A Study on Impact of GST on Indian Economy

Esha Bansal
Assistant Professor, IEC University, Himachal Pradesh, India

Abstract: Goods and Service Tax is an indirect tax levied on the supply of goods and services. GST Law has replaced many indirect tax laws that previously existed in India. GST is one indirect tax for the entire country. There are 3 taxes applicable under GST: CGST, SGST & IGST. GST will mainly remove the Cascading effect on the sale of goods and services. Removal of cascading effect will directly impact the cost of goods. This paper gives an understanding about GST in India & its impact on the Indian Economy. The Evolution of GST in India is also discussed in this research paper. The research objectives focus around the evolution of GST, how it works & how different sectors are affected by GST.

Keywords: GST, Goods and services tax, Dual GST, Indian economy and value added tax.

I. INCEPTION

Goods & Services Tax Law in India is a comprehensive, multi-stage, destination-based tax that is levied on every value addition. In simple words, Goods and Service Tax is an indirect tax levied on the supply of goods and services. GST Law has replaced many indirect tax laws that previously existed in India. Earlier, various indirect taxes were levied and collected at different point in the supply chain. The centre and the states were empowered to levy respective taxes as per the Constitution of India. The Value Added Tax (VAT) when introduced was considered to be a major improvement over the pre-existing Central excise duty at the national level and the sales tax system at the State level. But now, GST would be levied with the propaganda of “One Nation One Tax” and is collected at each stage of sale or purchase of goods and services. Purpose of GST in India is efficient tax collection, reduction in corruption, easy inter-state movement of goods etc.

In India, the idea of adopting GST was first suggested by the Atal Bihari Vajpayee Government in 2000. A task force that was headed by Vijay L. Kelkar the advisor to the finance ministry, indicated that the existing tax structure had many issues that would be mitigated by the GST system. In 2005, The finance minister, P. Chidambaram, said that the medium-to-long term goal of the government was to implement a uniform GST structure across the country, covering the whole production-distribution chain. In 2009, Pranab Mukherjee, the new finance minister of India, announced the basic skeleton of the GST system. In February 2015, Jaitley, in his budget speech, indicated that the government is looking to implement the GST system by 1 April 2016. In May 2015, The Lok Sabha passes the Constitution Amendment Bill. Jaitley also announced that petroleum would be kept out of the ambit of GST for the time being. In 2017, Four Bills related to GST become Act, following approval in the parliament and the President’s assent: Central GST Bill, Integrated GST Bill, Union Territory GST Bill, GST (Compensation to States) Bill.

II. OBJECTIVES OF STUDY

To study about Goods and Service Tax and its impact on the economy.

To compare GST in India & other countries of world.

III. DATA COLLECTION

This paper is a descriptive paper based on secondary data collected from different books, news-paper articles and research journals.

IV. TAXATION SYSTEM IN INDIA BEFORE GST

Central Government levied taxes on the following:

1. Income Tax: Tax collected on the income of an individual
2. Customs duties: Duties collected on the exports and imports of goods
3. Service tax: Taxes gathered on various services
4. Central excise: Taxes on Manufacturing of dutiable goods
5. Value Added Tax (VAT): Sales of goods involve the particular tax. The sales of the goods in intrastate are
covered by the VAT Law of that state, whereas those among the inter-state is levied by the Central Sales Tax Act.

Even the revenue gathered as per the Central Sales Tax Act is done by the State Governments.

1. Stamp duties and Land Revenue
2. State Excise on Liquor and certain agricultural goods.

V. TAXATION SYSTEM UNDER GST

Under the GST regime, the tax will be levied at every point of sale. In case of interstate sales, Central GST and State GST will be charged. Intra-state sales will be chargeable to Integrated GST.

“GST is a comprehensive, multi-stage, destination-based tax that will be levied on every value addition.”

V.1. Components of GST:

GST is levied on both goods and services at all the stages of value addition. It has dual model including central goods and service tax (CGST) and States goods and service tax (SGST).

CGST includes Central Sales Tax, Central Excise Duty, Services Tax, Excise Duty under Medical & Toiletries Preparation Act, Additional Excise Duties Countervailing Duty (CVD), Additional Custom Duty and other centralized taxations. CGST is applicable on the supply of goods and services of standard services and commodities which can be amended periodically by a specialized body under the central government.

SGST includes the indirect taxes like amalgamation of State Sales Tax, Luxury Tax, Entertainment Tax, Levies on Lottery, Entry Tax, Octroi and other taxation related to the movement of commodities and services under state authority through one uniform taxation- SGST. Revenue collected under SGST belongs to the State Government.

Integrated goods and service tax (IGST) also called interstate goods and service tax is also a component of GST. It is not an additional tax but it is a system to examine the interstate transactions of goods and services and to further assure that the tax should be received by the importer state as GST is a destination based tax. The Government of India will collect the revenue under IGST.

Hence for Intra State transactions, Seller collects both CGST & SGST from the buyer and CGST need to be deposited with Central Govt. and SGST with State Govt. and for Inter State Transactions, Integrated Goods and Service Tax (IGST) is levied on Inter State transactions of goods and services which are based on destination principle. Tax gets transferred to Importing state.

The union territories in India are accounted under a specialized taxation called Union Territory Goods and Services Tax as per the GST regime 2016. It subsumed the various taxations, levies and duties with one uniform taxation in Union Territories as well Delhi (India’s Capital Territory), Chandigarh, Dadra & Nagar Haveli, Andaman & Nicobar Islands, Daman & Diu, Lakshadweep and Pondicherry are the prominent union territories in India. UTGST will account for all the taxations under these union territories in India. The parliament is looking forward to implement a separate act to impose and supervise GST in Union Territories under the name of UTGST act.

Goods and Services Tax will be levied on each of these stages, which makes it a multi-stage tax. Under this system, tax is administered, collected, and shared by both the Centre and the State governments, based on the nature of transaction (within the state or interstate).

Let us discuss the following example. Value chain System consists of following steps:

1. Purchase of raw materials
2. Production or manufacture
3. Warehousing of finished goods
4. Sale to wholesaler
5. Sale of the product to the retailer
6. Sale to the end consumer

V.2. Value Addition

The weaver who weaves the fabric will decide the price of product on the basis of cost of production. The weaver then sells the fabric to the tailor who stitches the purchased fabric and labels it. That is another addition of value after which the tailor sells dress to the retailer. The retailer invests in the marketing of the dress thus increasing its value. GST will be levied on these value additions i.e. the monetary worth added at each stage to achieve the final sale to the end customer. The final cost to the consumer will turn out to be low because of elimination of double charging system. Consider goods manufactured in Haryana and are sold to the final consumer in Himachal Pradesh. Hence, the entire tax revenue will go to Himachal Pradesh (the state where the product have been consumed).
VI. IMPACT OF GST ON INDIAN ECONOMY

VI.1. Positive Impact of GST in India:

1. GST brings in uniform tax laws across all the states spanning across diverse industries. Before GST was implemented, tax was calculated and paid by every purchaser including the final consumer which is called Cascading Effect of Taxes. Suppose product A is manufactured in a factory. As soon as it releases from factory, excise duty has to be paid to central government. When that product A is sold in same state then VAT has to be paid to state government. The main purpose of implementing GST was to avoid this cascading effect as the tax is calculated only on the value-add at each stage of transfer of ownership.

2. Prices of consumer goods will be likely to come down as Reduction of taxes will lower down the manufacturing costs.

3. It will lower the burden on the common man who was paying multiple taxes.

4. GST will add to the government revenues by extending the tax base. All indirect taxes will come under one roof.

5. It will curb circulation of black money. This can happen only if the “kacha bill” system, normally followed by traders and shopkeepers is put to check.

6. GST will create corruption free environment in the country.

7. GST will provide credit for the taxes paid by producers in the goods or services chain. This is expected to encourage producers to buy raw material from different registered dealers and is hoped to bring in more vendors and suppliers under the purview of taxation.

8. GST will remove the custom duties applicable on exports. The nation’s competitiveness in foreign markets will increase on account of lower costs of transaction. Exports would grow, while FDI (Foreign Direct Investment) would also increase.

9. More job opportunities are expected as demand & supply are expected to increase.

VI.2. Negative impact of GST in India:

1. The centre will have to coordinate with 29 states and 7 union territories to implement such tax regime which would lead to political issues & would be highly complex.

2. Consumers will not be much benefited because some goods have become cheaper while others have become costlier.

3. Services have become expensive which has affected household budget of common man.

4. The number of GST returns that each firm has to file are quiet high which requires ample staff for maintaining the documents.

5. For effective implementation of GST, tax administration staff – both at central and state levels – would require to be trained properly in terms of concept, legislation and procedure.

6. Being a new tax, it will take some time for the people to understand it completely.

7. It is a consumption based tax, so in case of services the place where service is provided needs to be determined.

8. Proper invoicing and accounting needs to be done to ensure better compliance.

9. The most evident issue is the exemptions of key sectors such as electricity, diesel, petrol, crude oil and real estate. These exemptions may not be able to reduce the cascading effect of indirect taxes as expected.

VI.3. Impact Of GST On Textile Industries

The GST on job work for textiles and textile products has been reduced to 5% from 18%. Other impact of GST on textile industry is input tax credit, which is not allowed if a registered taxpayer procures the inputs from composition scheme taxpayers or the unorganized sector. It is available for the tax paid on capital goods.

VI.4. Impact Of GST On Steel & Iron Industries

After GST implementation, special additional duty (SAD) on iron and steel has been abolished. The other major impact of GST on iron & steel industry in India includes – reduction of cost & time in logistics, bringing more employment opportunities in undeveloped states, utilizing natural resources and protection to domestic industry. The tax rates on iron and steel range from 12% to 28%. Transportation services used for transporting steel is kept under 5% bracket which will help in reducing logistics cost.

VI.5. Impact Of GST On Pharma Industries

GST impact on healthcare industry is constructive. It has helped industries to streamline the taxation structure as eight types of taxes were levied on pharmaceutical industry before GST. The GST rates on pharma & healthcare industry range from 5% to 12%.

VI.6. Impact Of GST On Telecom Sector

Goods and Services Tax or GST has been implemented, the GST on telecommunication services are taxed at 18%, which is higher than rates charged earlier. It will affect the budget of common man.

VI.7. Impact of GST on Automobile Sector

Earlier, The Automobile industry was paying a tax rate of a range between 30-45%. But after implementation of GST, the rate is fixed at 18% which will positive impact this sector & 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 is a huge boom in the Automobile Industry as a result of implementation of Goods and Services Tax. It is now done that the industry will get benefits out of GST with minimum hassle-free procedures and rate fixation across the nation.

VI.8. Impact of GST on Agriculture
From the input side, the cost of cultivation is expected to increase marginally. Highly used agri-commodities such as rice, wheat, milk, fresh fruits and vegetables are placed in the zero tax slab. This will help in avoiding tax, cess and arhatiya commission levied by some States. The processed foods like fruit and vegetables juices under GST will be taxed at 12% up from 5%. Some items like fruit jams, jellies, marmalades etc will be taxed at even higher 18%. The higher tax rates are expected to discourage the development of food processing industry, especially for perishable fruits and vegetables. This may also affect the employment in food processing industry.

VII. GST IN OTHER COUNTRIES OF WORLD

A total of 160 countries have opted GST so far. Most of the countries followed unified GST while some countries like Brazil, Canada follow a dual GST system where tax is imposed by central and state both.

Presently, countries like Australia, Canada, Singapore, New Zealand, Jersey (UK), Malaysia, Indonesia and Pakistan have a GST system while remaining follow a VAT system. France is the first country to implement GST in 1954. India has highest rate of GST at 28%. EMEs like China and Brazil have their most of commodities falling under the tax rate of 17%, 10% respectively.

Mostly developed countries like France, Germany and United Kingdom have higher GST rates set between 19 – 20%.

One of the major differences between GST in India & GST in other countries is that India is following Dual GST System where both the Centre and the States have been assigned the powers to levy and collect taxes through appropriate legislation.

VIII. CONCLUSION

Efficiency & equity in the economy can be brought by proper taxation system in the country. A good tax system should focus on income distribution as well as generate revenues to government. The motive of Implementing GST is to maintain simplicity and transparency in taxation system. 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. Thus, we must be ready to deal with GST and many other changes that are going to take place in India. Slowly, India shall move to join the world wide standards in taxation, corporate laws and managerial practices and be among the leaders in these fields.

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