central excise duty
- B. Additional excise duty
- C. The excise duty levied under the medicinal and Toiletries preparation
- D. service tax
- E. Additional custom duty commonly known as countervailing duty (CD)
- F. Special additional duty of custom-4% (SAD)
- G. Cesses and surcharges in so far as they relate to supply of goods and services.

State taxes to be subsumed:

- A. Vat/sale tax
- B. Central sale tax (levied by the center and collected by the respective state)
- C. Entertainment tax
- D. Octroi and entry tax
- E. Purchase tax
- F. Luxury tax
- G. Taxes on lottery, betting and gambling.
- H. State cesses and surcharges in so far as they relate to supply of goods & services.

2.1 Rate of GST:

The current tax rates has been mentioned in the below table. We can estimate the exact rate and exact taxation area.

Table 1: Existing Tax Structure for Indirect taxes

Details	Goods	Services
Excise Duty	12.50% /6%/2%	---
Value Added Tax	12.50%/ 13.50%/14%/5%	---
Central Sales Tax	2%	---
Local Tax	0.10% to 8%	---
Services Tax	---	15%

Source: GST Council Report, 4th Edition 2016

GST Council has announced five Tier tax structures which include 0%, 5%, 12%, 18%, 28%. The below table is showing the distribution in detail.

Table 2: Proposed GST Tax Structure in India

Particulars	Rates	Reference
Nil Rate	0%	Food Grains
Lower / Concessional Rate	5%	Mass Consumption Products
Standard Rate 1	12%	Most Products
Standard Rate 2	18%	Most Products
Special Rate / Luxury Goods	28% + Cess	Luxury Items
Other Rates: compounding Rate TDS/TCS	1% / 2.50% / 1%	Section (9) Section 46/56

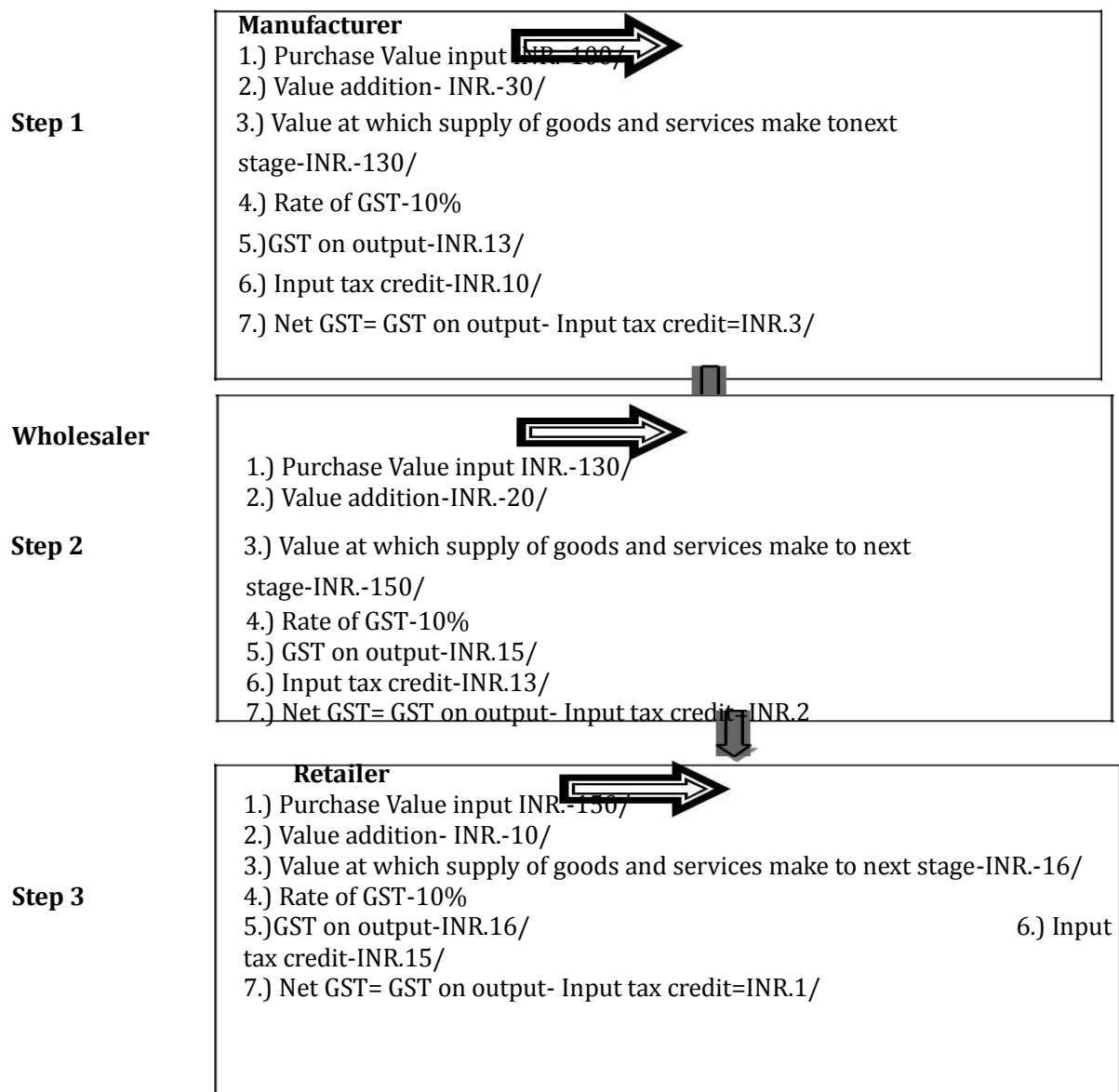
Sources: GST Council Report 4th Edition 2016

Products not covered under GST

The Goods and Service Tax does not include certain products they are as follows.

- Petroleum Products
- Alcohol
- Tobacco Products

Figure 1:Proposed mechanism of GST in India



Source: Ministry of State Finance Government of India, New Delhi

Source: Ministry of State Finance Government of India, New Delhi

Net GST = INR. 3 + INR. 2 + INR. 1 = INR. 6

Therefore GST would be beneficial for:

Consumers: the final burden of tax would be much less.

Government: reduction of tax compliance efforts and administrative costs.

Business: easier compliances (Thappa, Paravali and Das, 2011).

Now it is evident that working system of GST is very similar to that of the exiting VAT system. However, GST is applicable on both the goods and services; on the other hand VAT is applicable only on goods in India.

3. Literature Review:

Poonam, 2017 in her study, she had cleared that, In the system of indirect taxation GST plays a very important role. The cascading and double taxation effects can be reduced by combing central and state taxes. Consumer's tax burden will approximately reduce to 25% to 30% when GST is introduced

and then after Indian manufactured products would become more and more inexpensive in the domestic and international markets. This type of taxation system would directly encourage economic growth. GST with its transparent features will prove easier to administer. In this paper the author has tried to attempt to spot the concept of GST & its current status in India. This paper has tried to give information about GST system. The examination additionally means to be comfortable with the favorable circumstances and difficulties of GST in Indian situation.

Srinivas K. R (2016) in his article “Issues and Challenges of GST in India” he has mentioned that central and state governments are empowered to levy respective taxes as per the Indian constitution which is likely to change the complete scenario of present indirect taxation system. GST will be a compressive indirect tax structure on manufacture, sales and consumption of goods and services throughout India, to replace the various indirect taxes levied by the both the governments.

Shefali Dani (2015) has suggested that GST administration is an irresolute endeavor to legitimize backhanded expense structure. Roughly more than 150 nations have executed GST idea. The legislature of India must examination the GST administration set up by different nations and furthermore their aftermaths previously actualizing GST. IT is the need of hour that, the legislature must make an endeavor to protect the huge poor populace of India, against the expansion because of execution of GST. GST will disentangle its current roundabout duty framework and should expel wasteful aspects made by the current heterogeneous expense framework, just if there is a reasonable agreement over issues of edge constrain, income rate, and incorporation of oil based commodities, power, alcohol and land.

Jaiprakash (2014) mentioned that it is tax reforms travel from CST through VAT to GST which ensures the greater uniformity in the tax system and it will reduce the application of multiple taxes on goods and services. GST broaden its scope on international business which leads to the growth of the GDP of our nation.

Girish Garg (2014) has mentioned about Goods and Service Tax in his article. He expressed the concept of GST, its challenges, opportunities, features and impact on India, which concludes, GST as a biggest tax reforms in India that increases the tax collections and enhance overall growth of the economy.

R. Vasanthgopal (2011) in his paper “GST in India: A big leap in the Indirect Taxation System” mentioned a rational design of the GST and indicated a positive impact on several industries unbiasedly that can balance conflicting interest of various stakeholders, political commitment for a fundamental taxation reform with a constitutional amendment. He also opined that switching on to flawless GST would be a huge leap in the taxation system which gives a new incentive to India’s economic change.

Rajesh Chadha et.al (2009) explained about new taxation system and its effect on the growth on India and global trade in their working paper. India has many tax regimes on all sectors. This leads to introducing inability on allocation of resources on domestic production. It mentioned that our

country is unable to meet the competition of international requirements. Effective and efficient allocation of productive resources and reasonable tax system on the goods and services will impact the growth of the economy which can be fulfilled with Goods and service tax.

With the above reviews we can assume that GST is a tax reform which will change the scenario of the country as a support for this review study.

4.IMPACT OF GST ON VARIOUS SECTORS

A positive impact from the GST on overall economy. But when it comes to sectorial-wise classification, the GST has both positive as well as negative impact on each of the sectors. Here are some sectors given and its GST is given below

4.1 Automobiles: The Automobile industry is currently paying a tax rate of a range between 30-45%. And it is expected that after GST the rate will be around 18% which will be a huge positive for the automobile industry and which will be profitable to both the Manufacturers/ dealers and the ultimate consumers. The standard and the social status of the consumers get uplifted. There will be a huge boom in the Automobile Industry as a result of implementation of Goods and Services Tax.

4.2 Pharmaceuticals: The proposed and recently passed GST Bill has generated a lot of curiosity in the economy. While the manufacturers are quite optimistic about the new tax law regime, but common man are not sure of how it is going to impact on their lives. In general, Before GST the taxes on drugs was 13% but now GST is 12% including ayurvedic drugs and 5% GST on medicines for HIV-AIDS, malaria, tuberculosis and diabetes. GST relies upon the positive effect on the pharmaceutical part. It will help the business by restructuring the tax structure since eight different taxes are pinched in the pharmaceutical industry right now. A solidification of all these into one tax would ease working together, as well as mitigates the falling effects of numerous taxes connected on one item.

4.3 Technology (Information technology and ITeS): The backhanded tax assessment arrangement of GST has made the obligation on the assembling products from 14% to 18-20%. Thus, the costs of the product items will be at high which will give either an unbiased or marginally negative effect on the Technology Sector all in all. But they will be benefited through the reduction of tax and benefits of other industries and can somewhat take the edge off it.

4.4 Consumer durables: The current of tax rate of this industry is around the range between 23-25%. And under the GST regime it is considered to be lower around 15-18% which will be positive impact to this industry.

4.5 Cement: The concrete business at present pays the assessment at the rate of 25% right now. Furthermore, after the GST administration, it is relied upon to be settled at the rate of 18 to 20%. This will be a noteworthy help for the organizations of that industry. What's more, the coordination's charge likewise is to be lessened; it would be a twofold advantage for every one of the ventures associated with assembling.

4.6 Telecommunications: The expected rate of GST is increased in telecommunications sector of around 18% and to be passed over to the customers. The telecommunications sector is presently

paying the tax at the rate of 14% and this gives a picture that GST will adversely affect this sector.



4.7 Real estate: In India, the real estate sector has strong multiplier effects through backward and forward leakages. After agriculture, the construction sector is the second largest employment generator medium for the country which accounts for 7.3% of the India's GDP. Under the GST regime there are different types of taxes involved in real estate sector, starting from the construction of property to sale of the same to the end consumers. These taxes are service tax, vat, stamp duty, building cess on construction etc. Moreover there are various other taxes which are embedded in the cost of procurements such as excise duty, CST etc. Due to cascading of taxes, higher tax cost burdens on house purchasers. It is expected that since there is a single system of Taxation under GST, all other forms of indirect taxation will be removed which results on reduction of property prices and the cost of construction. Thus, we can have a positive impact of GST on the Real estate sector.

4.8 Gold market: India's gold market is ending up more sorted out and straightforward, and it is likely GST will quicken this procedure. This ought to be useful for customers. The general duty rate on gold gems remains at 12.2%. This is comprised of 10% traditions obligation, 1% extract obligation, and 1.2% VAT. GST replaces the excise duty and VAT components, but sits on top of the import duty. This is the biggest fiscal reform since India's liberalisation in the early 1990s. The gold supply chain should become more transparent and efficient, and the tax reform could boost economic growth, which we see as supporting gold demand and positive impact on the gold industry.

4.9 Financial Services: In the vast majority of the nation's GST isn't charged on the money related administrations. Case, In New Zealand a large portion of the administrations secured with the exception of budgetary administrations as GST. In India the Financial administrations, for example, keeping money, Stock Trading firms are right now paying 14.5% as VAT which is probably going to be expanded to 18 to 22% sooner rather than later under the GST administration. Furthermore, the administrations are probably going to be costlier.

4.10 Textiles: Currently, the Textile industry is paying the tax at the rate of nearly 12.5% plus surcharges and which varies upon the MRP of the products. Since there is no clear idea about the

tax rate of this industry under the regime of GST it is expected at the rates of 15% which will be having a moderate impact on the industry.

4.11 Hotel and tourism Industry:The GST council has decided the GST rates over the hotel and tourism industry. Hotels with the tariff charts coming in between Rs. 1000 to Rs. 2499 will be having 12%, Rs.2500 to 7499 will be having a GST rate of 18%, while the hotels with tariff of Rs. 7500 and above will levied with 28%GST.After the Implementation of GST, It has been seen that luxury hotels costing around Rs 7500 per night noticed downfall into the booking of rooms but on the same side the booking of mid-range hotel is increased.

4.12 Media and Entertainment: The tax rate for the Media is around 22% as of now and since the authority for the levy of taxes remains to be the right of the local bodies, it is expected that the cinema fares are expected to come down after the GST regime and the cost of DTH and cable television services are likely to become costlier. There is somewhat either neutral or slightly negative impact of GST on the Media and Entertainment Industry.

4.3Problems with GST:

a. While the GST will streamline the system of indirect taxation, it will increase the burden of procedural and documentary compliance. Number of returns will increase significantly so also the extent of information. For instance, a real estate developer or contractor will have to file 61 returns in a year compared to 24 returns at present. Similarly a taxable person providing services from several states will have to take registration and file return in all such states. Presently a solitary incorporated enlistment is required in such cases.

b. GST will likewise have affect on income and working capital. Income and working capital of business associations which keep up high stock of products in various states will be antagonistically influenced as they should pay GST at full rate on stock exchange starting with one state then onto the next. As of now CST/VAT is payable discounted and not stock exchanges.

c. It is likewise applicable to take note of that all roundabout assessments won't be subsumed in GST. Power obligation, stamp obligation, extract obligation and VAT on mixed refreshments, oil based goods like rough, gaseous petrol, ETF, petroleum and diesel won't be subsumed in GST on its presentation. These expenses will frame some portion of the cost of this merchandise when utilized as contributions to downstream items. Consequently those areas where these products frame noteworthy info cost, for example, plastics and polymers, composts, metals, telecom, air transport, land won't get full advantage of GST.

5. Conclusion:

The proposed GST regime is a halfhearted attempt to rationalise multiple indirect tax structure. The real success of the GST lies on the impact on the various sectors in India. The pith of GST is that all merchandise and ventures be burdened at direct rate. The government of both central and state have to conduct awareness programmes and various literacy programmes about GST to its various stakeholders. Emphatically shows to be a distinct advantage as "One Nation, One Tax". What's more, almost certainly, GST will streamline existing roundabout assessment framework which will evacuate wasteful aspects made by the current heterogeneous tax collection framework just if there is an

unmistakable accord over issues of edge constrain, income rate and consideration of oil based goods, power, alcohol and so on. We expect the GST decides a positive effect and lifts up Indian economy and a rising Indian economy will help in the monetary development of the normal man.

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