

# A comprehensive study on the concept of GST and its impact on Indian economy

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**ABSTRACT:** Goods and Service Tax (GST) is a comprehensive tax on manufacture, sale and consumption of goods and service at a national level. Goods and Service Tax (GST) is the biggest tax reforms in India after the independence of India. Goods and Service Tax (GST) will boost the Indian economy by hike of GDP. Before implementation of GST in India there are lots of indirect taxes such as Value Added Tax (VAT), Service tax, Sales tax, Octroi, Luxury tax etc. But now all these indirect taxes have come under an umbrella. Now in India after the implementation of GST only one tax, monitored by the Central Government. At present different tax rates are applied to goods and services. Under GST, there would be only one tax rate for both goods and services. GST is expected to create business friendly environment. It will also improve the Government fiscal health and come down the inflation. In this paper a study on the concept of goods and service tax and impact on Indian economy.

**KEYWORDS:** Goods and Service Tax (GST), Tax, Indirect Tax, Fiscal health, Inflation

**INTRODUCTION:** Tax policy plays an important role on the economy through their impact on efficiency and equity. A good system should keep in view issues of income distribution and at the same time tax revenues supports government expenditure on public service and infrastructure development. GST stands for Goods and Service Tax. The GST is likely to change the whole scenario of current Indirect tax system. It is considered the biggest tax reforms since 1947. Before passed the GST, India had a complicated indirect taxes system which is imposed by union and state separately. GST will uniform all the indirect tax under a canopy and create a smooth national market. GST will change the market dynamics and it will quite interesting to see how the business enterprise and companies will attend to the new tax rule. GST would be a comprehensive indirect tax on manufacturer consumption and sale of goods and service throughout the India to replace taxes levied by central government and state government. GST would be levied and collected at each stage of sale or purchase of goods and services. GST is applied on goods and services at the place where actual consumption happens.

GST was first introduced by Franch in 1954 and now it is followed by 160 countries. Most of the countries followed unified GST and some of the countries follow a dual GST system where tax is imposed by central and states both. When the central govt. imposed tax then it is called Central GST (CGST) and imposed by state govt. it is called state GST (SGST). In India we also follow dual system of GST which is including CGST and SGST.

## Literature Review:

Pallavikapila (2018): In her study she mentioned that GST is implemented by the government of India since 1<sup>st</sup> April, 2017. Its introduction by the Indian constitution Act, 2016 was considered to be one of the most crucial steps in the field of Indirect tax reform structure of India. GST was defined as a comprehensive consumption based tax levied upon manufacturer, sale and consumption of goods as well as service which helped in transforming the country into one unified common market. Many inexplicit arguments were raised about GST after its implementation. She mentioned that how GST would help in reducing the existing complexity of taxes in India as its included in VAT, excise duty, service tax and sales tax.

A. Yadav (2017): In her study she mentioned that the main idea of GST is to replace existing taxes like Vat, excise duty, Service tax and sales tax. It will be levied on manufacturer and consumption of goods and service. GST would be worthwhile to assess its positive impact on the various development areas like agriculture, manufacturing industry, MSME , housing, poverty reduction, employment, price level EXIM trade ,GDP, government revenue etc.

K. Ajoy Kumar (2017): In this paper made an attempt to explain the level of impact of this GST on the growth of the economy and benefits for the business and government and for the consumer. In developing countries like India the taxation system play is very crucial role in the development of revenues of the country but India tax system is not only difficult to understand but also difficult for calculation.

A. Dash (2017): Mentioned that Goods and Service Tax popularly known as GST a single tax on the supply of goods and service, right from the manufacture to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value

addition, which makes GST essentially a tax only on value addition at each stage. In this paper he highlighted the positive and negative impacts of the GST in Indian tax system.

Dr. Yogesh K. C. Agrawal (2017): The research paper is regarding impact of GST on Indian economy with the introduction of GST there is a confusion among the common people about GST. The aim of this research paper is to explain the mechanism of GST and its effect on Indian economy. Under the GST mechanism every person is be liable to pay tax on output and shall be entitled to enjoy credit of input tax paid and tax shall be only on the amount of value added. The GST system was launched at a function in central Hall of parliament on 1<sup>st</sup> July 2017.

Dr. S. Shaik , Dr. S. A. Sameera, Sk. C. Firoz (2015): In this research study mention that GST is a Comprehensive tax levy on manufacture, sale and consumption of goods and service in national level. Currently company and business give the government a lot of Indirect taxes such as VAT, Service tax, Sales tax etc, but once GST is implemented all these indirect taxes would come under an umbrella. At present separate tax rates are applied to goods and service but under GST these would be one tax rate for goods and service. GST is to maintain a business friendly environment and it also improve government fiscal health and tax collection system would become more transparent.

M. Sehrawat and U. Dhanda (2015): Studied that “GST INDIA: A KEY TAX REFORM” GST is one of the most crucial tax Reforms in India which has been long pending. It is a comprehensive tax system that will include all indirect taxes of state and central government and unified economy into a seamless national market. This paper is focused on advantages of GST and challenges of faced by India in execution.

Nitin Kumar (2014): Studied “Goods and Service Tax- A Way forward” and concluded that implementation of GST in India will help in removing economic alteration by current indirect tax system and expected to cheer up unbiased tax structure which is indifferent to geographical locations.

Joyprakash (2014): In his research study mention that GST is expected to give more relief to industry, trade, agriculture and consumer. Thus GST offers us the best option to broaden our tax base and we should not miss this opportunity to introduce it.

E. Ahamed and S. Poddar (2009): Studied “Goods and Service Tax Reforms reforms and Inter- governmental Consideration in India” and found that GST introduction will provide simpler 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.

#### OBJECTIVES OF GST:

1. To study the concept of Goods and Services Tax (GST) and impact on Indian economy.
2. To realize how GST will work in India.
3. To know the advantages and challenges of GST in Indian context.
4. To furnish information for further research work on GST.

**RESEARCH METHODOLOGY:** The study focused on comprehensive study of secondary data collected from various books, National and International journals, government reports published from various website which focused on various aspects of Goods and Service tax.

**CONCEPTS of GST:** Goods and Service Tax (GST) is an equal of all the composite of indirect taxes. GST will include all the indirect taxes of central government and state government into a unified tax. It will be collected on both goods and services at all the stages of value addition. It has dual model including Central Goods and Service Tax (CGST) and State Goods and Service Tax (SGST). CGST will involves central indirect taxes like central Excise Duty, Central Sales tax, service tax, special additional duty on customs whereas indirect tax of state govt. like state VAT purchase tax, luxury tax, Octroi, tax on lottery and gambling will be replaced by SGST. Integrated goods and Service tax (IGST) which is 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 service and to further assure that the tax should be received by the importer state as GST is a destination based tax.

On the other hand GST does not include basic customs duty, Cess on basic customs duty, entertainment tax levied by Panchayet, Municipality, regional or District Council, Alcohol for human consumption, Tobacco and tobacco products, Crude, Diesel, Petrol, Natural Gas, Air turbine fuel.

Tax payers with an aggregate turnover in a financial year (Up to Rs 20 Lakhs and 10 Lakhs for North Eastern state and special category states) would be exempted from tax.

GST slabs are partition into five tax categories (i.e., 0%, 5%, 12%, 18% and 28%).

#### POSITIVE IMPACTS OF GST IN INDIA:

1. GST is a single taxation system that will reduce the number of indirect taxes. From now a single taxation term would cover of all of these indirect taxes.
2. It includes all indirect taxes under a single roof at the central and state level which reduce the burden from the state and central government.
3. By improving the cost competition of goods and service GST has freed the manufacturing sector from cascading effect (i.e., Tax on tax) of taxes.
4. A business friendly environment has been created by increasing tax-GDP ratio and inflation rate would come down.
5. GST would introduce corruption free taxation system.
6. Manufacturing cost will be reduced, hence prices of consumer goods likely to come down.
7. A unified tax regime will lead to less corruption which will indirectly effect the common people.
8. In the long run GST will add to the government revenue thus providing a boost to the Indian economy.

#### NEGATIVE IMPACTS OF GST IN INDIA:

1. The Real estate market was affected badly by the introduction of GST.
2. Most of the dealers don't pay central excise tax by simply giving the VAT. But all of those dealers would now be forced to pay GST.
3. The short term impact of GST is expected to be negative for broader economy.
4. GST is mystifying term where double tax is changed in the name of single tax.
5. For consumer GST will be a mixed vegetable ingredients bag as some goods become cheaper while others will be expensive.
6. Service like Telecom, Banking, and Airline etc will become expensive.
7. For imposing of GST online shopping will be more expensive.
8. If seller increases his profit margin the prices of goods can also see a rising trend.
9. The final consumer will bear only the GST changed by the last dealer in the supply chain and it helps uniformity of tax rates across the states in India.
10. Only the centre may levy and collect GST on supplies in the course of interstate trade of companies.

#### SECTOR WISE IMPACT OF GST:

**Pharma:** GST is expected to benefit the pharma and health care industries. It will help the industries by sorting out the taxation structure. It will create a level playing field for generic drug makers, boost medical tourism and simplify the tax structure.

**FMCG:** The Indian FMCG sector is the fastest growing sector in the Indian economy. After implementation of GST this sector expected to be much lower of GST rate which will result in reduction of price of consumer goods.

**Real Estate:** The real estate sector is one of the important sectors in Indian economy. These sectors play an important role in employment in India. The implementation of GST on real estate will effect partially as the sale or transfer of immovable property is not including in GST.

**Telecommunication:** In this telecom sector price are expected to come down after GST. Manufacturer will save in cost. Handset manufacturer will find it easier to sell their equipment as GST.

**Agriculture sector:** The agriculture sector is the largest contributing sector the overall India's GDP. It covers around 16% of Indian GDP. GST may provide India with its first national market. (One nation one tax) for the agricultural goods. The GST on agriculture sector will have a positive impact as all the taxes will be subsumed under a single rate of tax.

**Service Sector:** Service sector of India consist of 60% GDP. The GST rate for service is 18% which is higher than previous rate of tax that is 15%. So there will be increase cost of service like Banking, Telecom, and Insurance etc.

**Textiles:** The Indian textile Industry contributes 10% of total annual exports. They provide employment to a large no of skilled and non skilled workers in the country. It is expected that the tax rate in GST would be higher of before imposed rate of tax because cotton and wool fiber which are exempted from tax would come under tax in GST. On the other side manufacturing cost may be

reduced due to subsume of various taxes like Octroi, entry tax, luxury tax etc. There are few drawbacks also but GST will support the Industry in long run.

#### CHALLENGE OF GST:

The GST is a very good type of rule. However for the successful implementation of the same, there are few challenges which have to face to implement GST in India.

1. It is required that all the states should implement the GST.
2. The GST rules should be more refined and free from uncertainty.
3. The GST is a destination based tax. It should be clearly identifiable as to whom the goods are going.
4. More awareness about GST and its advantages have to be made.
5. GST is a long term strategy and a positive impact shall be seen in the long run only. So it will take some time for the people to understand its implication.

**CONCLUSION:** The Goods and Service Tax (GST) rules will replace of multiple Indirect taxes with a single tax. Study of the National Council of applied economics research GST will boost India's Gross Domestic Product (GDP). GST will provide an efficient way to mobile revenue and reduce the fiscal deficit. All sectors of economy viz., Big, medium, small scales units, importers, Exporters, traders, professionals and consumers shall be directly affected by GST. GST will also help the taxation burden which will be divided equitably between manufacturing and services through a lower tax rate by increasing the tax based and minimize exemptions. GST is likely to improve tax collection and boost India's economic development.

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