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GST AND ITS IMPACTS ON INDIAN ECONOMY

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ABSTRACT

GST is also known as the Goods and Services Tax which is defined as the giant indirect tax structure designed to support and enhance the economic growth of a country. More than 150 countries have implemented GST so far. And it was 1st July 2017 when GST was introduced in India as a biggest Tax Reforms. By merging a large number of Central and State taxes into a single tax , GST is expected to significantly ease double taxation and make taxation overall easy for industries . GST is said to be good and simple tax. The idea behind implementing GST across the country in 29 states and 7 union territories is that it would offer a win – win situation for everyone. It would generate Good Revenue to the Government of India and the tax compliance will also increase.

WHAT IS GST ?

GST which is also known as VAT or the value added tax in many countries is a multi-stage consumption tax on goods and services.

GST is levied on the supply of goods and services at each stage of the supply chain from the supplier up to the retail stage of the distribution. Even though GST is imposed at each level of the supply chain, the tax element does not become part of the cost of the product because GST paid on the business inputs is claimable. Hence, it does not matter how many stages where a particular good and service goes through the supply chain because the input tax incurred at the previous stage is always deducted by the businesses at the next step in the supply chain.

GST is a broad based consumption tax covering all sectors of the economy i.e, all goods and services made in India including imports except specific goods and services which are categorized under zero rated supply and exempt supply orders as determined by the Minister of Finance and published in the Gazette.

The basic fundamental of GST is its self-policing features which allow the businesses to claim their Input tax credit by way of automatic deduction in their accounting system. This eases the administrative procedures on the part of businesses and the Government. Thus, the Government's delivery system will be further enhanced.

We need to pay taxes so that the government can finance socio-economic development; which includes providing infrastructure, education, welfare, healthcare, national security etc.

"Over the past few decades, the worldwide trend has been for the introduction of a multi-stage GST system. Today, almost 90% of the world's populations live in countries with GST, including China, Indonesia, Thailand, Singapore and India."

GST AND ITS IMPACTS ON INDIAN ECONOMY

It was 1st July 2017 when GST was introduced in India. It replaced multiple cascading taxes levied by the central and state governments. It was introduced as the 122nd amendment act in the Constitution. The GST is governed by a GST council and its chairman is the finance minister of India.. GST is the biggest tax reform in India founded on the notion of 'one Nation , one market ,one tax, is finally here. Under GST, goods and services are taxed at the following rates ,0% ,5%,12%, 18% and 28%. The movement that the Indian govt was waiting for a decade has finally arrived. The single biggest indirect tax regime has kicked into force , dismantling all the inter state barriers with the respect to trade . The GST rollout, with a single stroke , has converted India into a unified market of 1.3 billion citizens .

Fundamentally, the $ 2.4 trillion economy is attempting to transform itself by doing away with internal tariff barriers and subsuming central , state and local taxes into unified GST .GST is said to be good and simple tax .the idea behind implanting GST across the country in 29 states and 7 union territories is that it would offer a win -win situation for everyone .and it was said that the manufacturers and traders would benefit from fewer tax filings , and it would generate revenue to the govt . How GST really impacted India lets take a look.

Benefits of GST to the Indian economy

1) Removal of bundled indirect taxes such as VAT ' CST, Service tax, CAD, SAD, and Excise.
2) Less tax compliance and a simplified tax policy compared to present tax structure.
3) Removal of cascading effect of taxes i.e. removes tax on tax.
4) Reduction of manufacturing cost due to lower burden of taxes on this sector.
5) Lower the burden on common man
6) Increased demand of consumption of goods.
7) Increased demand will lead to increase supply.
8) Control of black money circulation as the system is followed by traders and shopkeepers will be put to a mandatory check.
9) Boost to the Indian economy in the long run.

These are possible if the actual benefit of GST is passed on to the final consumer .there are other factors such as seller's profit margin, that determines the final price of goods. GST alone does not determines the price of goods.

How will GST impact the Indian Economy

1) Reduces tax burden on producers and fosters growth through more production. T he current taxation structure, pumped with myriad tax clauses , prevents manufactures from producing to their optimum capacity and retards growth . GST will take care of this problem by providing tax credit to the manufacturers.
2) Different tax barriers, such as check posts and toll plazas, lead to wastage of unpreserved items being transported. This penalty transforms into major costs due to higher needs of buffer stock and warehousing costs. A single taxation will eliminate this roadblock.
3) There will be more transparency in the system as the customers will know exactly how much taxes they are being charged and on what base.
4) GST will add to the govt revenues by extending the tax base.
5) GST will provide credit for the taxes paid by producers to buy raw material from different registered dealers and is hope to bring in more vendors and suppliers under the purview of taxation.
6) GST will remove the custom duties applicable on exports .the nation's competitiveness in foreign markets will increase on account of transaction.

POSITIVE IMPACTS OF GST

(a) Increased FDI: The flow of Foreign Direct Investments may increase once GST is implemented as the present complicated/ multiple tax laws are one of the reasons foreign Companies are wary of coming to India in addition to widespread corruption.
b) Growth in overall revenue: It is estimated that India could get revenue of $15 billion per annum by implementing the Goods and Services Tax as it would promote exports, raise employment and boost growth. Over a period, the dilution of the principles may see that only part of this is accruing.

(c) Single point taxation: Uniformity in tax laws will lead to single point taxation for supply of goods or services all over India. This increases the tax compliance and more assesses will come into tax net.

(d) Simplified tax laws: This reduces litigation and waste of time of the judiciary and the assesses due to frivolous proceedings at various levels of adjudication and appellate authorities. Present law appears to be much worse and an amalgam of the bad parts of VAT/ ST/ CE.

(e) Increase in exports and employment- GST could also result in increased employment, promotion of exports and consequently a significant boost to overall economic growth and factors of production -land labour and capital.

Gross domestic product (GDP)
"In terms of growth impact on [GST] implementation, we think the near-term could be messy, with adjustment costs for the private sector grappling with inter-sector implications, and the central government trying to compensate states for revenue loss," HSBC warned in a report.
If the GST rate is set at around the 17-18 percent mark, service producers would face an increased tax burden while manufacturers would see a fall, HSBC continued. That could cause manufacturers to not pass through benefits and service providers to pass on costs, moves that would lower consumption and overall growth, HSBC said. At present, the effective indirect tax rates on goods and services are 22.5 percent and 15 percent, respectively.

Over the medium-term however, the outlook is positive. HSBC believes GST could raise GDP by 0.8 percentage points while Goldman Sachs expects a 0-0.5 percentage point boost.

Inflation
"We believe that implementation of the GST in the near-term could bring some upturn in inflation; however, the impact should be transitory," according to a Morgan Stanley report.
A revenue-neutral rate (RNR) of 15 percent with a low rate of 12 percent and standard rate of 18 percent would have a negligible inflation impact, Morgan Stanley noted. But a higher RNR with a lower rate of 12 percent and a standard rate of 22 percent meanwhile, would have a 0.3-0.7 percentage point impact on aggregate inflation, it continued.

In HSBC's view, headline consumer price inflation (CPI) could rise by 0.2 percentage points if the GST rate is kept at 18 percent. If the rate is set at 22 percent, CPI could increase by 0.7 percentage points.

According to the most recent data, consumer prices climbed 5.77 percent on-year in June from a year, little changed from May's 5.76 percent increase.

Foreign exchange
"The passing of the GST will be welcome news for the Indian rupee(INR)," HSBC predicted.
So far, the currency has yet to see a GST boost. The rupee ended Wednesday weaker at 66.99 per dollar, snapping a six-day winning spree, and extended those losses in early Thursday trade.

But HSBC believes the GST will lead to higher foreign direct investment inflows and a narrow current account deficit-factors that should help the INR eventually outperform other Asian and emerging market currencies.

Negative Impact of GST in India Effective service tax is presently 15%, which would increase to 18-20% once GST is passed. Hence, although prices of goods and products can come down, **service industry will bear the brunt of higher taxes**.

– Air travel, hotels would become more expensive. Currently, economy class tickets are taxed 6% and non-economy class tickets are charged 9%. Once GST is implemented, it would increase to 18%, thereby leading to direct increase of 9-12% tax on the tickets. Unless the airlines absorb this increase, the additional tax has to be paid by the consumer

– Insurance premiums, investments would be more expensive

– Cigarettes, branded clothes, branded jewellery, and even mobile phone calls would be more expensive post GST

A lot will change once GST Bill is approved, as there exists several clauses and conditions pertaining to inter-state movements, power of States to levy tax and/or remove tax and the issue of 93% workers in India who are working in unorganized sector.

Here are some negative impacts of GST---:

1. Some Economists say that GST in India would impact negatively on the real estate market. It would add up to 8 percent to the cost of new homes and reduce demand by about 12 percent.
2. Some Experts says that CGST(Central GST), SGST(State GST) are nothing but new names for Central Excise/Service Tax, VAT and CST. Hence, there is no major reduction in the number of tax layers.
3. Some retail products currently have only four percent tax on them. After GST, garments and clothes could become more expensive.
4. GST rates are too many. The more the rates, the more complex the forms and processes get, and the more discretion the authorities get to tinker around. This is the complete antithesis of GST. There needs to be only one GST, and an exempt list.
5. The GST rate is too high. There are too many items in the 28% category, and even 18% is too much. Right now input cost GST reductions are not being passed to consumers, and probably won't be for a few years. GST rates, hence, must be reduced a lot for the medium term. The government must note that for many who pay income taxes, GST comes out of post-tax income. To gouge people is to upset people. The ideal GST for the moment would be 10% flat for almost all goods, with a peak 15% for some if you must.
6. To tax things like air-conditioned venues or readymade garments more as they are luxuries is archaic, obsolete and fake-socialist. After all, people should be free to spend their post-tax income however they want.
7. Four, GST returns are too complex. The government has an ambitious plan of tracking every invoice for every transaction for every business in the country and matching the GST collected and paid, every month. While this may be a dream for the tax department, it

makes life super complicated for entrepreneurs, many of whom have never done such an exercise their entire lives.

8. A simpler method is to go by aggregate cash outflows and inflows of GST, and arrive at a net number, on a quarterly basis (unless a business specifically wants monthly refunds). In other words, a businessman says: I paid this in GST, I collected this much, hence the net amount due to/ from government is this much. It should as simple as this.
9. Right now you have three returns a month, every month, with multiple complicated entries that have to be matched with every buyer and seller you did business with. For example the GST F5 form for Singapore, a simple quarterly online form with 14 boxes to be filled. It can be that simple. (Singapore's GST is 7% flat.)
10. There is no reason to disdain or try and hurt Indian businesses. India's private sector is our lifeblood. Without them, many Indian households would not be able to run. Take your taxes, but in reasonable amounts and in a simple manner. Don't suffocate Indian enterprise.
11. The GST reform, when fully in place, can make India more competitive in the world. Right now, however, a modern reform is mixed with old-fashioned attitudes, and the latter risks taking GST's reputation down. Hope the authorities address this, so they can truly celebrate and raise a toast to GST's success.

CONCLUSION

GST was introduced in India as the biggest reform on 1st July 2017 as one nation, one market , one tax. It has impacted Indian economy in many ways. No doubt Tax collected from it is great but it has negatively impacted small manufacturing sector and unrecognized sector where unskilled labour is involved. GST Created chaos and confusion among this sector which directly hit the production and job losses. Government is claiming that GST will show long term effects and gains but the truth is that time will tell whether this decision was correct or incorrect. At present, it has shown negative effects and slowed down the economy.

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