

# **IMPACT OF GST - “INDIAN SCENARIO”**

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**ABSTRACT:** The present paper deals with the impact of recent evolution of GST in the Indian tax system. It is a very crucial phase for an economy to adapt to a new tax structure as there are tremendous changes due to the implementation of any new taxation system. Our primary motive in this study is to find the consolidated impact of GST on the Indian economic system. From this study we can generalize the pros and cons of this tax system thereby providing suggestions required for the improvement of the system. This will also facilitate us in knowing about the market trend in terms of sale of commodities and the respective profit generated from the avenues.

**KEY WORDS:** GST, INDIAN ECONOMY, TAX SYSTEM, SALES & PROFIT TREND

## **Introduction**

**Goods and Services Tax (GST)** is an indirect tax levied in India on the sale of goods and services. Goods and services are divided into five tax slabs for collection of tax - 0%, 5%, 12%, 18% and 28%. Petroleum products and alcoholic drinks are taxed separately by the individual state governments. There is a special rate of 0.25% on rough precious and semi-precious stones and 3% on gold.<sup>[1]</sup> In addition access of 22% or other rates on top of 28% GST applies on few items like aerated drinks, luxury cars and tobacco products.

The tax came into effect from July 1, 2017 through the implementation of One Hundred and First Amendment of the Constitution of India by the Modi government. The tax replaced existing multiple cascading taxes levied by the central and state governments. The tax rates, rules and regulations are governed by the Goods and Services Tax Council which comprises finance ministers of centre and all the states. GST simplified a slew of indirect taxes with a unified tax and is therefore expected to dramatically reshape the country's 2.4 trillion dollar economy.

**Idea Generation GST:** 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.

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, 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

**Development of GST:** A 22-members selected committee was formed to look into the proposed GST laws. After GST Council approved the Central Goods and Services Tax Bill 2017 (The CGST Bill), the Integrated Goods and Services Tax Bill 2017 (The IGST Bill), the Union Territory Goods and Services Tax Bill 2017 (The UTGST Bill), the Goods and Services Tax (Compensation to the States) Bill 2017 (The Compensation Bill), these Bills were passed by the Lok Sabha on 29th March, 2017. The Rajya Sabha passed these Bills on 6th April, 2017 and were then enacted as Acts on 12th April, 2017. Thereafter, State Legislatures of different States have passed respective State Goods and Services Tax Bills. After the enactment of various GST laws, Goods and Services Tax was launched all over India with effect from 01 July 2017. The Jammu and Kashmir state legislature passed its GST act on 7 July 2017, thereby ensuring that the entire nation is brought under an unified indirect taxation system. There was to be no GST on the sale and purchase of securities. That continues to be governed by Securities Transaction Tax(STT).

### **Research Methodology**

The research paper is based on empirical study. It is a type of descriptive research paper. The data collection has been done from authentic source. All the fact and figures listed in the research paper are from reliable sources.

### **Objectives of Study:**

To know the consequences of GST in different sector of Indian Economy

### **Importance of the Study:**

1. It will help to the general public to understand the concept the GST.
2. The study will be focused on the effects of GST on Indian Economy.

### **Why GST Required?**

1. To improve the economy of the nation.
2. VAT rates and regulations differ from state to state. And it has been observed that states often resort to slashing these rates for attracting investors. This results in loss of revenue for both the Central as well as State government.
3. GST brings in uniform tax laws across all the states spanning across diverse industries. Here, the taxes would be divided between the Central and State government based on a predefined and pre-approved formula.
4. It would become much easier to offer services and goods uniformly across the nation, since there won't be any additional state-levied tax.
4. GST rollout missed several deadlines due to disagreement among many states over certain important issues on the new tax reform. However GST is scheduled for a nation-wide rollout on July 1st, 2017

### **Characteristics of GST :**

1. GST is one indirect tax for the entire nation, which will make India "one unified common market".
2. It will replace multiple taxes like VAT, CST, Excise Duty, Entry Tax, Octroi, LBT, Luxury Tax ect .
3. There are four types of GST namely:
  - a) SGST – State GST, collected by the State Govt.
  - b) CGST – Central GST, collected by the Central Govt.
  - c) IGST – Integrated GST, collected by the Central Govt.
  - d) UTGST – Union Territory GST, collected by the Union Territory
4. Tax Payers with an aggregate turnover in a financial year up [ Rs. 20 Lakhs & Rs. 10 Lakhs for North Eastern Sates and Special Category States] would be exempted from tax.
5. GST slabs are pegged at 5%, 12%, 18% & 28%.

### **Consequences of GST in India:**

#### **Positive:**

1. GST as a single taxation term would cover all of those indirect taxes.
2. This system would prove to be beneficial for the people who are fed up of paying high prices, because due to GST application prices would be decreased.
3. With the implementation of GST, all indirect taxes would come under a single roof.
4. GST would not be charged at every point of sale like other indirect taxes so in this way, market would be developed.
5. Corruption-free taxation system. GST would introduce corruption-free taxation system.
6. Less tax compliance.
7. Removes cascading effect of taxes.
8. Due to reduced costs some products like cars, FMCG etc. will become cheaper.

#### **Negative:**

1. The introduction of GST in the country will impact real estate market. This would increase new home buying price by 8% and reduce buyers' market by 12%.
2. GST is a perplexing term where double tax is charged in the name of a single tax.
3. Most of the dealers don't pay central excise tax and cheat the government by simply giving the VAT. But all of those dealers would now be forced to pay GST.
4. The short-term impact of GST is expected to be neutral-to negative for the broader economy.
5. Production processes are likely to take some time to align with the new framework as firms adjust to the input tax credit system and better manage working capital requirements.
6. For consumers, it would have a mixed effect as some product would be cheaper and some would be expensive.
7. Some services will become expensive e.g. Banking, Airlines and Telecom etc.
8. Being a new tax, it will take some time for the people to understand its implications.
9. It is easier said than done. There are always some complications attached. It is a consumption based tax, so in case of services the place where service is provided needs to be determined.
10. If actual benefit is not passed to consumer and seller increases his profit margin, the prices of goods can also see a rising trend.

#### **GST – Analysis**

GST is purported to bring in the "one nation one tax" system, but it will have different impact on different industries which are discussed as below:

### **IMPACT OF GST IN INDIAN ECONOMY IN MAJOR SECTORS:**

#### **Impact on Manufacturing Industries (Manufacturers, Distributor and Retailers):**

GST is expected to improve competitiveness and performance in India's manufacturing sector. On the way out exports and high infrastructure spending are just some of the concerns of this sector. Multiple indirect taxes have also increased the administrative costs for manufacturers and distributors and it is being hoped that with GST in place, the compliance burden will ease and this sector will grow more strongly.

#### **Impact of GST on Service Providers:**

As of March 2014, there were 12, 76,861 service tax assesses in the country out of which only the top 50 paid more than 50% of the tax collected nationwide. Most of the tax burden is borne by domains such as IT services, telecommunication services, Insurance industry, business support services, Banking and Financial services etc. These pan-India businesses already work in a unified market, and while they will see compliance burden becoming lesser there will apparently not be much change in the way they function even after GST implementation.

### Impact of GST in different sector -

- 1. Agriculture:** Agricultural sector is the primary sector contributing to the overall Indian GDP. It contribute around 16% to Indian GDP. One of the major setbacks to the agricultural sector is transportation of agricultural products to the different states of the country. It is highly probable that GST will resolve the problems of transportation across the country. It may also provide the country with its first National Market for the agricultural products. However, there are a lot of clarifications which need to be provided for rates for agricultural products.
- 2. Automobiles:** Automobile industry is a wide spread industry of our country as it adds to the production of huge number of cars annually, fueled mostly by the huge population of the country. The primitive current structure , levied different kind of taxes such as excise, VAT, sales tax, road tax, motor vehicle tax, registration duty which will be subsumed by GST. Though there is still some vagueness due to tax rates and incentives/exemptions provided by different states to the manufacturers/dealers for manufacturing car/bus/bike, the future of the industry looks rosy.
- 3. Banking, Financial Services And Insurance (BFSI)** Among the services provided by Banks and NBFCs, financial services such as fund based, fee-based and insurance services will see major shifts from the current scenario. Owing to the nature and volume of operations provided by banks and NBFC vis a vis lease transactions, hire purchase, related to actionable claims, fund and non-fund based services etc., GST compliance will be quite difficult to implement in these sectors.
- 4. E-com:** The e-com sector is a fast growing sector in India. GST will prove to be beneficial to the e-com sector in many ways as it would witness a continuous growth but the long-term effects will be really interesting as according to GST model there is a tax collection at source (TCS) mechanism, which e-com companies are not too happy with. The current rate of TCS is at 1% and it would be the same if it dilutes the rapid boom in this sector in any way in the future.
- 5. FMCG:** Due to GST there would be remarkable savings in logistics and distribution costs as it would eliminate the need for multiple sales depots. The GST rate for this sector is around 17% which is way lesser than the 24-25% tax rate paid currently by FMCG companies. This includes excise duty, VAT and entry tax – all of which will be subsumed by GST.
- 6. Freelancers:** Freelancing in India is still a budding industry and the rules and regulations for this messy industry are still up in the air. But with GST, it will become much easier for freelancers to file their taxes as they can easily do it online. They will be taxed as service providers, and the new tax structure will bring about coherence and accountability in this sector.
- 7. IT sector:** Application of Tax in the form of GST in the ever expanding IT sector is not yet clear as this sector has multiple location options with the preferred mode of service tax compliance being on a centralized basis from a single location and IT service provider also enjoys the input service credits as well as enjoys the refunds.
- 8. Logistics sector:** serves as a backbone of the economy in our country. The new initiative of “Make In India” introduced by the Government of India would definitely turn out to be a great success.
- 9. Pharmacy:** There would be a great benefit of GST in both pharmacy and healthcare sectors. It would make tax structure a bit simplified and would boost the medical tourism. This would make healthcare affordable and easily accessible for all
- 10. Real Estate:** The real estate sector is another core sector of Indian economy, playing an important role in employment generation in India. It is difficult to predict the actual impact of GST on the real estate sector as it largely depends on the tax rates.
- 11. Startups:** As we know that different Indian states impose different kind of taxes for the startups which are according to the VAT laws which are very confusing for the companies. Due to the implementation of GST the single tax will be imposed which would make things easier for the startups.
- 12. Telecommunications:** It is expected that the prices of the telecom sector would experience a downward trend. There would be a reduction in cost by the efficient management of the inventory system Handset manufacturers will find it easier to sell their equipment as GST will negate the need to set up state-specific entities, and transfer stocks. The will also save up on logistics costs.

13. **Textile:** Textile industry in one of the core industries of our country providing employment to a large number of skilled and unskilled workers. It contributes about 10% of the total annual export, and this value is likely to increase under GST. GST would affect the cotton value chain of the textile industry which is chosen by most small medium enterprises as it currently attracts zero central excise duty (under optional route).
14. **Tourism, Hospitality and Restaurant:** Presently, the rates in these industries are higher due to existing multiple taxes. With the implementation of RNR (Revenue Neutrality Rate) which is more than Introducing GST and Its Impact on Indian Economy is quite high, this would definitely discourage tourists and users of services and adversely affects the growth of sector.
15. **Transport sector:** GST has a positive impact on the Transportation sector as it reduces the logistics cost, thereby increasing the efficiency both within the country and also in the export regime

### Conclusion

GST is at the initial stage in Indian economy as it has just been introduced. The effect of GST would be observed in the Indian economy with the passage of time. Considering the present study we conclude that the effect of GST is good for some sector while it is not for the others. This tax mechanism is designed in such a way that it would lead to generation of an ample amount of revenue for both central and state government. It would prove to be beneficial to sectors like corporate world, businessmen and also the service providers in long run. It will bring transparency in collection of indirect taxes benefiting both the Government and the people of India.

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