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# Impacts of Goods and Service Tax on Indian Economy

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## ABSTRACT

GST is one of the most crucial tax reforms in India which has been pending for a long time. It was planned to be implemented from April 2010, but due to political issues and conflicting interests of various stakeholders it is kept pending. The tax came into effect from july1,2017 through the implementation of 151 amendment by the government of India. It is expected to remove the bundled indirect taxes such as VAT, CST, Excise, Service Tax etc. and play a vital role in growth of India. GST is expected to fill the loopholes in the current system and boost the Indian economy. This is being done by unifying the indirect taxes for all states throughout India. It is also expected to eliminate the cascading effect of taxes. This paper presents an overview of GST concept, explains its impacts on Indian economy.

**KEYWORDS;** Indian economy, GST, NCAER

## INTRODUCTION

GST is the tax system in which there is only one tax in place of different tax form like VAT, CENVAT, Excise duty, Custom duty etc. GST is already implemented in many countries of the world. The council of GST will be headed by Union Finance Minister. GST will be levied on manufacture, sales and consumption of goods in India. The rates of GST will be between 5% and 28%. GST is implemented to remove all other taxes and reducing the complexity of taxes. GST is said to bring economic integration as said by the finance minister.

Chief Economic Adviser (CEA) Arvind Subramanian argued that GST implementation is a "transformational fiscal reform" that the country had not seen in the past. [1]

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**Objectives of the study:**

- ✓ To understand the basic concepts in GST.
- ✓ To study the positive and negative impacts of GST on Indian economy.
- ✓ To study the impacts of GST on GDP.
- ✓ To study the impact of GST on various industries.

**Methodology:**

The study is of descriptive nature and secondary sources of information like books, newspapers and different websites are used to draw conclusions.

**History of GST in India:**

The GST Bill was initially proposed by the committee under the former Prime Minister Atal Bihari Vajpayee during the year 2000 which headed by Asim Dasgupta, the Finance Minister of West Bengal. On 2006, the then Finance Minister of Union Chidambaram, announced the target date for the implementation of GST in India as 1st April, 2010. In 2010, the then finance minister Pranab Mukherjee assured that effective implementation of GST Bill on April 1, 2011. In 2014, Union Finance Minister (Arun Jaitley) has passed 122 Amendment on December 17, 2014. Later, on the Finance Minister assured that the Bill will be passed on 1st April 2016. But it could not happen and as of during the budget of 2016, Arun Jaitley assured that the GST bill will be implemented through the One Hundred and One Amendment Bill officially known as The Constitution (One Hundred and One) Amendment Act 2016 will be in force from 1st July, 2017 [2-4].

**Impacts of GST on GDP:**

***GST Positive Impact of GDP***

There will be single tax rate creating a unidimensional market in terms of tax implementation. The transaction of goods and services will be seamless across the states and this will reduce the transaction cost. After GST implementation the export of goods and services will become competitive because of nil effect of cascading effect of taxes on goods and products. NCAER suggested that GST would be the key revolution in Indian Economy and it could increase the GDP by 0.9 to 1.7 percent. As earlier speculation, the tax experts can now assume that the growth will be around 1 to 2 percent after the implementation of the GST.

GST will increase transparency in comparison to the existing law provision, so it will generate more revenue to the Government and will be more effective in reducing corruption at the same time. Overall GST will improve the tax Compliances. Make in India program is also expected to get benefited by the GST structure due to the availability of input tax credit on capital goods.

The GST regime has although a very vast impact on things including the GDP. Worthwhile point includes that the GST has the capability to extend the GDP by a total of 2 percent to complete the goal of increasing the per-capita income of every individual. The GST system will give rise to the indirect revenues to the government. The increased revenues of the government will redirect towards the developmental projects and urban financing creating an overall implied scenario.

***GST Negative Impact on GDP***

GST will apply in the form of IGST, CGST AND SGST on the Center and State Government, but some economists say that there is nothing new in the form of GST although these are only the new names given to Central Excise, VAT, CST and Service Tax etc.

The rolling out of GST not only impacted manufacturing in the second quarter of FY18, when the Bill was implemented but also in the first quarter due to pre-implementation worries. Another negative impact of GST was on the manufacturing sector, about which the CSO projected that it would grow at 4.6 per cent in 2017-18, compared to 7.9 per cent in 2016-17. The GST also impacted net taxes as these are projected to grow only 10.9 per cent in the current fiscal year against 12.8 per cent in the previous year. AS every coin has two faces, it is just like that GST will also have both perspective i.e. positively and negatively in this article. Some factors may affect the Economy adversely even then there are so many other things which are expected with a positive impact on GDP.

**IMPACT OF GST ON VARIOUS SECTORS:**

The GST is expected by many economists to have a positive impact on the economy. But when we discuss about sector-wise classification, the GST have both positive as well as negative impact on each of the sectors. Here are some sectors and effects of GST on them:

- *Technology (Information technology and ITeS):* The GST system of indirect taxation has made the duty on the manufacturing goods from 14% to 18%. Consequently, the prices of the software products will increase which will give either a neutral or slightly negative impact on the Technology Sector as a whole.
- *Telecommunications:* The new tax rate of this sector is set to 18% which is 4% more than earlier. The increase in tax is expected to be passed over to the customers and this gives a picture that GST will adversely affect this sector.
- *Automobiles:* The Automobile industry was paying a tax rate of a range between 30-45%. And it is reduced after GST, the rate is fixed at 28% which will be a huge positive for the automobile industry and which will be profitable to both the Manufacturers/ dealers and the ultimate consumers. The standard and the social status of the consumers get uplifted.
- *Textiles:* Before GST, the Textile industry was paying the tax at the rate of nearly 12.5% plus surcharges and which varies upon the MRP of the products. The rate of 5% is fixed in GST, which will be having a moderate impact on the industry.
- *Media and Entertainment*: The tax rate for the Media is around 28% as of now and since the authority for the levy of taxes remains to be the right of the local bodies, it will also upset the sector of entertainment.
- *Consumer durables:* The prior tax rate of this industry was around the range between 23-25%. And under the GST regime it is lowered to 18% which will give positive impact to this industry.
- *Real estate:* The contribution of real estate is about 7.3% of India's GDP and it is the largest generator of employment immediately after IT. Real estate is said to get a positive impact under the GST regime immediately after its implementation. The GST rate for real estate is 12% in 2018.

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***As per 25th GST Council Meeting held on Jan 18,2018***

***Rates of 29 goods and 53 services are revised***

| ***Rate of Tax*** | ***List of Goods and Services*** |
|---|---|
| 0% | De-oiled rice bran, parts used to manufacture hearing aids |
| Decreased from 28% to 18% | Public transport Buses that run on Biofuel, Services of joy rides, Second hand motor vehicles (medium and large cars and SUVs) without ITC |
| Decreased from 28% to 12% | Second hand motor vehicles (other than medium and large cars and SUVs) without ITC |
| Decreased from 18% to 12% | Drinking water bottles packed in 20 litres, Drip irrigation system, sprinklers, Biodiesel, Services of construction of metro / mono-rail, mining of petrol crude, Sugar boiled Confectionery |
| Decreased from 18% to 5% | Raw materials and Consumables needed for Launch vehicles/satellites, Services of Tailoring, LPG for household use, Tamarind Kernel Powder, Mehndi paste in cones |
| Decreased from 12% to 5% | Velvet fabric (Without Refund of ITC), of esparto or of other plaiting materials, Articles of straw |
| Decreased from 3% to 0.25% | Diamonds and other precious ruby and stones |

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