



IMPACT OF GOODS AND SERVICES TAX (GST) IN INDIAN ECONOMY –A STUDY

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Abstract

In India, there exist a number of indirect taxes that are either levied by the central government or by the state government such as excise duty, custom duty, service tax, sales tax, stamp duty, octroi and many more. There have been various attempts of reforming the indirect tax structure for making tax system simple, stable and burdensome. In this process of reform we have already implement vat and service tax. For further significant improvement the next logical step towards a comprehensive indirect tax reforms in the country will be to implement GST. GST is a tax on goods and services with comprehensive manner. It is a multi-tier tax where ultimate burden of tax fall on the consumer of goods or services. It is called as value added tax because at every stage tax is being paid on value addition. This paper explore the that how GST in industry, trade and agriculture through a more comprehensive and wider coverage of input tax set-off and service tax set-off, subsuming of various central and state taxes in the GST and phasing out of CST.

Keywords: GST, impact on Indian economy, implementation of GST.

1. Introduction

In India, there exist a number of indirect taxes that are either levied by the central or the state government such as Excise Duty, custom duty, service tax, stamp duty, octroi and many more. There have been various or several attempts of reforming the indirect tax structure for making tax system simple stable and less burdensome. At federal level, efforts are being made to integrate taxes. The process of tax reform has already started in India.

The indirect tax regime is undergoing a change and in the coming times the tax reforms will centre on an efficient and harmonized consumption tax system in country VAT at state level or CENVAT at the central level along with Service Tax have been major steps in tax reforms. Before the present tax regime, there was a cascading effect on tax, VAT has removed this burden, but it had deficiencies. The CENVAT load remains. There were several states taxes which were not subsumed in any one tax. The inter state sales tax or CST was not fully relieved. All this will be accomplished in the indirect tax system; GST will be the next logical step and a major breakthrough in the history of tax reforms in the country.

WHAT IS GST?

The goods and service tax (GST) is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at a national level. Integration of goods and services taxation would give India a world class tax system and improve tax collections. It would end the long standing distortions of differential treatments of manufacturing



and service sector. The introduction of goods and services tax will lead to the abolition of taxes such as octroi, Central sales tax, State level sales tax, entry tax, stamp duty, telecom license fees, turnover tax, tax on consumption or sale of electricity, taxes on transportation of goods and services, and eliminate the cascading effects of multiple layers of taxation.

The following taxes should be, subsumed under the Goods and Services

S.No	CENTRAL TAXES	STATE TAXES
1.	Central excise duty	Value Added Tax/ Sales tax
2.	Additional excise duties	Entertainment tax (unless it is levied on local bodies)
3.	Service tax	Luxury tax
4.	Excise duty under Medicinal & betting and Toiletries Preparation Act	Tax on lottery, betting and gambling
5.	Countervailing duties (on imports in lieu of excise duty)	Entry tax not in lieu of Octroi
6.	Additional duty of Customs(levied on imports in lieu of value added tax or central sales tax) surcharge and cess	State surcharges and cess in so far as they Relate to supply of goods and services.

4. LITERATURE REVIEW

GST is also referred as value added tax (VAT). It is a tax government collected at the final purchase consumption. However, according to **Hooper and Smith (1997)**, GST is actually collected at various stages of the production process. Accordingly, there is output tax, a GST tax charges by the suppliers on taxable goods and services and input tax, a tax incurred by businesses on goods and services purchases. It is noted that GST is not a cost to the sellers and would not appear in financial statements as expenditure. Recently, the government initiative to introduce Goods and Services Tax (GST) has been a growing topic of interest in Malaysia. Despite the increasing popularity and success of GST implementation around the world (Hooper & Smith, 1997), Malaysian citizens are not entirely convinced with this new tax scheme.

There are debates mainly centred on the advantages and disadvantages derived from the new tax initiative. As per as India is concerned **Agogo Mawuli (May 2014)** studied, "Goods and Service Tax an Appraisal" and found that GST is not good for low-income countries and does not provide broad based growth to poor countries. If still these countries want to implement GST then the rate of GST should be less than 10% for growth. **Dr. R. Vasanthgopal (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. **Ehtisham Ahmed and Satya Poddar (2009)** studied, "Goods and Service Tax Reforms and Intergovernmental Consideration in India" and found that GST introduction will provide simple 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.

IMPLEMENTATION OF GST IN INDIA

The GST, Goods and Services Tax, was supposed to be implemented in India from April 1, 2010. This was then postponed to April 1, 2011 and then again to April 1, 2012.

Presently, the tax structure of India is very complex. Looking to the global developments and tax structure of developed countries, GST is the need of the hour. The need of GST can further be explained in the following points:-

- There are various definitional issues related to manufacturing, sale, service, valuation etc. arises.
- These needs to be rationalized. Several transactions take the character of sales as well as services, thus there is complexity in determining the nature of transaction.
- The mechanism of imposing taxes, exemptions, abatements, other benefits are different in state and centre Existing law has resulted in significant number of issues related to interpretation or various provisions and the category of the products and the nature of services.

Administration mechanics of the centre and state and even in different states is different. India needs comprehensive levy and collection on both goods and services at the same rate with the benefit of input credit A simple tax structure can bring greater compliance, thus increasing number of tax payers and in turn tax revenues of Government. GST will ensure competitive pricing. Tax paid by final consumer will come down in most cases. Lower prices will help in boosting consumption which is beneficial to Companies.

GST will ensure boost to exports. When the cost of Production falls in the domestic market, Indian Goods and services will be more price competitive in foreign markets. The current state of Indian Economy demands fiscal consolidation and reduction in Fiscal deficit. A recent Report by CRISIL states that GST is the country's best bet to achieve fiscal consolidation.

Some of the challenges ahead with regard to GST implementation.

- 1. Clubbing Taxes:** The biggest challenge of GST implementation is bringing all the indirect taxes under one roof, which is the biggest feature of GST. There has been opposition asking to including purchase tax by a few states. Other states are reluctant about alcohol, tobacco products coming under GST. This is due to the fact that a major chunk of state revenue is derived from these products.
- 2. Statutory Requirements:** As the imposition of GST will be delegated to both state and central government, the constitution has to grant powers to both through an amendment. It is seen as a difficult task as the law expects at least two-thirds majority from the members of the parliament and that isn't easy given the current political scenario of the country.
- 3. Make-shift Arrangements:** State governments are demanding compensation from the central government as they foresee a major dent in the revenue due to CST losses. This is



asked for the first 5 years after the implementation of GST, for which the central government has agreed to 3 years. A final conclusion is yet to be drawn.

4. **Framework For Tax Disputes:** There has to be a uniform legal procedure for tax disputes and litigations to avoid any confusion.
5. **Defining Inter-State Transactions:** With the transportation services available everywhere, the place of sale and consumption may not be the same. This makes it difficult to go forward with revenue allocation. Hence, it becomes important to define procedures to tackle such problems.

The GST is a Value added Tax (VAT) is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. It will replace all indirect taxes levied on goods and services by the Indian Central and State governments. Though GST is considered to be a historical tax reform in India, it also has some demerits. We here would look into GST Taxation and deal with its advantages and disadvantages.

IMPACT OF GST

In the GST system, taxes for both Centre and State will be collected at the point of sale. Both will be charged on the manufacturing cost. Individuals will be benefited by this as prices are likely to come down and lower prices mean more consumption, and more consumption means more production, thereby helping in the growth of the companies.

In the long run, the lower tax burden could translate into lower prices on goods for consumers. The tax structure will be made lean and simple. All Indirect taxes will cut down to one tax, good for common man to understand and to follow. It can bring more transparency Fall in Prices of some of Goods: removing such layered taxation, prices of some goods are likely to come down. However, this benefit generally doesn't reach the ultimate consumer as sellers tend to raise underlying prices and increase their profit which offsets the gain due to lower taxes. But I hope that some benefit will definitely reach the consumer. Less corruption - Number of departments will reduce which in turn may lead to less corruption. It is happening; the Goods and Services Tax (GST) will be implemented across the country from 1st July 2017. Everyone is going to get affected, some in a good way some in a bad way. Here, I have compiled a list of 5 ways your life will change after GST.

Before we do that, why don't we take a quick look at what GST is, for the uninitiated ones. So there are two types of taxes in India, first is direct tax and second is an indirect tax. Direct tax is income tax, yes, one that gets deducted from your salary every month. And indirect taxes are rest of the taxes like Service Tax, VAT, Excise Duty, Customs Duty, Entertainment Tax, Luxury Tax etc. these are the taxes that you indirectly end up paying whenever you make a transaction. Now since the list of indirect taxes is quite long and they differ vastly state wise, it becomes very complex for the government and taxpayers to manage them. This leads to inefficiencies, loopholes, and ways for people to escape them.



The government wants to implement one indirect tax across the country called as GST. This tax will replace all the indirect taxes and make things easy for everyone. Well, it sounds simple but that's not the case, there are many details that I have not mentioned here. However, I have focused on things that will have an effect on your day to day life.

1. Cheaper stuff!

Currently there is a tax for every stage, be it at raw materials, production, wholesalers or retailers everywhere there is some sort of tax. So for a product that has paid excise duty at the time of procuring raw materials is also liable to pay VAT at the time of retail that means tax is paid twice. And none of it can be claimed back from the government. Whereas in GST the taxes paid at earlier stages can be claimed by the taxpayers.

2. Costlier calls and data

Unfortunately, the tax applied on telecom services is increased from 15% to 18%. So now that data recharge will cost more!

3. Tricky clothes

There is a twist here. Clothes that cost less than INR 1000 to produce will be taxed at 5% but the ones more than that will be taxed at 12%. The hunger for discounts is greater than ever now. Before GST, the taxes applied on clothes range from 5.5% – 7.5%.

4. Cheaper houses.

This one is slightly complicated. Builders/contractors will get the raw materials at lower prices due to the unification of taxes but whether they will pass on these benefits to buyers remains to be seen. However, GST will definitely bring in a lot of transparency in this sector.

IMPACT ON INDIAN ECONOMY:

- GDP will increase
- Cost of product throughout the country would be almost same.
- Customer will have more money in their pocket to spend .
- Tax/GDP ratio would go up.

Though this tax regime will unanimous tax policy across country but states will suffer a huge loss with this. So few commodities are exempted from it.

- Potable Alcohol
- Aviation Turbine fuel
- High Speed Diesel
- Petroleum

Also Govt has reached to conclusion they would still be paying any revenue loss hereafter to each state for a period of 5 years from the date of implementation of GST. There would be a GST council headed by Finance Minister and team will comprise of finance minister of each state who will be its policymaker.

ADVANTAGES OF GST

A) For business and industry:-



Easy compliance: A robust and comprehensive IT system would be the foundation of the GST regime in India. Therefore, all tax payer services such as registrations, returns, payments, etc. would be available to the taxpayers online, which would make compliance easy and transparent.

Uniformity of tax rates and structures: GST will ensure that indirect tax rates and structures are common across the country, thereby increasing certainty and ease of doing business. In other words, GST would make doing business in the country tax neutral, irrespective of the choice of place of doing business.

Removal of cascading: A system of seamless tax credits throughout the value chain, and across boundaries of States, would ensure that there is minimal cascading of taxes. This would reduce hidden costs of doing business.

Improved competitiveness: Reduction in transaction costs of doing business would eventually lead to an improved competitiveness for the trade and industry.

Gain to manufacturers and exporters: The subsuming of major Central and State taxes in GST, complete and comprehensive setoff of input goods and services and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports. The uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cost.

B) For Central and State Governments:-

Simple and easy to administer: Multiple indirect taxes at the Central and State levels are being replaced by GST. Backed with a robust end to end IT system, GST would be simpler and easier to administer than all other indirect taxes of the Centre and State levied so far.

Better controls on leakage: GST will result in better tax compliance due to a robust IT infrastructure. Due to the seamless transfer of input tax credit from one stage to another in the chain of value addition, there is an inbuilt mechanism in the design of GST that would incentivize tax compliance by traders.

Higher revenue efficiency: GST is expected to decrease the cost of collection of tax revenues of the Government, and will therefore, lead to higher revenue efficiency.

C) For the consumer:-

Single and transparent tax proportionate to the value of goods and services: Due to multiple indirect taxes being levied by the Centre and State, with incomplete or no input tax credits available at progressive stages of value addition, the cost of most goods and services in the country today are laden with many hidden taxes. Under GST, there would be only one tax from the manufacturer to the consumer, leading to transparency of taxes paid to the final consumer.

Relief in overall tax burden: Because of efficiency gains and prevention of leakages, the overall tax burden on most commodities will come down, which will benefit consumers.

1. GST will bring tax consistency throughout the country.
2. It will allow free movement of goods from one state to another.
3. The cost of product from across states will almost be the same thereby providing equal opportunities of business owners in all states.



4. The cost of the product for the manufacturers will come down as double taxation will be minimized.
5. A reduction in these cascading taxes increases the incentive for more consumption, leading to higher revenues which compensate for the reduction in tax rates
6. GST is a transparent tax and also reduces number of indirect taxes.
7. GST will not be a cost to registered retailers therefore there will be no hidden taxes and the cost of doing business will be lower.
8. Benefit people as prices will come down which in turn will help companies as consumption will increase.
9. There is no doubt that in production and distribution of goods, services are increasingly used or consumed and vice versa.
10. Separate taxes for goods and services, which is the present taxation system, requires division of transaction values into value of goods and services for taxation, leading to greater complications, administration, including compliances costs.
11. In the GST system, when all the taxes are integrated, it would make possible the taxation burden to be split equitably between manufacturing and services.
12. GST will be levied only at the final destination of consumption based on VAT principle and not at various points (from manufacturing to retail outlets). This will help in removing economic distortions and bring about development of a common national market.
13. GST will also help to build a transparent and corruption free tax administration.
14. Presently, a tax is levied on when a finished product moves out from a factory, which is paid by the manufacturer, and it is again levied at the retail outlet when sold.
15. GST is backed by the GSTN, which is a fully integrated tax platform to deal with all aspects of GST.

DISADVANTAGES OF GST

1. From a consumer standpoint, there is no worthy disadvantage of implementing GST. However, few businesses may suffer.
2. Businesses where cost advantages lies within states will suffer and lose their core competency. e.g. VAT in Bangalore, Chennai and Hyderabad are lowest at 5% and it helps firms to provide products all across India at price which other states cannot meet due to higher VAT rates in other states. This is the reason why all e Commerce firms have their biggest fulfillment centers in these three cities.
3. States will suffer huge loss with implementation of GST as they will lose price advantage for common commodities available nationwide. Government has reached to conclusion they would still be paying any revenue loss hereafter to each state for a period of 5 years from the date of implementation of GST.



4. The biggest contradiction comes with the fact that, on one hand, the government is pushing Digital India movement and boosting e Commerce, whereas on the other with GST its making tough for businesses to operate at a nationwide scale.
5. 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.
6. 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.
7. Some retail products currently have only four percent tax on them. After GST, garments and clothes could become more expensive.
8. The aviation industry would be affected. Service taxes on airfares currently range from six to nine percent. With GST, this rate will surpass fifteen percent and effectively double the tax rate.

CONCLUSION

GST committee would deal successfully with probable loopholes, GSTN (Goods and Service Tax Network Company) will make reliable, efficient and robust information technology backbone, tax payers will accept rigorously new changes and will be ready to be familiar with new techniques, GST procedures will become simple and assured to all stakeholders about it, then definitely GST will help to improve the economic growth rate as well as rationalization of prices and promote the export from India.

GST will definitely bring tax reforms, improve the efficiency of the system and bring more tax revenue to the government. This shall all add up to a better future for our country.

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