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## **GOODS AND SERVICES TAX (GST) AND ITS IMPACT ON INDIAN ECONOMY**

**<sup>1</sup>Farheen Siddiqui**

**Research Scholar, Department of Commerce & Business Administration  
University of Allahabad**

**<sup>2</sup>Ehsanul Haque**

**Assistant Professor, Department of Commerce & Business Management  
Integral University, Lucknow**

### **ABSTRACT**

Goods and Services tax is a subsumed of indirect taxes and it is one of the major reform in Indian Tax structure since independence. The Act was passed in Lok Sabha on 29 March 2017 and came into force from 1<sup>st</sup> July 2017. In other words, we can say that GST is an indirect tax levied on the supply of goods and services and it has replaced many indirect tax laws that previously applied in India, i.e. Sales tax, service tax, value added tax, entry octroi tax, luxury tax, tax on gambling & lottery etc. Now the question is GST favorable or unfavorable to Indian economy.

The paper gives an overview of GST in India and developed as well as developing countries of the world. The objective of the paper is to present the importance of goods and services in Indian economy, its positive and negative impact and future prospective of GST on the Indian economy. The collection of data is secondary based and taken from the various Journals, research paper, publication, books and websites.

**Key words:** *GST; Goods & Services Tax, Cascading Effect, Single Unified Tax, Indian Economy, Impact.*



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## INTRODUCTION

One Nation one tax' is finally rolled out with the implementation of Goods and services tax. This is the biggest tax reform in Indian Tax system since Independence. For this moment, the Government of India was waiting from a decade has finally came into existence on 1 July 2017. Under GST, the government has proposed a 4-tier tax structure under the slabs - 5%, 12%, 18% and 28%. Some special rate of 0% on some food items, 0.25% on rough precious and semi-precious stones and 3% on gold. GST does not levy on some items such as Alcohol, Petroleum products and electricity. Prices of some goods are increased where as some are decreased.

GST imposed on sectors like Banks, consumer staples, consumer discretionary, Media and entertainment telecom, Auto-ancillary, metros, cements, real-estate, Pharma, etc. Some sector may face negative impact due to rise in prices and some sectors faced positive impact due to fall in prices.

## REVIEW OF LITERATURE

**1.Lourdunation F & Xavier P (2016)** – The paper highlights the background, prospectus and challenges in the implementation of Goods and Services Tax (GST) in India. The objective of the paper is to study the explicit opinion among the manufactures, traders and society about the GST and the challenges of introduction of GST in India. The finding of the study is that GST provide relief to producers and consumers by providing wide & comprehensive coverage of input tax credit set off, service tax set off & subsuming the several taxes. It can be further concluded that GST have a positive impact on various sectors and industry where as some has faced the negative impact also.

**2. A Dash (2017)** – The aim of this research paper is to highlight the positive and negative impact of GST on the Indian economy and to evaluate the advantages and challenges of GST. The finding of the study reveals that GST has both positive and negative impact on the economy. Positive impact is GST has reduced cascading effect of tax, increased transparency in the tax structure, enhances the ease of doing business, etc. On the other hand due to emergence of GST, prices of some goods and services is increased and some sectors such as food industry, telecom industry, airlines has faced negative impact and suffering loss due to increase in price,



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**3. Dr. Banamali Nath (2017)** – This study has made an attempt to study the concepts of GST and its This study has made an attempt to study the concepts of GST and its timelines of introduction in India. The study also aims to examine its benefit and effect on Indian economy. It can be concluded that due to the introduction of GST, manufacturer, wholesaler & retailer can easily recovered input tax credit and it has reduced cascading effect of indirect taxation system that will provide relief to the producers and consumers by subsuming the indirect taxes.

**4. Girish Garg (2017)** – This paper is an attempt to understand the concepts of GST and highlights the background, objectives and impact of GST in the present tax scenario in India. The study reveals the benefits, opportunities and challenges faced by India. By the analysis of the study, it can be concluded that the implementation of GST is a positive reform in Indian taxation system as it has reduced the cascading effect of tax and enhance the ease of doing business. The paper further through a light on challenges faced by Indian people because of the reform.

**5. Haider khan S. Pathan (2017)** – This paper gives meticulous understanding about GST in India and some other countries of the world. The paper gives an analysis of GST system in India and some other developed and developing economies of the world with a view to provide global trend of GST. There is also a description of HST (Harmonized sales tax).

**6. G. Aruna kumari & C.Y. Naga Jyothi (2017)** – The objective of the study is to understand the concepts of GST, its impact on Indian economy and to make a comparative analysis of GST of other countries. The finding of the study is that the consolidated indirect tax currently existing will benefit the Indian economy in a long run.

#### **RESEARCH OBJECTIVES**

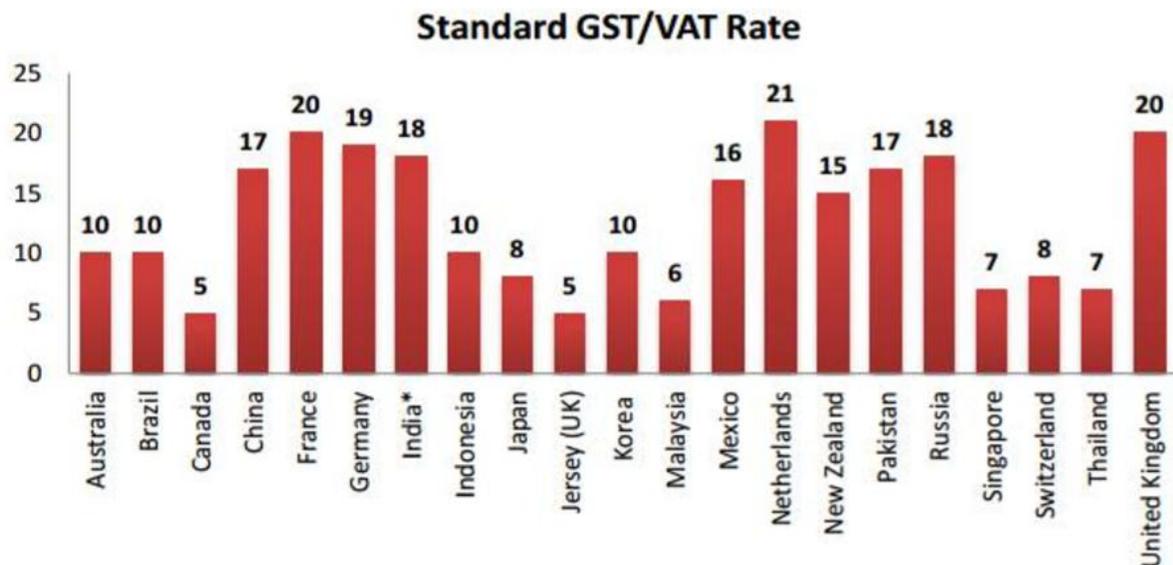
1. To study implementation of GST in other countries of the world.
2. To study the impact of GST on Indian economy
3. To study the impact of GST implementation on various dominant sectors on Indian Economy.

## RESEARCH METHODOLOGY

This paper used an exploratory research technique which is based on the extensive study of secondary data collection through different sources like journals, newspapers, magazines & websites covering wide collection of academic literature on GST. The research design is of descriptive in nature.

## GST IN OTHER COUNTRIES OF THE WORLD

Most of the countries where GST has already been implemented before India, have a single unified GST system which means that a single tax rate is applied throughout the country. These countries tax almost everything at a single rate. The below bar graph gives vital information about the current state of GST in various countries of the world. It can be observed that in India the GST rate is higher than many other countries, i.e. 18%. The highest rate of GST is observed in Netherland while the lowest one can be found in countries like Canada and jersey. Due to the implementation of GST, there has been various positive as well as critical changes has been found in all these countries.



The Indian GST structure ranges between 5%- 28% with majority of commodities falling under 18% bracket.

*Source: OECD (2016) & CBEC*



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## **PROSPECTIVE IMPACT OF GST IN LONG RUN**

At present more than 162 countries across the globe have implemented GST system of taxation. By studying the impact of GST in long run faced by other countries, it can be concluded that India will also have other affect in the future, which are as follows:

- Like other countries, India will also follow a single unified tax rate throughout the country to make the GST simple as in its current form, India's GST is complicated and a multi-tier tax rate is followed.
- The immediate impact of GST is, its slowed down the economic growth in the short term as big companies reorganize their businesses and small firms lose revenue. The GST reform will be beneficial for the economy and increase economic growth in the long run.
- The threshold exemption limit may increase in the future like in other countries.
- In long run, GST will improve the countries GDP ratio and also will control inflation to a certain extent.

### **Impact of GST on the Economy**

By the implementation of GST regime, some sectors are positively affected and some are negatively affected. Both positive and negative impact are as under: -

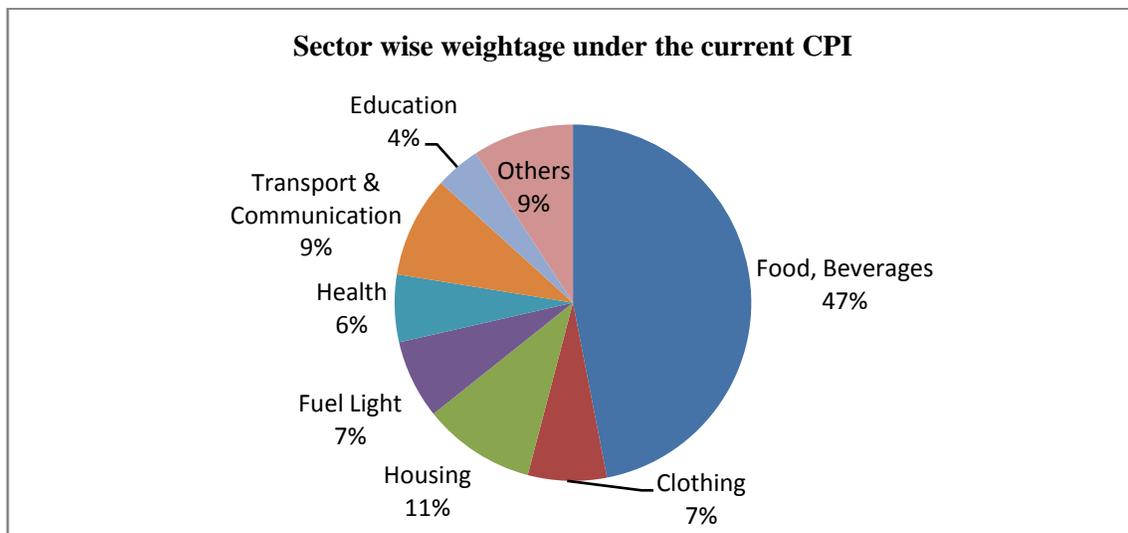
#### **Positive Impact:**

- It has subsumed all the indirect taxes and there by reduced the complexity and Multiplicity of administrative mechanisms.
- It has increased transparency in the tax structure of goods and services.
- It has reduced cascading effects of indirect taxation.
- It has increased profitability of some sectors by reducing the tax rates.
- Various sectors such as textile industry and jewellery tax rate is reduced by the implementation of GST. It has brought down the prices of goods and thus increases consumption.
- One of the main positive impact of GST is that it has enhance the ease of doing business in India.
- It will also reduce corruption and tax evasion due to electronic processing of Tax returns, refund and tax payment through 'GSTN' without human intervention.

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### Negative Impact:

- GST rate is higher than the previous VAT rates on the goods and services. Thus increases the price of some goods and services.
- Some sectors such as food industry, telecom industry, real estate, pharma sector, airlines has faced negative impacts and suffering loss due to increase in prices.
- GST is not in favour of economic justice (consumer) as Luxury goods like jewellery is taxed at a lower rate and necessity goods, i.e. food is taxed at a higher rate, which is previously exempted from tax.
- The New GST system is the dual control system. According to this system, the GST is divided into two categories state and central government and controlled by both.
- GST is applicable on stock transferred from one state to another where as VAT/CST was payable in sale and not on stock transfer. Thus it is adversity effecting cash flow and working capital.



Source: Edel Invest Research



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## **IMPACT OF GST ON VARIOUS SECTORS OF INDIAN ECONOMY**

With the introduction of GST, the quality of indirect tax system has greatly improved and it enhances the sources of revenue to the government on a sustainable basis and helps in making the fiscal situation more stable. According to the recent study, this reform will solve many critical issues in a long run and our economy could gain 15 billion annually once the GST will implement in a proper manner. The impact of Goods and services Tax on certain sectors are as follows-

### **Food Industry**

The introduction of GST to food items have a significant impact on those living under subsistence levels. It has a major impact on the poor. Previously food is exempt from the CENVAT, many of the food items including good grains and cereals the state VAT at the rate of 4% . Within the scope of GST, such sales would largely remain exempt due to small business registration threshold limit. The GST, a single rate has lead to a doubling of tax burden on food. Hence certain measures need to be taken in this regard.

### **Housing and Construction Industry**

Before, the implementation of GST, the construction sector including real estate range between 11% to 18% tax, varied based on the nature of contract. Under GST, the entire work is charged at 18% Tax.

### **Jewellery**

The GST rate on gold Jewellery has been fixed at 3% lower than expectations of a 5% rate. The new rate is close to the current 2%. This has brought some relief in the tax levied on buyers declines. It should not effect consumers buying dramatically and is favourable for demand.

### **Telecommunication**

The telecom companies hit by higher tax burden by the introduction of GST, In additional 3% tax under the new tax regime is charged, which is increased from 15% to 18%. However, this sector are expected to derive benefits on the input tax credit.

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### **Health care and Pharma Sector**

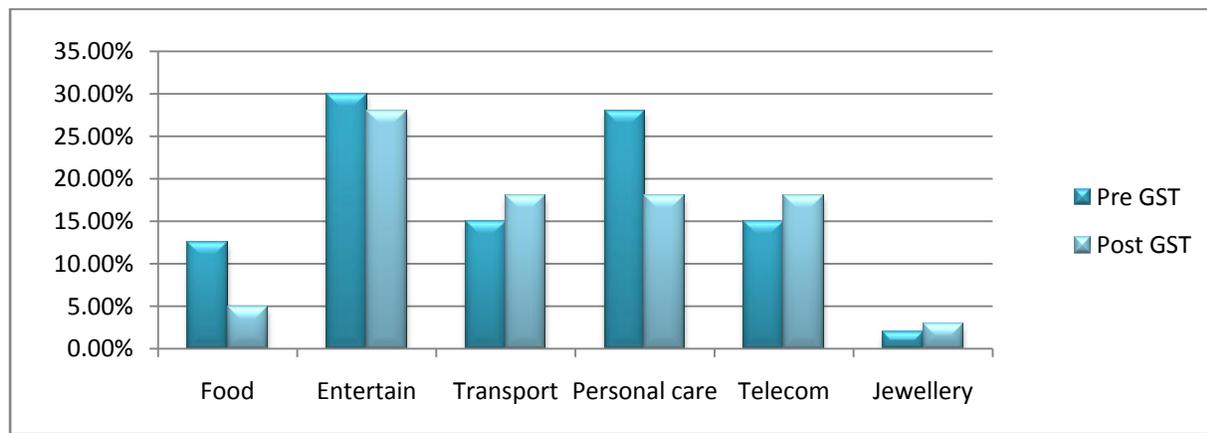
GST has positive impact on Health and Pharma industry & before GST eight types of taxes were levied on pharmaceutical industry. It has helped industries to streamline the taxation structure. The GST rate on Pharma and healthcare industry range from 5% to 12%.

### **Airlines**

Airlines services has become expensive by the introduction of GST. It was charged at the rate of 6% to 9% earlier but now it is 15% to 18%.

### **Textile Industry:**

Earlier, it is decided to fixed 18% GST rate on textile but in a recent decision taken by GST council member's the tax rate on textiles has been reduced to 5% from 18%. Other impact of GST on textile industry is input tax credit. If a registered tax payers procures the input from composition scheme tax payers or the unorganized sectors then input tax credit is not allowed to the registered tax payers.



The above bar graph clearly shows that due to the implementation of GST, some sectors are benefitted because of the reduction in tax rate where as some are facing the negative impact on it in the form the increase in tax rate.



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## **FINDINGS & DISCUSSION**

The concept of GST is not new to the world as it has implemented in nearly 162 countries as on 2016, have opted this mode for bringing a single unified tax. For India, it is termed as a new system but it has been implemented quite long back in some other countries of the world. France was the very first country to implement the GST in the year 1954 and since then almost 160 countries have adopted this tax system all over the world. Some of the countries with the GST system are Canada, Vietnam, Australia, Singapore, Brazil, Spain, Italy, Nigeria, U.K., and South Korea etc. China implemented GST in the year 1994 and later on in 2016. Beijing completed (VAT) reforms to its replace its complicated business tax system halting and doing away with business tax and other taxes. In Malaysia, after the 26 years of debate implementation of GST was become possible in 2015 at 6%. Russia did the same in the year 1991 where as Saudi Arabia plans to implement a single unified taxation in the year 2018. Australia introduced GST in 2000 and the rate was fixed at 10% but now it plans to increase GST rate to 15%. New Zealand introduced GST in 1986 at a rate twice, 12.5% in 1989 and 15% in 2010. Singapore introduced GST in 1994 at a rate of 7%. Australia introduced GST at a rate of 20%, Sweden at 25% and Pakistan at 17%. Despite being a major economy in the world, The United States of America does not have GST, however enjoy high autonomy in taxation. Japan implemented consumption tax in 1989 at a rate of 3% which later on in the year 1997 was increased to 5%. In India, GST has implemented and came into force on 1<sup>st</sup> July, 2017 and here the highest rate applicable rate is 28%.

## **CONCLUSION**

It can be concluded that GST has brought 'One Nation and one Tax Market. A unified taxation system in India would lead lesser corruption, disruption and tax avoidance in the economy. Thus reduced the complexity and increased transparency in the tax structure. GST is a biggest reform in Indian Tax structure. By the implementation of GST, some sectors are benefitted where as some sectors are facing negative impact of GST as it has increases the prices of goods and services. This new tax structure will be beneficial for Indian economy in the long run. There has been very good motives behind the implementation of GST in India and it will turn out to be a



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blessing for people of India as well as betterment of the economy. This paper has given an overview of GST in India and other countries of the world. Prospective of GST on Indian economy has also been discussed in the above paper. Thus, Former Finance Minister, Arun Jaitley at GST launch event in the parliament rightly said that “*Inflation will come down, tax avoidance will be difficult, India’s GDP will be benefitted and extra resources will be used for welfare of poor and weaker sections*”

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