

# Impacts of Goods and Services Tax on Indian Economy

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## Abstract:

*Goods and Services Tax (GST) is a comprehensive tax levy on manufacturing, sale and consumer goods and services at a national level as a vast concept GST simplifies the giant tax structure by supporting and enhancing the economic growth of a country as a whole process in a new form. Recently after the formation of NDA government in 2014 the Government of India introduces GST bill in Lok Sabha which was passed in May 2015 and then GST bill was referred to a Select Committee of Rajya Sabha for further examination. Therefore after the approval of Rajya Sabha GST was implemented w.e.f 1<sup>st</sup> July 2017 in the whole country. It is said that it has paved a way to 'One Country-One Tax' regime. Meanwhile it was also hoped that GST would enhance the economical capacity of India and would free the manufacturing sector from cascading effect of taxes. And for consumers the biggest advantage would be in terms of a reduction in the overall tax burden on goods. It is also said that India's GDP would be benefitted and extra resources would be used for welfare of poor and weaker sections. Moreover it would also bring down the prices of goods and services and thus by, increase consumption by creating a business friendly environment in Indian economy.*

**Keywords:** VAT, GST, Indian Economy, Manufacturing, Business Friendly, One Tax-One Nation.

**Introduction:** After passing the GST bill the finance minister Arun Jaitley had said that it is expected to have a significant impact on every industry and every consumer in India. Apart from feeling the loopholes of the current tax system, it is also aimed at boosting the Indian economy by simplifying and unifying the indirect taxes for all states in the country. Actually GST is a value added tax implemented in India from 1<sup>st</sup> July 2017 and rates of taxes under GST have been kept the same throughout the country. In other words, on bringing GST into practice there is an amalgamation of central and state taxes into a single tax payment. Thus, it is hoped

that it would enhance the position of India in both, domestic as well as international market. It would also reduce the overall tax burden for consumers and would bring a uniformity in the whole tax system. To avoid the payment of multiple taxes, GST would unify all taxes such as VAT, Excise Duty and Service Tax at state and central levels. Thus GST would create a uniform market throughout the country and it would bring about an effective cross utilization of credits.

**Research Methodology:** The present research paper is exploratory in nature and based on the secondary sources of data collection. Most of the data has been

collected from various reputed books, journals, government reports and official websites which focused on various aspects of GST. To pace the study, the researcher has also used some observational facts.

**Research Objectives:** The present study has the following objectives:

- To know about the concept of GST.
- To trace out a history of GST in India.
- To examine the structure of GST in India.
- To analyse the impact of GST on Indian economy.

**The Concept of GST:** GST stands for Goods and Services Tax levied by the government in a move to replace all of the indirect taxes. It is an indirect tax which was introduced in India on 1<sup>st</sup> July 2017 and was applicable throughout the country which has replaced multiple cascading taxes levied by the central and state government. Moreover, it is a vast concept that simplifies the giant tax structure by supporting and enhancing the economic growth of a country. It is built on integration of different taxes and is likely to give full credit for input taxes based on a comprehensive model of levying and collection of indirect taxes in India. Under this new tax structure every consumer will bear only the GST charged by the last dealer in the supply chain.

According to new Article 366 (12 A) of the Indian Constitution, GST means any tax on supply of goods and services or both except taxes on the supply of the alcoholic liquor for human consumption. The new Article 366 (26 A) defines service to mean anything other than goods. The existing Article 366 (12) defines goods to include all materials, commodities and articles.

Actually GST is not a tax on business but a tax on consumers. Business that purchase goods and services that are consumed, used or supplied can claim inputs tax credit subject to prescribed documentation as apply GST on the same goods or services several times as it passes from business to business on its way to the final consumer. Thus the tax is essentially borne by the final consumer. Goods and Services Tax law in India is a comprehensive, multi-staged, destination based tax that will be levied on every value addition. GST law has replaced many indirect tax laws that previously existed in India since a long time.

**A History of GST:** GST was first implemented in France in 1954. Recently 160 countries across the world have adopted GST in the most transparent manner. In case of India, the idea of GST was first mooted by Kelkar Task Force on implementation of 'Fiscal Reforms and Budget Management Act, 2004'. 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 collection. Further, its proposal was uttered by then finance minister P. Chidambaram in April 2010. Then, after the formation of NDA government in 2014, a bill was introduced in Lok Sabha in December 2014 which was passed in May 2015. Further, GST bill was referred to a Select Committee of Rajya Sabha for well examination of the bill. Now after passing the GST bill by the both chambers, GST became a reality and it was launched at a

function in Central Hall of Parliament on 1<sup>st</sup> July 2017 at midnight.

**Structure of GST:** It is based on the concept of 'One Unified Common Market' in whole India. As an indirect tax for the entire country, it has replaced multiple taxes like VAT, CST, Excise Duty, Entry Tax, Octroi, Luxury Tax etc. It has four names: SGST, CGST, IGST and UTGST. Here SGST means GST collected by the state, CGST means GST collected by the centre, IGST means integrated GST collected by the centre and UTGST means Union Territory GST collected by Union Territories. Under the new tax system, the tax payers with an aggregate turnover in a financial year upto Rs. 20 Lakh and Rs. 10 Lakhs for North Eastern states and special category states would be exempted from tax. Now tax slabs under GST are set at zero percent, five percent, twelve percent, eighteen percent and twenty eight percent for various goods and services. However, rates of taxes for

some goods and services under GST have been revised after sometime on the demand of manufacturers and for the welfare of consumers. There is a special rate of 0.25 percent on rough precious and semi-precious stones and 3 percent on gold which is reduced recently by the government. In addition a cess of 15 percent or other rates on top of 28 percent GST applies on few items like aerated drinks, luxury cars and tobacco products.

**Components of GST:** There are 3 applicable taxes under GST as under:

1. CGST: Collected by the Central Government on an intra-state sale (Eg: Within Haryana)
2. SGST: Collected by the State Government on an intra-state sale (Eg: Within Haryana)
3. IGST: Collected by the Central Government for inter-state sale (Eg: Haryana to Punjab)

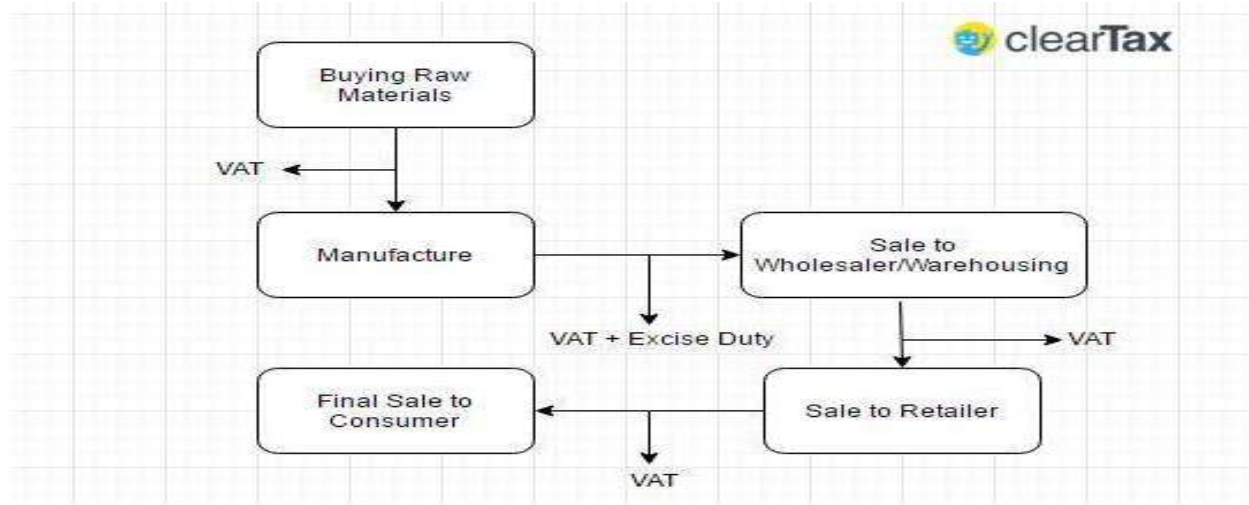


**Table-1: A Summary of Levy & The Imposing & Collecting Authority**

Nature of Levy	To be levied by	To be paid to the account of
CGST	Central Government on Intra-State Supply of Goods and/or Services	CG
SGST	State Government Intra State Supply of Goods and/ or Services	SG

IGST = CGST + SGST	Central Government on Inter-State Supply of Goods and/or Services	CG
Additional Tax	Central Government on Inter-state supply of goods, but the net proceeds to be assigned to the States from where supply originates	CG

**Present and Post GST Scenario:**



**Example:** (1) Rate of Excise Duty – 8%; (2) VAT Rate – 12.5%; (3) Central GST Rate – 12%; (4) State GST Rate – 8%; (5) Profit Margin – Rs. 5,000/- fixed (6) All parties are located in one state.

**Table 2: Present & Post GST Scenario**

Particulars	Under Present Scenario	Under GST
(I) Manufacturer (D1) to Wholesaler (D2)		
Cost of Production	45000	45000
Input Tax Credit (Assuming nil)	–	–
Add : Profit Margin	5000	5000
Producers Basic Price	50000	50000
Add: Central Excise Duty @ 12%	6000	–
Add : Value Added Tax @ 12.5% on Rs. 56,000/-	7000	–
Add : Central GST @ 12%	–	6000
Add : State GST @ 8%	–	4000

Sale Price	63000		60000
(II) Wholesaler (D2) to Retailer (D3)			
Cost of Goods to D2	56000		50000
Available Input Tax Credit for set off	7000		10000
Add : Profit Margin	5000		5000
Total	61000		55000
Add : Value Added Tax @ 12.5%	7625		–
Add : Central GST @ 12%	–		6600
Add : State GST @ 8%	–		4400
Total Price to the Retailer	68625		66000
(III) Retailer (D3) to Final Consumer (C)			
Cost of Goods to D3	61000		55000
Input Tax Credit	7625		11000
Add : Profit Margin	5000		5000
Total 1,32,000 1,20,000	66000		60000
Add : Value Added Tax @ 12.5%	8250		–
Add : Central GST @ 12%	–		7200
Add : State GST @ 8%	–		4800
Total Price to the Consumer	74250		72000
<b>Total Tax Payable in All Transactions</b>	<b>14250</b>		<b>12000</b>
Verification:- VAT @12.5% $[74,250 * 12.5 / 112.5] = 8250 + 6000$ (CENVAT) = 14250			
– D1 (6000 +7000)		13,000	
– D2 (7625 – 7000) –		625	
D3 (8250 – 7625)		625	
Verification:- GST @20% $[72000 * 20 / 120] = 12000$			
– D1 (6,000 + 4,000)		10,000	

- D2 (11,000 – 10,000) –	1,000
D3 (12,000 – 11,000)	1,000

### **Impact of GST on Indian Economy:**

Reason behind introducing GST was to improve the economy of India. Due to different rates of VAT in different states there was a great loss of revenue for both the centre and the state governments. Moreover to bring a uniformity in tax system was urgently required for tax reforms. Therefore, the concept of 'One nation-One Tax' emerged under the GST. However the implementation of GST from 1<sup>st</sup> July 2017, it showed a slow pace of economic growth in key sectors of Indian economy. Its negative impact was observed in real estate. Nevertheless we can't ignore the fact that recently it has given a boost to economic growth and GDP of India. It is expected that it would boost competitiveness and performance in manufacturing sector and compliance burden will ease and manufacturing sector will grow more strongly. Recently it is also said that service provider sectors like telecom, IT, insurance, banking will function even after the implementation of GST in coming years. Agriculture sector will also boost and a lot of clarifications regarding the agricultural products will be resolved. The government of India has also initiated startups which will boost Indian economy. To conclude, the impacts of GST on Indian economy may be observed positive as well as negative as under:

#### **Negative Impacts:**

- It has reduced buying capacity of the buyers and there is a reduction in real estate after the implementation of GST.
- It is a complex and mystifying term where double tax is charged in the name of a single tax in some cases.
- It is also observed that in many cases central excise tax is not paid honestly by the dealers.
- GST has made some services more expensive for consumers such as banking and airlines.
- In most of the cases people do not understand its complications and implications and they are cheated by the retailers.
- The real benefits of GST to consumers are yet to be beyond their reach.

#### **Positive Impacts:**

- It has simplified the complex tax system and reduced a large number of indirect taxes converting them into a single tax system.
- It has reduced the prices of many consumer goods and products including consumer services.
- It has paved a way to tax reforms in India after a long time. Now all the indirect taxes have come under a single roof.
- It has given a moment to some key sectors of Indian economy.
- It has introduced a corruption free taxation system and it has reduced tax compliance in the new tax system of India.

- It has removed cascading effects of indirect taxes.
- It has reduced manufacturing costs of many consumer goods and some products have become cheaper.

**Conclusion:** Thus, GST is a good attempt to improve and rationalize indirect tax structure in India. However, there are some shortcomings in the implementation of GST at the initial stage, therefore the government should take effective steps for the simplifications of its basic structure which would boost the growth rate of Indian economy. It is today an assumed fact that GST is a good effort to combat corrupt tax practices and to implement the concept of 'One Tax-One Nation' which would be very helpful to remove inefficiencies created by the existing taxation system for long time. But consensus of all states and union territories of India is urgently required to make GST more effective and rational in comprehensive manner. Today GST is at infant stage therefore it will take some more time to be more beneficial and effective for Indian economy.

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