International Journal of Research in Economics and Social Sciences (IJRESS)
Available online at: http://euroasiapub.org
Vol. 10 Issue 2, February - 2020
ISSN(o): 2249-7382 | Impact Factor: 6.939 |

GOODS & SERVICE TAX - A CONCEPTUAL STUDY OF ITS IMPACT ON GROSS DOMESTIC PRODUCT

DR. LEENA S. SHIMPI[1]
Assistant Professor, Department of Social Science & Commerce, Babasaheb Bhimrao Ambedkar University, Lucknow

PROF. BIMAL JAISWAL[2]
Department of Applied Economics, University of Lucknow, Lucknow,
Uttar Pradesh, India.

DR. SHIVA MANOJ[3]
Assistant Professor, Lal Bahadur Shastri Institute of Management and Development Studies, Lucknow, India

Abstract:
Goods and Service Tax (GST) is projected to be an inclusive policy that is expected to raise overall Indian welfare. GST model suggest that the distribution of goods across tax rate tiers matters for the growth outlook and as more goods move to the upper tiers, the GDP of the country will be affected. The effect on GDP in the short term may be disappointing but in the long run it is expected to improve the GDP and will have positive impact on the overall economy of India. With India inching towards a GST regime, a set of key expectations surrounds economic development, growth in international trade, moderate taxes, and stability in prices. The research has been undertaken to gain an in-depth understanding of GST taxation system and to study impact of Goods and Service Tax (GST) on India's gross domestic product (GDP).

The conclusions suggest that India's GDP growth for the second quarter of the current fiscal ended September 30 was 6.3 per cent; as compared to 5.7 per cent reported during the first quarter of 2017-18. Further it is estimated that GST has the potential to boost India's GDP by as much as 7 per cent per quarter and has been considered an unprecedented reform in the history of modern global tax.
Keywords*: economic growth, GDP, GST, Impact, Indian economy.*

Introduction

Goods and Service Tax (GST) is projected to be an inclusive policy that is expected to raise overall Indian welfare and expected to improve the economic conditions of all Indian states. GST model suggest that the distribution of goods across tax rate tiers matters for the growth outlook and as more goods move to the upper tiers, the real GDP and manufacturing output gains would be dampened. The impact of GST should be interpreted as a long run effect and the effects of GST on national and international trade components should also be taken into consideration to study the overall impact of GST on GDP and the Indian economy as whole.

The benefits of GST are varied, as by simplifying the current complex tax system, the GST is expected to broaden the overall tax base through increased transparency and compliance. In addition, the increased rate on services might generate extra revenues. GST is also expected to reduce the inefficiencies in the production process, as it will provide internal gains to the intermediate products, will make the internal goods competitive. The present study is a descriptive analysis of the effect of GST on the gross domestic product of India.

Background of GST

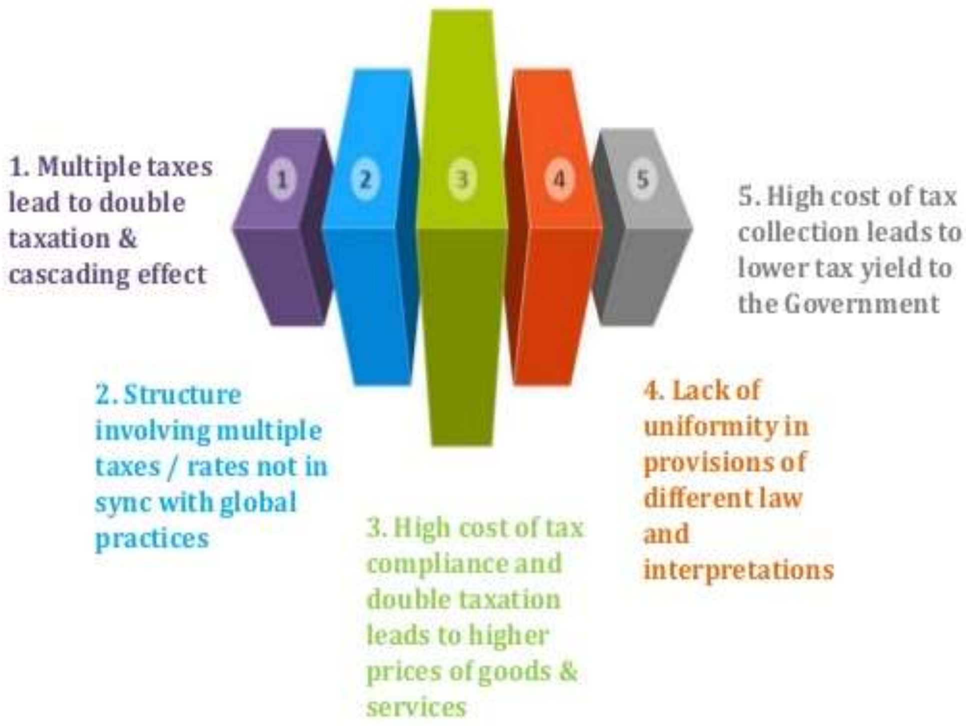
The Goods and Services Tax (GST), implemented on July 1, 2017, is regarded as a major taxation reform till date implemented in India since independence in 1947. "GST was planned to be implemented in April 2010, but was postponed due to political issues and conflicting interest of stakeholders. The primary objective behind development of GST is to subsume all sorts of indirect taxes in India like Central Excise Tax, VAT/Sales Tax, Service tax, etc. and implement one taxation system in India. The GST based taxation system brings more transparency in taxation system and increases GDP rate from 1% to 2% and reduces tax theft and corruption in country. The Goods and Services Tax (GST) is a vast concept that simplifies the giant tax structure by supporting and enhancing the economic growth of a country. GST is a comprehensive tax levy on manufacturing, sale and consumption of goods and services at a national level. The Goods and Services Tax Bill or GST Bill, also referred to as The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014, initiates a Value added Tax to be implemented on a national level in India. GST will be an indirect tax at all the stages of production to bring about uniformity in the system. 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. At the consumer level, GST would reduce the overall tax burden, which is currently estimated at 25-30%.

The global spread of VAT/GST reinforces the success of the VAT/GST system of indirect taxation over any other form of tax. With India inching towards a GST regime, a set of key expectations surrounds economic development, growth in international trade, moderate taxes, and stability in prices. Taxpayers hope for the new tax structure to be simple and uniform, clear and transparent, making compliance easier through administrative improvements and the creation of simpler and faster mechanisms for redressing grievances.

Overview of India's Tax System: Pre GST

CENTRAL TAXES rates	STATE TAXES rates
– Central Value Added Tax (CENVAT) or Central Excise duty 12.36% – Tax levied on the production of manufacturing goods. – Service Tax 15% (Tax levied on provided services). – Central Sales Tax (CST) 2% – Countervailing Duties (CVD) 12.36% (Additional import duty on imported goods which are produced in India) – Additional CVDs might be applied to of set the effect of concessions – Special Additional Duty of Customs (SAD) 4%	– Value Added Tax (VAT) 10%-14.5% (Tax levied on the production of manufacturing goods). – Sales Tax 0%-15% (Additional tax levied on the production of manufacturing goods. It was replaced in most states by VAT, but not all). – Entry Tax 0%-12.5% (Tax on the entry of goods for consumption, use or sale in that state). – Luxury Tax 3%-20% (Tax on luxury goods and services that include hotels, resorts, and halls used for weddings, conferences, etc. – Entertainment Tax 15%-50%

Figure 1: Need for GST



(Source: https://www.slideshare.net/guptarajin2002, downloaded from google images)

Definition of Goods and Service Tax

New Article 366(12A) of the Indian Constitution defines Goods and Services Tax (GST) as any tax on supply of goods or services or both except taxes on the supply of the alcoholic liquor for human consumption.

Figure 2: Components of GST

(Source: www.icai.org; downloaded from google images)

Literature Review

Ehtisham Ahmed and SatyaPoddar (2009) studied, "Goods and Service Tax Reforms and Intergovernmental Consideration in India" and found that GST introduction will provide simpler and transparent tax system with increase in output and productivity of economy in India. But the benefits of GST are critically dependent on rational design of GST.
Dr. R. Vasanthagopal (2011) studied, "GST in India: A Big Leap in the Indirect Taxation System" and concluded that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy. Success of GST will lead to its acceptance by more than 130 countries in world and a new preferred form of indirect tax system in Asia also.
Nitin Kumar (2014) studied, "Goods and Service Tax- A Way Forward" and concluded that implementation of GST in India help in removing economic distortion by current indirect tax system and expected to encourage unbiased tax structure which is indifferent to geographical locations.
Pinki, Supriya Kamma and Richa Verma (July 2014) studied, "Goods and Service Tax- Panacea For Indirect Tax System in India" and concluded that the new NDA government in India is positive towards implementation of GST and it is beneficial for central government, state government and as well as for consumers in long run if its implementation is backed by strong IT infrastructure.
Van Leemput (2016) quantizes domestic and international trade barriers in India such as shipping costs, tariffs, etc. It provides evidence that India's domestic trade barriers are highly correlated with the ease of doing business across states, with varied level of tax rates and the complexity of the tax system. The effects of the GST bill here are studied as an interesting application of the quantitative model of Van Leemput (2016), analyzing these effects through a reduction in domestic and international trade barriers. Finally, this note examines the sensitivity of the growth and welfare outcomes under an alternative scenario of the GST bill.

Amutha (2018) In India, GST is imposed on goods and services income. It is expected to iron out wrinkles of existing indirect tax system and play a vital role in growth of India. It is believed that GST would put India's indirect tax structure at par with more than 140 countries and would be productive for all the sectors. Implementation of such reforms does face surmountable challenges; however this is expected to bring in benefits in the form of higher GDP and also transparency in the tax system." The GST would be imposed on the "value – addition and thus would leave lesser scope for tax evasion.

Objectives of the study

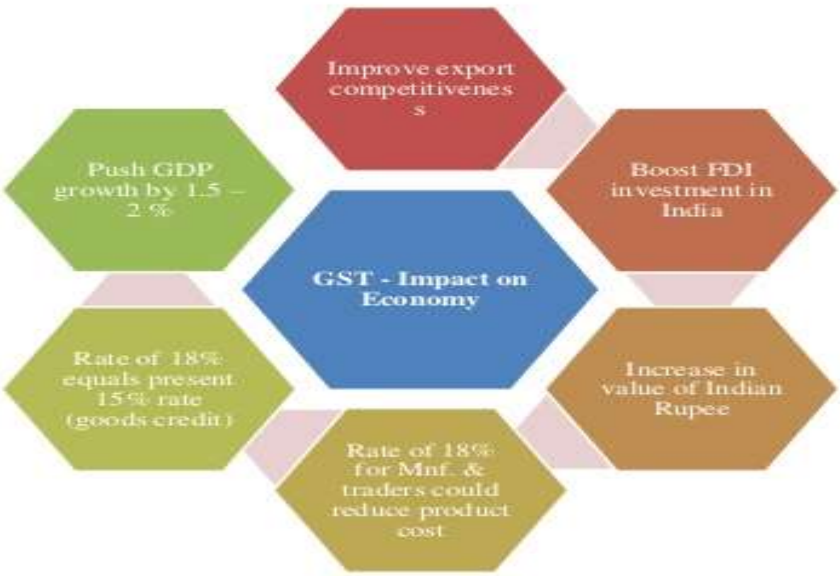
The research has been undertaken and presented considering the following foremost objectives:

1. To gain an in-depth understanding of GST taxation system.
2. To study impact of Goods and Service Tax (GST) on the Gross Domestic Product (GDP) of India.

Research methodology

The study attempts at descriptive analysis based on the secondary data sources from journals articles, media reports and data published on various websites. Available secondary data was extensively used for the study.

Figure 3: Impact of GST



(Source: www.icai.org; downloaded from Google images)

The biggest benefit of GST is an elimination of multiple indirect taxes. All taxes that currently exist will not be in picture. This means current taxes like excise, octroi, sales tax, CENVAT, Service tax, turnover tax etc. will not be applicable and all that will fall under common tax called as GST. For a common man, GST applicability means the elimination of double charging in the system. This will reduce the price of goods and services & help common man for saving more money. It is expected that price of FMCG products, small cars, cinema tickets, electrical wires etc. is expected to reduce. For a businessman, GST will be a boon. No multiple taxes means compliance and documentation will be easy. Return filing, tax payment, and refund process will easy and hassle free. GST will be applicable at all stages from manufacturing to consumption. GST will provide tax credit benefit at every stage in chain. Today at every stage margin is added and tax is paid on whole amount, in GST you will have tax credit benefit and tax will be paid on margin amount only. It will reduce cascading effect of tax thereby reducing cost of product.

Figure 4: Impact of GST on GDP of India

(Source: www.Marconix.in downloaded from Google images)

GST is a single taxation system that will reduce the number of indirect taxes. From now, a single taxation term would cover all of those indirect taxes. The prices of products and services would reduce, thus this system would prove to be beneficial for the people who are fed up of paying high prices. This would reduce the burden from the state and the central government. With the introduction of GST, all indirect taxes would come under a single roof. GST would not be charged at every point of sale like other indirect taxes so in this way, market would be developed. GST would introduce corruption-free taxation system and also with the introduction of GST there will be less tax compliance.

Few experts argue that there will be negative effects of implementation of GST in India. The introduction of GST in the country will impact real estate market. This would increase new home buying price by 8% and reduce buyers‟ market by 12%. GST is a mystifying term where double tax is charged in the name of a single tax. Most of the dealers don't pay central excise tax and cheat the government by simply giving the VAT. But all of those dealers would now be forced to pay GST. The short-term impact of GST is expected to be neutral-to negative for the broader economy. Production processes are likely to take some time to align with the new framework as firms adjust to the input tax credit system and better manage working capital requirements. For consumers, it will be a mixed bag as some goods become cheaper while others will be expensive. Also it is feared that if actual benefit is not passed to consumer and seller increases his profit margin, the prices of goods can also see a rising trend.

Findings of the study

i. After the implementation of GST there was a subsequent slowdown in the manufacturing sector which was expected to drag down India's growth to 6.5 per cent in 2017-18.
ii. The Central Statistics Office (CSO) projected that economic growth rate for 2017-18 will be lower than the 7.1 per cent achieved in 2016-17.
iii. According to Chief Statistician T.C.A. Anant, the de-stocking disruption caused by the GST implementation has impacted the full-year Gross Domestic Product (GDP) estimates.
iv. The CSO's estimate of national income for 2017-18 showed the GDP at constant (2011-12) prices for 2017-18 is likely to attain a level of Rs 129.85 lakh crore.
v. in its estimate of National Income for 2017-18, the Ministry of Statistics & Programme Implementation estimated growth in GDP during 2017-18 at 6.5 per cent as compared to the growth rate of 7.1 per cent in 2016-17.
vi. India's GDP growth for the second quarter of the current fiscal ended September 30 was 6.3 per cent; as compared to 5.7 per cent reported during the first quarter of 2017-18.
vii. The Gross Value Added (GVA), which includes taxes, at basic constant prices (2011-12) is anticipated to increase from Rs 111.85 lakh crore in 2016-17 to Rs 118.71 lakh crore in 2017-18, as per the estimates of the Ministry of Statistics & Programme Implementation.
viii. Further the ministry also anticipated growth of real GVA at basic prices in 2017-18 is 6.1 per cent as against 6.6 per cent in 2016-17.

The data disclosed that sectors like 'public administration, defense and other services', 'Trade, hotels, transport, communication and services related to broadcasting', 'electricity, gas, water supply and other utility services' and 'financial, real estate and professional services' registered a growth rate of over 7 per cent.

On the other hand, growth in the 'agriculture, forestry and fishing', 'mining and quarrying', 'manufacturing' and 'construction' sectors "is estimated to be 2.1 per cent (from 4.9 per cent), 2.9 per cent (from 1.8 per cent), 4.6 per cent (from 7.9 per cent) and 3.6 per cent (from 1.7 per cent)", respectively.

As per Aditi Nayar, Principal Economist at rating agency: "The advance estimates for the full year have been based on limited data, which would be available for a period of 6-9 months for different sectors. Therefore, they are not fully factoring in the expected pickup in growth in the later months of FY2018, related to a favourable base effect and a 'catch up' following the subdued growth momentum in H1 FY2018,"

As per the GDP first advance estimate, the entire fiscal showed that the nominal GDP calculated at market prices is expected to grow at 9.5 per cent, which is lower than 11.75 per cent estimated in the Union Budget presented last year. "Implicit calculation suggests growth in the second half of 2017-18 will be better that the first. For the next two quarters we have projected a growth 7 per cent, so the increase of Q2 will be maintained," as reported in The Economic Times.

In the words of CSO, "Number of figures had come in low for the first quarter for the GDP coming in lower at 5.7 per cent because of industry reaction in anticipation of GST (Goods and Services Tax) coming in,"

In January (2018), International Monetary Fund (IMF) has come out with an estimate of 7.4 per cent growth two days ago. As per the bank’s chief economist: "For India, we are expecting the economy to grow in the next three years (FY18-20) by 6.5 per cent, 7 per cent and 7.6 per cent. Further the growth has slid from previous year's 7.1 per cent to 6.5 per cent in FY18 due to the implementation of the Goods and Services Tax (GST)”.

Conclusion

The proposed GST in India consists of a consumption-type VAT, in which only final consumption is treated as the final use of a good. GST is expected to integrate taxes on goods and services across the supply chain, allowing for offsets and capture of value addition at each stage. A continuous chain of offsets is expected to be established, from the level of the original producer or service provider to the retailer's level, which would eliminate the burden of all cascading effects. Suppliers at each stage would be permitted to set off the GST paid on the purchase of input goods and services against their GST obligations to be paid on the supply of goods and services. GST has the potential to boost India’s GDP by as much as 2 per cent and has been considered an unprecedented reform in the history of modern global tax. Taxpayers will not have the burden of multiple compliances under various states. With the GST tax structure, there will be a single registration and single return.

Various reports have put forth more corporate data now being available since the second quarter, including the GST collections for November, 2017, although GDP is estimated to growth further, the dampening effect of the first quarter's fall would pull down the growth rate for the full year. GST will impact the overall taxation system of the Indian economy. It will improvise the country's GDP ratio and also will control inflation to a certain extent. However, the reform will mainly be advantageous to the manufacturing industry but will make some things challenging for the service sector industry.

REFERENCES

Abda S., (2015), Effects of goods and services tax on Indian economy, *International Education and Research Journal,* 3(5), pg. 584-585.

Atkin, D. and D. Donaldson (2014): \Who's Getting Globalized? The Size and Impact of Intranational Trade Costs," NBER Working Paper No. 21439.

Baliyan M. and Rathi P., (2018), Impact of GST on Different Sectors of Indian Economy, *International Journal of Innovative Research and Advanced Studies (IJIRAS)*, 5(3), 241-243.

Chochan V., Shakdwipee P. and Khan S., (2017) Measuring Awareness about implementation of GST: A Survey of Small Business Owners of Rajasthan, *Pacific Business Review International*, 9(8), 116-125

Cosar, A. K. and P. D. Fajgelbaum (2016), Internal Geography, International Trade, and Regional Outcomes," American Economic Journal: Microeconomics, 8, pg. 24-56.

Dani S., (2016) A research paper on an impact of Goods and Service Tax (GST) on Indian Economy, *Business and Economics Journal*, 7(4), pg. 1-2.

Kumar K.A., (2017) A Journey of Goods and services tax (GST) and Structural Impact of GST on the Growth of GDP in India, *Advances in Sciences and Humanities*, 3(5), pg. 50-53.

Kumar P., (2013), GST (Challenges and implication in Indian context), *International Research Journal of Management Sociology & Humanities*, 4(1), pg. 1571-1576.

Shokeen S., Banwari V. and Singh P., (2017) Impact of goods and services tax bill on the Indian economy, *Journal of Finance*, 11(7), pg. 65-78.

Van Leemput, E. (2016); A Passage to India: Quantifying Internal and External Barriers to Trade," International discussion papers 1185.

Websites visited:

a. http://www.financialexpress.com/opinion/gst-rate-the-global-picture/348207/
http://www.ey.com/in/en/services/ey-goods-and-services-tax-gst
b. http://www.gstindia.com/
c. http://www.mospi.gov.in/central-statistics-office-cso-0
d. https://en.wikipedia.org/wiki/Goods_and_Services_Tax_(India)_Bill
e. https://www.ey.com/in/en/services/ey-goods-and-services-tax-gst
f. wwww.prsindia.org/billtrack/the-constitution-122nd-amendment-gst-bill-2014-3505/
g. https://economictimes.indiatimes.com/news/economy/finance/gdp-may-grow-to-7-in-fy19-as-gst-impact-wanes-hsbc/articleshow/62635825.cms?from=mdr