# IMPACT OF GST ON INDIAN ECONOMY

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**Abstract**: GST is a function of daily life but sometime it become difficult for a layman to understand weather it is good or bad for our economy. Though the day of implementation of GST was celebrated as the day of financial independence but still people are not fully aware about the meaning of this independence. This paper explains the meaning of GST, its benefits and how GST effects the different sectors of Indian economy. Basically, both good and bad impact of GST is clarified. Theoretical analysis has been done to comprehend the concept GST. It would be interesting to understand why this proposed GST regime may hamper the growth and development of the country. This paper has thrown an insight into the goods and services tax concepts and its impact on Indian economy.

**Keywords**: GST, Indian economy, GDP, CGST, IGST, SGST

## Introduction:

What is GST? As the name suggest GST is the tax which is levied on Goods and Services at national level. It is Indirect tax and it replaced many Indirect taxes in India. GST came into effect on 1st July 2017. It is consumption based and destination-based tax. It is a tax which is imposed on the sale, manufacturing and the usage of goods and services. The credits of the input taxes that are paid at each stage will be available in the subsequent stage of value addition which makes GST essentially a tax levied only on the value addition on each stage. The final consumers will bear only the tax charged by the last dealer in the supply chain with the set of benefits that are at all the previous stage. GST would be structured on destination principle, as a result of this, tax will shift from production to consumption whereby imports will be liable to both CGST and SGST and export should be relieved from the burden of GST by Zero rating. Consequently, revenue will accrue to the State in which the consumption takes place or deemed to takes place (Sehrawat & Dhanda, 2015).

In GST system, the tax is levied at the point of sale. In case of Intrastate sale (means sale within state) SGST & CGST will be levied and in case of Interstate sale (means sale outside the state) IGST will be levied.

CGST (central goods and services tax) collected by Central Govt.

SGST (state goods and services tax) collected by State Govt.

IGST (Integrated goods and services tax) collected by Central Govt.

GST is single tax on supply of goods and services. GST has subsumed various Indirect taxes like VAT, Octroi, Service tax, Excise duty etc. It is expected that GST improves the overall economy growth of the country. The main objective of GST is to eliminate the double taxation system.

In GST system, there are five different tax rates: -

- 0% tax rate on egg, milk, curd, salt etc.
- 5% tax rate on sugar, tea, spices, coal etc.
- 12% tax rate on butter, ghee, almonds etc.
- 18% tax rate on hair oil, toothpaste, soap, paste etc.
- 28% tax rate on small car, consumer durables etc.

India has the highest tax slab in the world i.e. 28%, next only to Argentina which is at 27%. Almost 160 countries around the world follow the scheme of indirect taxation. The threshold limit under GST is Rs. 20 Lakhs, for some special category states it is Rs. 10 Lakhs.

**Genesis of GST in India:**

- It has now been more than a decade since the idea of national Goods and Services tax (GST) was mooted by Kelkar Task Force in 2004. The Task Force strongly recommended fully integrated 'GST' on national basis.
- Subsequently, the then Union Finance Minister, Shri P. Chidambaram, while presenting the Central Budget (2007-2008), announced that GST would be introduced from April 1, 2010. Since then, GST missed several deadlines and continued to be shrouded by the clouds of uncertainty.
- The talks of ushering in GST, however, gained momentum in the year 2014 when the NDA Government tabled the Constitution (122nd Amendment) Bill, 2014 on GST in the parliament on 19th December, 2014. The Lok Sabha passed the bill on 6th May, 2015 and Rajya Sabha on 3rd August, 2016. Subsequent to ratification of Bill by more than 50% of the States, Constitution (122nd Amendment) Bill, 2014 received the assent of the President on 8th September, 2016 and became Constitution (101st Amendment) Act, 2016, which paved the way for introduction of GST in India.
- In the following Year, on 27th March 2017, the Central GST legislations- Central Goods and Services Tax Bill, 2017, Integrated Goods and Services Tax Bill, 2017, Union Territory Goods and Services Tax Bill, 2017 and Goods and Services Tax (Compensation to States) Bill, 2017 were introduced in Lok Sabha. Lok Sabha passed these bills on 29th March 2017 and with the receipt of the President's assent on 12th April, 2017, the bills were enacted. The enactment of the Central Acts was followed by the enactment of the State GST laws by various State Legislatures. Telangana, Rajasthan, Chhattisgarh, Punjab, Goa and Bihar were among the first ones to pass their respective State GST laws.
- GST is a path breaking indirect tax reform which will create a common national market. GST has subsumed multiple indirect taxes like excise duty, service tax, VAT, CST, luxury tax, entertainment tax, entry tax etc.
- France was the First Country to implement GST in the year 1954. Within 62 of its advents, about 160 countries across the world have adopted GST because this tax has the capacity to raise revenue in the most transparent and neutral manner.

**Research Methodology: -**

The term research refers to search for Knowledge. It may be defined as a scientific and systematic search for relevant and appropriate information on a definite topic (Nath & Dash 2012). In fact, well organized investigation is known as research. While conducting study on any phenomenon, it is required to quote as to what procedures and techniques have been adopted. Keeping in view, this section is inculcated in this paper. The basis of research methodology adopted in this study is a theoretical analysis. This paper is basically a conceptual one whose basic information has been taken from various Secondary sources such as books, published and unpublished scholarly papers, academic websites, National and International research articles and journals.

**Objectives of the study: -**

- To study the impact of GST
- To study the implications of GST on select sectors of Indian Economy.
- To study the GST impact on GDP of our Country.

**Salient Features of GST: -**

- GST would be destination-based tax as against the present concept of origin-based tax.
- GST would be applicable on the sale of goods and services.
- It would be dual GST. The GST would be levied by the Centre would be called the Central GST (CGST) and that to be levied by the state would be called State GST (SGST).
- An Integrated GST (IGST) would be levied on interstate supply of goods or services. This would be collected by the Centre (Garg, 2014).
- Import of goods would be treated as Inter State supplies and would be subject to IGST in addition to applicable Custom duties.

- GST would replace the following taxes currently levied and collected by the Centre:
  a) Central Excise Duty
  b) Service tax
  c) CVD (levied on Import in lieu of Excise duty)
  d) SACD (levied on Import in lieu of VAT)
  e) Central Sale Tax
  f) Surcharge and cess.
- GST would apply to all goods and services Except Alcohol for human consumption, Electricity and Real estate.
- The list of exempted goods and services would be kept to minimum.

**Pre GST-Tax Deficiencies:**

- Plethora of taxes: There are various indirect taxes in India in existence prior to introduction of GST. There was a three-tier system of tax collection in India:
  I. Taxes levied by Central Government i.e. Custom Duties, Central Excise Duties, Service Tax, additional duties of Excise etc.
  II. State Excise, VAT, CST, Entry tax, entertainment tax, luxury tax etc. are levied by State Governments.
  III. Local Bodies levy taxes like entertainment tax, Octroi, property tax, local body tax etc.
- Plenty of taxable Events: Taxes were levied at various stages on various taxable events by different authorities on the same subject matter or transaction.
- Double taxation: On a single transaction, multiple taxes were imposed, often by different authorities.
- Multiplicity of compliances: Payment of tax to various authorities, different due dates, assessment, and refund process at various levels made the taxation system more complex and lead to an increase in compliance cost.
- No cross utilization between goods and services.
- No interstate-Centre set off.

**Benefits of GST: -**

- GST eliminates the cascading effects of taxes.
- GST reduces many indirect taxes.
- GST is transparent tax.
- GST will be levied on final consumption.
- It increases the revenue for govt.
- In GST there is less tax compliance and simplified tax policy.
- In long run, with the help of GST there is boost to Indian economy.
- Tax rates would be comparatively lower.
- Price of the goods and services would fall.
- There would efficient supply chain management.

**Impacts of GST: -**

**On Indian Economy**

- GST has pushed the economy one step closer to a common market i.e. free movement of Capital & Services. Doing business now has become easier and the hassle-free movement of the goods enables smoother transport.
- The introduction of GST and E-way bills solidified the country's supply chain and pu in the number of unique t in place a structure that facilitates transparency.

- Under GST the effectiveness of Input tax credit has significantly increased. It eliminates the cascading effects.
- By the implementation of GST, there is an increase in the number of unique indirect tax payer by more than 50%. From the survey it is founded that there are 3.4 million new tax registrants.
- There will be increase in government revenue by extending the tax base.
- The Custom duties which are applicable on export will be remove in GST. Now the cost of transaction is lower that leads to increase the competition in foreign market.
- From the viewpoint of consumer, they would now have paid more tax for most of the goods and services they consume. The majority of everyday consumables now draw the same or a slightly higher rate of tax. The GST implementation has a cost of compliance attached to it.
- The impact of GST on macroeconomics indicators is likely to be very positive in medium-term. Inflation would be reduced as the cascading (tax on tax) effect of taxes would be eliminated.
- The revenue from the taxes for the government is very likely to increase with an extended tax net, and the fiscal deficit is expected to remain under the checks. Moreover, exports would grow, while FDI (foreign Direct Investment) would also increase.
- 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 system will eliminate this roadblock.
- 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.

**On GDP: -**

- In GST regime export will become competitive. The National Council of Applied Economic Research study has suggested that GST could boost India's GDP growth by 0.9-1.7 per cent.
- The Confederation of Indian Industry has suggested that rise 1% of GDP will lead to creation of 25 lakh new jobs. After the implementation of GST, the estimated GDP growth will be 2-2.5 %, that means creation of 50 lakh new jobs.
- The excise duty exemptions will be lessening by the implementation of GST. The Central Government estimated that there is a loss of 1.8 lakh crore because of excise duty exemptions. Altogether, India loses around 2.7 per cent of GDP because of exemptions and this will be end by the implementation of GST.
- Under the GST, manufacturers will get credit for all expenses paid, thus boosting firms to source inputs from other enlisted dealers that lead to increased government revenue.
- A study done by NCAER that explores the impact on growth due to reduction in direct cost and cost reduction on capital inputs pegged the improvement in growth rates between 2 and 2.5 per cent.
- The capital goods prices would become effectively 12-14 per cent cheaper as companies avail tax credit. This is likely to increase investments and help growth. The report says that this could lead to incremental GDP of 0.5 per cent.
- Implementation of GST and subsequent slowdown in manufacturing sector is expected to drag down India's growth to 6.5 per cent.

**On Different Sectors: -**

- Real Estate- under the GST, due to input credit benefits that most builders will get on the raw material they buy, the base price of property project launched after implementation of GST i.e. 1st July, 2017 will be comparatively cheaper. We expect property prices to fall by around 1% in western and northern market and 3% in southern market (Nath, 2017).
- E-Commerce - E-commerce websites such as Flipkart, Amazon etc. will have to collect TCS at fixed 1% rate and pay to the seller listed on their websites that leads to increase in cost and online shopping

expensive. Though the latest notification issued by government stated that the provisions of TDS and TCS will be brought into force from a date which will be communicated later.

- Smartphones - under GST, mobile handsets are being taxed at 12% as compared to an earlier range of 8-18% implemented in various states. As a result of this average reduction in tax levied.
- Ride Hailing Apps - Tax rates are expected to increase from 14.5% to a range between 29% and 43% for drivers who do not own cars and associated with Ola and Uber cab-leasing programs. This is due to lease becoming costlier post GST.
- Airlines- Travelling in business class will become expensive as after the rollout of GST, tax rate will be increased from 9 per cent to 12 per cent. However, GST on economy class is set at 5 per cent, lower than the previous 6 per cent. Lower tax rate on economy travel is positive for companies like Interglobe Aviation's, Jet Airways and SpiceJet.
- Cement- Earlier, cement was taxed at 12.5 per cent excise and VAT rates between 12.5-15.5 per cent. Under the GST, cement will be taxed at 28 per cent, which is nearly the same as the current tax structure. Reduction in the price coal and GST will benefit the cement companies further.
- FMCG (Fast- Moving consumer goods) - The impact may remain neutral or negative, specifically for companies which either enjoy tax exemptions or fall under the concessional tax bracket. Key beneficiaries are Havells, Voltas and Hitachi etc.
- Furnishing and Home Decor- Currently the effective tax rate for the sector ranges above 20 per cent. Implementation of GST is expected to bring the unorganized sector under a uniform tax base and improve growth opportunities for the organized sector.
- Logistics- The implementation of GST will lead to lower transit time and thereby generate higher truck utilization. This will boost demand for high tonnage trucks and lead to overall reduction in transportation cost. The logistics sector is largely fragmented and comprises many unorganized players. With the GST coming into pictures, we expect an overall positive impact with a reduction in cost competitiveness as all the players will be brought under a uniform tax base, thereby improving growth opportunity for organized players.
- Textile- Indian textile industry provides employment to a large number of skilled and unskilled workers in the Country. It contributes about 10 per cent of the total export and this value is likely to increase under GST.
- Agriculture- The agriculture sector is the largest contributing sector the overall Indian GDP. It covers around 16 per cent of Indian GDP. One of the major issues faced by the agriculture sector is the transportation of agri products across state lines all over India. GST will resolve the issue of transportation.
- 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 to file their taxes as they can easily do it online.
- Import and Export Sector- After the implementation of the GST, we can see both its negative and positive effects on exports of goods and services will be treated as Zero rated supply under GST law. Input tax credit and a refund will be allowed.
- Entertainment Industry- The GST rate for entertainment industry services varies from 18 per cent to 28 per cent. These tax rates are different in different States which depend on the type of entertainment services or product.
- Banking Sector- 18 per cent GST rates levied on banking services like insurance policies, ATM transaction. The earlier tax rate was 15 per cent. Banking and Financial services become costly.
- Gold Industry- The gold industry is the biggest market in the World. GST on gold Industry hits to consumers. 3 per cent GST rate that is applicable to 10 per cent Import duty and 5 per cent making charges which lead to rising the jewellery prices in India. The demand for gold may fall 50 per cent to 70 per cent. But there is more transparency in the gold Industry due to GST implementation.

## Conclusion: -

At last, it can be concluded that the decision regarding implementation of GST can be recognized as the best decision of Indian government. July 1 was celebrated as Financial Independence Day in India when all the members of parliament attended the function to celebrate GST implementation in Parliament House. Confusions and complexities were expected to happen but GST structure will make India a better economy favorable for Foreign Investments. GST must be accepted and appreciated regime because it does away with multiple tax rates by Centre and states. GST have simplified Indian taxes from complex and complicated indirect tax structure and have ensured single tax structure. Above all, GST eliminates the cascading effects. It is preferred that every economy must adopt GST at national level to make their economy attractive for foreign investors. By implementing GST, the developing economy like India can achieve sustainable and balanced development. Slowly, India shall move to join the world-wide standards in taxation, corporate laws and managerial practices and will emerge out to be among the leader in its respective field. (Kaur et al. 2016).

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