



A COMPREHENSIVE STUDY ON THE EFFECTS OF GST ON INDIAN ECONOMY

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ABSTRACT:

In India, the idea of GST was contemplated in 2004 by the Task Force on implementation of the Fiscal Responsibility and Budget Management Act, 2003, named Kelkar Committee. The Kelkar Committee was convinced that a dual GST system shall be able to tax almost all the goods and services and the Indian economy shall be able to have wider market of tax base, improve revenue collection through levying and collection of indirect tax and more pragmatic approach of efficient resource allocation. Under the Goods and Service Tax mechanism, every person is be liable to pay tax on output and shall be entitled to enjoy credit on input tax paid and tax shall be only on the amount of value added. The historic GST or goods and services tax has become a reality. The new tax system was launched at a function in Central Hall of Parliament on 1st July, 2017 (Friday midnight). GST, which embodies the principle of "one nation, one tax, and one market" is aimed at unifying the country's \$2 trillion economy and 1.3 billion people into a common market. Under GST, goods and services fall under five tax categories: 0 per cent, 5 per cent, 12 per cent, 18 per cent and 28 per cent. For corporates, the elimination of multiple taxes will improve the ease of doing business. And for consumers, the biggest advantage would be in terms of a reduction in the overall tax burden on goods. "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 section," Finance Minister Arun Jaitley said at GST launch event in Parliament. The Lok Sabha has finally passed the Goods and Services Tax Bill and it is expected to have a significant impact on every industry and every consumer. Apart from filling the loopholes of the current system, it is also aimed at boosting the Indian economy. This will be done by simplifying and unifying the indirect taxes for all states throughout India.

KEYWORDS:

GST, Indian Economy, Central Government, State Government.

I. INTRODUCTION:

GST stands for Goods and Services Tax levied by the Government in a move to replace all of the indirect taxes. In India, the idea of GST was contemplated in 2004 by the Task Force on implementation of the Fiscal Responsibility and Budget Management Act, 2003, named Kelkar Committee. The Kelkar Committee was convinced that a dual GST system shall be able to tax almost all the goods and services and the Indian economy shall be able to have wider market of tax base, improve revenue collection through levying and collection of indirect tax and more pragmatic approach of efficient resource allocation. Under the Goods and Service Tax mechanism, every person is be liable to pay tax on output and shall be entitled to enjoy credit on input tax paid and tax shall be only on the amount of value added. The principal aim of GST is to eliminate cascading effect i.e. tax on tax and it will lead to bringing about cost competitiveness of the products and services both at the national and international market. GST System is built on integration of different taxes and is likely to give full credit for input taxes. GST is a comprehensive model of levying and collection of indirect tax in India and it has replace taxes levied both by the Central and State Governments. GST be levied and collected at each stage of sale or purchase of goods or services based on input tax credit method. Under this system, GST-registered Commercial houses shall be entitled to claim credit of the tax they paid on purchase of goods and services as a part of their day to day businesses.

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II. LITERATURE REVIEW:

2.1. Anand Nayyar and Inderpal Singh (2018):

The Goods and Services Tax (GST), implemented on July 1, 2017, is considered a major tax reform to date implemented in India since independence in 1947. The implementation of the GST was planned in April 2010, but was postponed due to political issues and conflicting interests of stakeholders. The main objective behind the development of GST is to include all kinds of indirect taxes in India, such as central consumption tax, VAT / sales tax, service tax, etc. and implement a tax system in India. The GST-based tax system provides more transparency in the tax system and increases the GDP rate from 1% to 2% and reduces tax theft and corruption in the country. The paper highlighted the context of the tax system, the concept of GST along with significant work, comparing the rates of the Indian GST tax system with other world economies, and also presented in-depth coverage on the benefits for various sectors of the economy. Indiana after applying the GST and described some challenges of implementing the GST.

2.2. Sachin Abda (2017):

The current Indian tax system is very complex as it includes cascading tax effects. GST, being a single indirect tax regime for the whole nation, will seek to make India a united common market. GST known as the Goods and Services Tax is an important tax regime developed to achieve economic growth. However, the GST proposal had already been initiated in 2000 by the Vajpayee government. Although the constitutional amendment was approved by Lok Sabha in May 2015, Rajya Sabha has yet to ratify it. India needs a strong and defined GST system to overcome VAT shortages. This document highlights GST's benefits, goals and history.

III. OBJECTIVE:

1. To study the need of Goods and Services Tax (GST).
2. To study the impact of Goods and Services Tax (GST) on Indian economy.
3. To highlight the benefits of GST.

3.1. NEED FOR GST IN INDIA:

- Present tax system allows is diversity of taxes, the introduction of GST is likely to unique it.
- Many areas of Services which are untaxed. After the introduction of GST they will also get covered.
- GST may help to avoid confusions caused by present complex tax structure and will help in development of a common national market.
- Excise, VAT, CST have the cascading effects of taxes. Therefore, there will be end up in paying tax on tax. GST will replace existing all present taxes.
- GST will lead to credit availability on throughway purchases and reduction in obedience requirements.
- Applying of GST will do more than simply redistribute the tax burden from one sector or Group in the economy to another.
- Achieves, uniformity of taxes across the territory, regardless of place of manufacture or distribution.
- Provides greater certainty and transparency of taxes.
- Ensures tax compliance across the country.
- GST will avoid double taxation to some extent.
- The effective implementation of GST makes sure that India provides a tax system that is almost similar to the rest of world where GST implemented.
- GST will also improve the International level cost competition of various native Goods and Services. GST will provide impartial tax structure that is neutral to business processes and geographical locations within India.
- If the GST is implemented in the true spirit, it will have many positives effects for the stakeholders and will lead to a better friendly tax environment.

3.2. IMPACT OF GST ON PRICES OF GOODS AND SERVICES:

Tax experts claimed that the previous practice of tax on tax – for example, VAT was being charged on not just cost of production but also on the excise duty that was added at the factory gate leading to production cost building up but now all had been gone when GST is rolled out. The prices of consumer durables, electronic products and ready-made garments will be available at low price after rolled out GST. In other aspects, for goods which were taxed at low rate, the impact of GST brings price increment. Services bearing essential ones like ambulance, cultural activities, pilgrimages etc. were exempted from levy are same. India has seen the strongest tax reform that aims to do away with various – tax system on goods and services and bring them under one rate. We can draw the following impact of GST on prices:

The government rolled out the much talked about Goods and Services Tax (GST) on the midnight of June 30. The GST Council has fixed the tax rates, keeping a view on all goods and services; they are classified under tax slabs 0 % (exempted ones), 5%, 12%, 18% & 28%.

3.3. List of some items which are completely exempt from the GST regime:

- The unprocessed cereals, rice & wheat etc.
- The unprocessed milk, vegetables (fresh), fish, meat, etc.
- Unbranded Atta, Besan or Maida.
- Kid's colouring book/drawing books.
- Sindoor / Bindis, bangles, etc.

3.4. SECTOR WISE POSITIVELY IMPACT OF GST:

Sectors	Tax Implications under GST
Auto Commercial Vehicle (CV)/Two wheelers (2W)	To marginally reduce by 1% compared to the existing tax structure. Positive
Auto – Small cars	Small cars which less than 4 meter length and more than 1500 cc engine tax rates to reduce by 2-2.5% compared to the existing tax structure. Positive
Auto – Midsized cars and SUV	Midsized cars <1500 cc &<4 meters in length and SUV rates would come down by 8% and 12% respectively. Positive
Consumer goods – essential items	Effective tax rate in essential goods (soaps, toothpaste, edible oil and hair oils) under various tax slabs – Positive
Consumer goods – Footwear	Footwear tax rates (<Rs 500) to reduce to 5% from 9.5% and <Rs500 to reduce to 18% from 24-30%– Positive
Consumer goods – Cigarettes	Effective tax under GST would be 28% along with additional Cess and other taxes. GST rate in cigarettes according to the current rate will gradually increase over the next 5-6 years – Positive
Building Materials	Organized players to benefit from higher tax rate in the long term, as they gain market share on reduced pricing spread between organized and unorganized players. However, higher tax rate may lead to tax evasion through loopholes, which is a concern from organized players.
Logistics	In Consolidation of warehouses across the country with free movement of goods will lead to higher volumes for logistic companies. Execution of the same, however, might take some time as unorganized players will have to adapt to new systems under GST.

3.5. SECTORS NEGATIVELY EFFECTED BY GST:

Sectors	Tax Implications under GST
Hotel more than Rs 5000 room rental	Tax rate on fine dining restaurants increased to 28% from 15%. This will result in room rentals hikes, with consequent impact on hotel occupancies.- Negative
Restaurants & fine dining	Tax increased to 18% from 15%. This tax revision will affect the fine dining restaurant industry which has already seen significant pressure on its sales due to macro environment slowdown. – Negative
Branded Apparels	Garments >Rs 1000 will be taxed at 12% instead of 7%. This will adversely impact business as price hikes would lead to late recovery in sales.

3.6. BENEFITS OF GST:

The applicability of GST may lead to following advantages in India-

- GST provide comprehensive and wider coverage of input credit setoff, you can use service tax credit for the payment of tax on sale of goods etc.
- Consumer needs to pay single tax i.e. GST instead of all other indirect taxes.
- Uniformity of tax rates across all states
- By reducing the tax burden the competitiveness of Indian products in international market is expected to increase and there by development of the nation.

- As the benefits of less tax burden would be passed on to the consumer prices of goods are expected to reduce in the long run.
- GST would result in higher GDP which may lead to higher Tax revenues (higher tax GDP ratio) which will bring down fiscal deficit to half its size and revenue deficit to zero.

IV. RESEARCH METHODOLOGY:

4.1. PRIMARY DATA:

Primary data was not collected for the research paper.

4.2. SECONDARY DATA:

This study is descriptive in nature and it used the exploratory technique. The data for the study were gathered from the secondary sources such as journals, articles published online and offline on various newspapers and websites.

V. CONCLUSION:

At the end we can say clearly with no doubt that it is the biggest ever change in tax structure of India. There is a fall in prices of Auto Commercial Vehicle, Two wheelers, Small cars, Midsized cars and SUV, essential items, Footwear, Building Materials etc. and education, healthcare are going to be exempted from GST but on the other hand, price of some other goods and services increased after GST like Hotel room rental, Restaurants & fine dining and Branded Apparels. There was threat of inflation before GST rolled out. It can be concluded that GST has been going to be an historical record for its full fledged implementation and hopefully this biggest historical reform will result in ease of doing business in India.

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