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GST- A Driver of India's Economic Growth

Ms. Himani[1]
Assistant Professor in Economics
D.A.V. College for Girls, Yamuna Nagar

Dr. Meenu Jain[2]
Associate Professor in Economics
D.A.V. College for Girls, Yamuna Nagar

Abstract

To make India as a financial superpower the introduction of GST was must. Goods and Services Tax is defined as the giant indirect tax structure designed to support and enhance the economic growth of a country. 160 countries have implemented GST so far. There was a huge hue and cry against its implementation. In the worldwide economic crisis, India showed remarkable survival in its economic system. The well insulated economic structure in India is the basis of such an amazing withstand. The Goods and Services Tax (GST) is expected to be a milestone in the economic growth in India. The aim of GST is to make uniformity in the scattered indirect tax system in India and to avoid the cascading effect of taxation. GST bring a transformation in the entire tax system in India. This effect will go beyond Indian borders also. The implementation of GST leads to efficient allocation of factors of production and will lead to gain in GDP and exports. It would enhance economic welfare and return to the factors of production i.e. land, labour, capital and entrepreneur. The implementation of GST will reduce tax burden on manufacturers and will encourage the higher production. This process will increase the export of India and it will increase the total GNP. The present paper studies the detailed impact of GST implementation on economic growth in India.

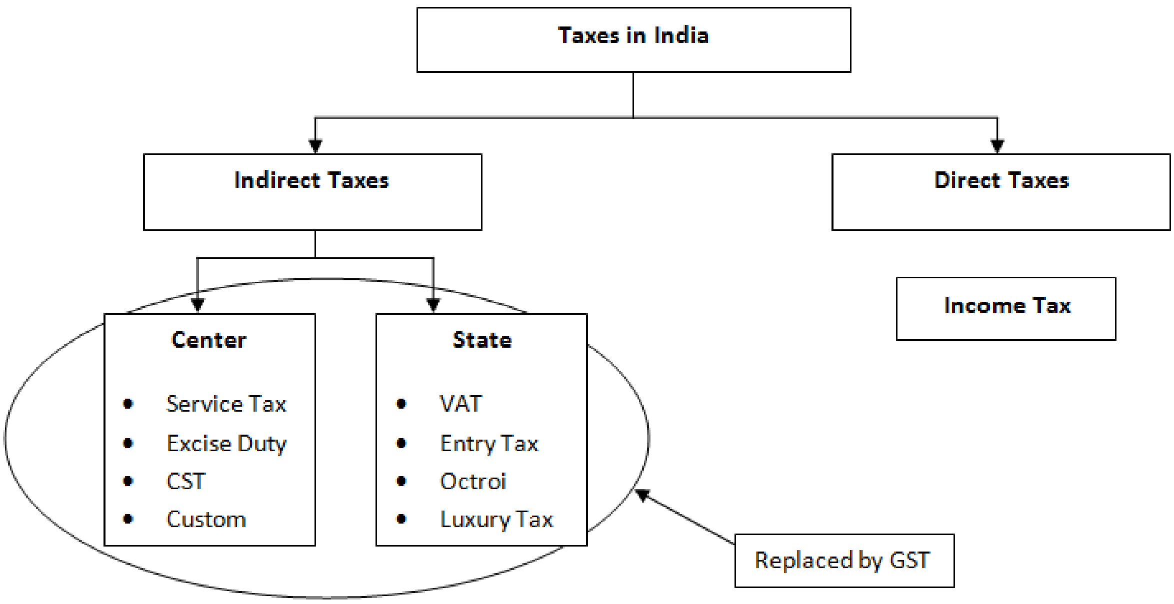
Keywords:

GST, Indirect Tax, Indian Economy, Indian economy, Economic Growth

Introduction

The concept of GST was invented by a French tax official in the 1950s. In some countries, it is known as VAT, or Value-Added Tax. Today, more than 160 nations, including the European Union and Asian countries such as Sri Lanka, Singapore and China practice this form of taxation. About 90 percent of the world's population live in countries with VAT or GST. **Goods and Services Tax (GST)** is an indirect tax applicable throughout India which replaced multiple cascading taxes levied by the central and state governments. It was introduced as The Constitution (One Hundred and First Amendment) Act 2017, following the passage of Constitution 122nd Amendment Bill. The GST is governed by a GST Council and its Chairman is the Finance Minister of India. India's biggest tax reform in 70 years of independence, the Goods and Services Tax (GST) was finally launched on the midnight of 30 June 2017.

GST is one indirect tax for the whole nation, which will make India one unified common market. GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages.



MAJOR CHRONOLOGICAL EVENTS THAT HAVE LED TO THE INTRODUCTION OF GST IN INDIA

GST is being introduced in the country after a 13 year long journey since it was first discussed in the report of the Kelkar Task Force on indirect taxes. In 2003, the Kelkar Task Force on indirect tax had suggested a comprehensive Goods and Services Tax (GST) based on VAT principle. A proposal to introduce a National level Goods and Services Tax (GST) by April 1, 2010 was first mooted in the Budget Speech for the financial year 2006-07.Since the proposal involved reform/ restructuring of not only indirect taxes levied by the Centre but also the States, the responsibility of preparing a Design and Road Map for the implementation of GST was assigned to the Empowered Committee of State Finance Ministers (EC).Based on inputs from Govt of India and States, the EC released its First Discussion Paper on Goods and Services Tax in India in November, 2009.In order to take the GST related work further, a Joint Working Group consisting of officers from Central as well as State Government was constituted in September, 2009.In order to amend the Constitution to enable introduction of GST, the Constitution (115th Amendment) Bill was introduced in the Lok Sabha in March 2011. As per the prescribed procedure, the Bill was referred to the Standing Committee on Finance of the Parliament for examination and report.Meanwhile, in pursuance of the decision taken in a meeting between the Union Finance Minister and the Empowered Committee of State Finance Ministers on 8th November, 2012, a 'Committee on GST Design', consisting of the officials of the Government of India, State Governments and the Empowered Committee was constituted.This Committee did a detailed discussion on GST design including the Constitution (115th) Amendment Bill and submitted its report in January, 2013. Based on this Report, the EC recommended certain changes in the Constitution Amendment Bill in their meeting at Bhubaneswar in January 2013.The Empowered Committee in the Bhubaneswar meeting also decided to constitute three committees of officers (Committee on Place of Supply Rules and Revenue Neutral Rates; Committee on dual control, threshold and exemptions; Committee on IGST and GST on imports) to discuss and report on various aspects of GST.

The Parliamentary Standing Committee submitted its Report in August, 2013 to the Lok Sabha. The recommendations of the Empowered Committee and the recommendations of the Parliamentary Standing Committee were examined in the Ministry in consultation with the

Legislative Department. Most of the recommendations made by the Empowered Committee and the Parliamentary Standing Committee were accepted and the draft Amendment Bill was suitably revised. The final draft Constitutional Amendment Bill incorporating the above stated changes were sent to the Empowered Committee for consideration in September 2013.The EC once again made certain recommendations on the Bill after its meeting in Shillong in November 2013. Certain recommendations of the Empowered Committee were incorporated in the draft Constitution (115th Amendment) Bill. The revised draft was sent for consideration of the Empowered Committee in March, 2014.The 115th Constitutional (Amendment) Bill, 2011, for the introduction of GST introduced in the Lok Sabha in March 2011 lapsed with the dissolution of the 15th Lok Sabha.In June 2014, the draft Constitution Amendment Bill was sent to the Empowered Committee after approval of the new Government.Based on a broad consensus reached with the Empowered Committee on the contours of the Bill, the Cabinet on 17.12.2014 approved the proposal for introduction of a Bill in the Parliament for amending the Constitution of India to facilitate the introduction of Goods and Services Tax (GST) in the country. The Bill was introduced in the Lok Sabha on 19.12.2014, and was passed by the Lok Sabha on 06.05.2015. It was then referred to the Select Committee of Rajya Sabha, which submitted its report on 22.07.2015.

OBJECTIVES OF STUDY

The study has following objectives:

1. To cognize the concept of GST
2. To study the features of GST
3. To study the advantages and challenges of GST in India
4. To Study on Prospects in Implementation of Goods and services Tax (GST) in India .

RESEARCH METHODOLGY

Being an explanatory research it is based on secondary data of journals, articles, newspapers and magazines covering wide collection of academic literature on Goods and Service Tax.

REVIEW OF LITERATURE

Syed A. Basher (2008) emphasized that the introduction of GST would not necessarily result in inflation. He explained that this is because inflation is defined as a repeated rise in average prices over time and does not refer to a once-and-for-all increase in prices. Sukumar Mukhopadhyay (2005) said that GST can never, by itself, lead to a sustained increase in the rate of change in price level. Matti Viren (2008) discovered that more than one half of a tax increase (GST in this case) shifts to consumer prices.

Carare and Danninger (2009) and Carbonnier (2007) told that the implementation of GST provides an exclusive chance to evaluate price setting behaviour related to a sudden increase in price. From their research, they found that a large part of the inflation effect could have possibly happened before the increment.

Other than that, Jonker, Folkertsma and Blijenberg (2004)Investigated the price setting behaviour in Netherlands. They also discuss the effect of the GST increase in January 2001 on Inflation in Netherlands. In 1st January 2001, the Dutch general VAT rate was increased from 17.5% to 19%. They find that the 1.5 percent point increase in the VAT was almost completely passed through into consumer prices.

According to Gautier and Lalliard (2014), Carare and Danninger (2009) and Viren (2009), they found that more than half of VAT changes are passed on to consumer prices one quarter after the rate increase. Basically, this is partly due to VAT changes haveoften had significant but short lived effects on retailers' adjustment behaviour and on inflation. Changes in indirect taxation influence prices because the after-tax price paid by the consumer is the sum of the before-tax price, whose payment is kept by the merchant as earnings, and taxes. A study on the effect of VAT on inflation (Valadkhani and Layton, 2004), it seems fair to conclude that, GST had a serious but short-lived impact on inflation only in the firstquarter when new tax system was implemented. Especially among the major capital cities, when a GST was implemented, there is no significant change in the average price.

In France, for example, price changes are much more frequent in the first quarter (Berardi et al., 2013). On top of that, Carare and Danninger (2009) claimed that the repercussions of the rise in rate of VAT have mostly taken place immediately after implementation. The reason is the increase in price was already taken into account in 2006 as consumers were anticipating a rise in VAT. This effect is known as "inflation smoothing". Consumers stocked up on daily items and groceries earlier as they were wary of the higher expected prices a year later.

On the one hand, Gabriel and Adam (2006) concluded that it is veryobvious that any change in VAT will substantially affect the inflation.

Background of GST outside India

Presently, there are around 160 countries that have implemented GST/VAT in some form or other. In some countries, VAT is the substitute for GST, but conceptually it is a destination based tax levied on consumption of goods and services.

- France was the first to introduce GST.
- Only Canada has dual GST model(Just like India also implemented Dual GST Model).
- Rate of GST ranges between 15–20% generally(may differ to higher/lower side in few countries).

List of Countries Implementing VAT/GST

Currently, there are 160 countries in the world that have implement VAT/GST. Number of country based on region are as follows:-

Sr. No.	Region	No. of Countries
1.	ASEAN	7
2.	Asia	19
3.	Europe	53
4.	Oceania	7
5.	Africa	44
6.	South America	11
7.	Caribbean, Central & North America	19
Total		160

Country working towards a VAT/GST system: -

→Afghanistan, Bahamas, Bhutan, Kiribati, Marshall Islands, Micronesia, Palau, Sao Tome and Principe, Syria

→Gulf Cooperation Council (Bahrain, Kuwait, Qatar, Saudi Arabia, Oman and the United Arab Emirates)

→China –to have a uniformed GST system

Impact of GST

The GST has subsumed central and state taxes inevitably changing the indirect tax landscape of India from July 1, 2017. While the actual impact and effect of the massive reform can be gauged sometime after, the immediate effect will be: cheaper, costlier and same priced products. While a few products may weigh heavily on your pockets, there will be some which may calm down your nerves and there will be no change in others. The GST Council has made four primary tax rate slabs for various items – low rate of 5 percent, standard rates of 12 percent and 18 percent, and high rate of 28 percent. Some of these products had higher effective tax rates before GST implementation but the new tax policy will lessen the burden on consumers. Meanwhile there will be some products which will now be taxed at a higher rate, thereby increasing their prices. However, it must be noted that the government has kept essential items of daily use tax free, that is, either at zero tax rate or completely out of the ambit of tax under GST. There is a huge number (1,211 items and 600 services) put under the tax brackets, and it may be a burden to keep a track of all of them. Here are a few things whose price have increased or decreased or stayed the same after the GST.

Cheaper under GST Food: Unpacked food grains, unbranded Atta, Maida, besan, fresh vegetables and fruits, salt, food at small restaurants, cutlery, ketchup, sauces and pickle. Personal Care: Soaps, hair oil and toothpaste. Travel and Auto: Airfares for economy class travel, bikes or scooters with engine capacity below 350 cc and SUVs. Household: Pressure cookers and pans. Entertainment: Movie tickets that cost less than Rs 100. Hotels: Rooms at non-luxury hotels and hotels with tariffs of less than Rs 7,500. Others: Footwear and Apparels, Weighing machinery, UPS, revenue stamps.

Costlier under GST: Food: Tea and coffee, food at fine dining restaurants or those inside five-star hotels. Personal Care: shampoos and deodorants. Travel and Auto: Airfare for business class and train tickets, bikes which have an engine capacity of over 350 cc. Household: TVs, refrigerators, ACs, washing machine. Entertainment: Movie tickets above Rs 100. Hotels: Hotels which have room tariffs over Rs 7,500. Courier services, mobile phone tariffs, insurance premiums, banking charges, broadband services. Sin: Aerated drinks, tobacco and luxury goods. Others: Mobile bills, tuition fees, salon visits and buying a flat or shop.

Tax free items: There is no tax on items like: Salt, eggs, milk, buttermilk, unpackaged curd, natural honey, fresh fruits and vegetables, flour, besan, bread, Prasad, lassi, unpacked paneer, fresh meat, fish, chicken, Palmyrajaggery, hulled cereal grains, unbranded and unpackaged tea and coffee, vegetable oil, children's picture, drawing or coloring books, muddhas made of sarkanda and phoolbaharijhadoo, jute, kajal (other than kajal pencil sticks), bindi, sindoor, bangles, handloom, stamps, judicial papers, printed books, newspapers, unbranded dried leguminous vegetables, silkworm laying, raw silk, silk waste, uncarded or uncombed wool, Gandhi topi, khadi yarn, coconut, coir fibre, unspun jute fibres, Indian national flag, Puja items, prasad, contraceptives, hotels and lodges with tariff below Rs 1,000, education and healthcare services.

Comparison of tax under the old tax system and GST regime

Transaction	Old Taxation System	GST
Cost of Raw material	100	100
Tax on Raw material	10	10
Value added by manufacturer	20	20
Tax payable by manufacturer	2	2
Retailor cost	132	132
Retailor Margin	20	20
Tax Payable	15.2 (sale tax 10% of 152)	2 (GST 10% of 20)
Final price paid include taxes	167.2	154
Of which Taxes	27.2	14

Source: PRS Legislative Research

Economist are not sure of the immediate impact of GST, some say it may impede growth in the short term as big companies recognise their businesses and as small firms lose revenue. According to IMF 'GST will push growth in India to over 8%. UN report says that India's economy will grow 7.1%this year and 7.5% in 2018. Most analysts forecast the economy to grow close to 7.4% in 2017-18, which is slightly higher than 7.1 in 2016-17 but lower than

7.9% in 2015-16. Moody's forecast that India's economy will grow 7.5% in 2017 and 7.7% in FY 18.

Sector-wise Impact Analysis of GST:

GST is purported to bring in the 'one nation one tax' system, but its effect on various industries will be slightly different. The first level of differentiation will come in depending on whether the industry deals with manufacturing, distributing and retailing or is providing a service.

Logistics : In a vast country like India, the logistics sector forms the backbone of the economy. We can fairly assume that a well organized and mature logistics industry has the potential to leapfrog the "Make In India" initiative of the Government of India to its desired position. After the implementation of GST, we can witness mega logistic hubs and high investments in infrastructure where 100% FDI is already allowed.

E-commerce : The e-com sector in India has been growing by leaps and bounds. In many ways, GST will help the e-com sector's continued growth but the long-term effects will be particularly interesting because the model GST law specifically proposes a tax collection at source (TCS) mechanism with which e-com companies are not too happy. The current rate of TCS is at 1% and it'll remain to be seen if it dilutes the rapid boom in this sector in any way in the future.

Pharma: GST is expected to benefit the pharma and healthcare industries. It will create a level playing field for generic drug makers, boost medical tourism and simplify the tax structure. If there is any concern, then it relates to the pricing structure. The pharma sector is hoping for a tax respite as it will make affordable healthcare easier to access by all.

Telecommunications: Prices are expected to come down after GST in the telecom sector. Manufacturers will save on costs through efficient management of inventory and by consolidating their warehouses. Handset manufacturers will find it easier to sell their equipment as GST will negate the need to set up state-specific entities, and transfer stocks. The will also save up on logistics costs

Textile : The Indian textile industry provides employment to a large number of skilled and unskilled workers in the country. It contributes about 10% of the total annual export, and this value is likely to increase under GST. GST would affect the cotton value chain of the textile industry which is chosen by most small medium enterprises as it currently attracts zero central excise duty.

Real Estate : The real estate sector is one of the most pivotal sectors of the Indian economy. This sector plays an important role in employment generation in India. This sector will see substantial benefits from GST implementation, as GST will bring transparency and accountability in this sector.

Agriculture : Agricultural sector is the largest contributing sector in overall Indian GDP. It covers around 16% of India's GDP. One of the major issues faced by the agricultural sector is the transportation of agri products across state lines all over India. It is highly probable that GST will resolve the issue of transportation. GST may provide India with its first National Market for the agricultural goods.

FMCG : The FMCG sector could see significant savings in logistics and distribution costs as the GST will eliminate the need for multiple sales depots. The GST rate for this sector is expected to be around 17% which is way lesser than the 24- 25% tax rate paid currently by FMCG companies. This includes excise duty, VAT and entry tax – all of which will be subsumed by GST.

Freelancers : Freelancing in India is still a nascent industry and the rules and regulations for this chaotic industry are still up in the air. But with GST, it will become much easier for freelancers to file their taxes as they can easily do it online. They will be taxed as service providers, and the new tax structure will bring about coherence and accountability in this sector.

Automobiles : The automobile industry in India is a vast business producing a large number of cars annually, fueled mostly by the huge population of the country. Under the current tax system, there are several taxes applicable on this sector like excise, VAT, sales tax, road tax, motor vehicle tax, registration duty which will be subsumed by GST. Though there is still some ambiguity due to tax rates and incentives/ exemptions provided by different states to the manufacturers/ dealers for manufacturing car/bus/bike.

Startups : With increased limits for registration, tax credit on purchases, and a free flow of goods and services, the GST regime is well for the Indian startup scene. Currently, many Indian states have very different VAT laws which can be confusing for companies that have a pan-India presence, specially the e-com sector. All of this is expected to change under GST with the only sore point being the reduction in the excise limit.

Conclusion

Taxation both direct and Indirect plays an important role in promoting economic growth as well as equitable distribution. It plays a significant role in the development of economy as it impacts the efficiency and equity.A good tax system control income distribution and at the same time it will endeavour to generate tax revenue which will support government expenditure on public services and development of infrastructure. A well-designed GST is an attractive method to get rid of deformation of existing process of multiple taxation. The proposed GST regime is a half-hearted attempt to rationalize indirect tax structure. 160 countries have implemented GST so far. The government of India should study the GST regime set up by various countries and also their fallouts. At the same time, the government should make an attempt to insulate the vast poor population of India against the likely inflation due to implementation of GST. No doubt, GST will simplify existing indirect tax system and will help to remove inefficiencies created by the existing current heterogeneous taxation system only if there is a clear consensus over issues of threshold limit, revenue rate, and inclusion of petroleum products, electricity, liquor and real estate. After the implementation of GST, the entire Indian market will be a unified market which may translate into lower business costs. It will facilitate seamless movement of goods across states and reduce the transaction costs of businesses. It is also good for export oriented businesses as it is not applied for goods and services which are exported out of India.

Thus, we can conclude that in initial phases of Implementation of GST, we will face some problems on its way but at the end it would prove to be a boon for the nation enabling fulfilment of our cherished dream of making India a progressively sustainably growing economy.

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