Impact Of GST On Indian Economy

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ABSTRACT *The Goods and Services Tax is a greatest indirect tax reform came into existence since independence. It has subsumed a lot of taxes with a single unified tax rate on various goods and services. It is a comprehensive, multistage, unified single tax rate levied on Value addition at every stage. Goods and Services tax came into existence on 1st July 2017. It considers as a significant step towards the economic growth of the country. With the various taxes in place, business in India was very complicated. With the introduction of GST, the business in India will be transparent and mature. This paper consists of the basic concept of GST and its features and impact of GST on Indian Economy (various sectors of Indian economy).*

Keywords: *Goods And Services Tax, Indirect tax, Indian economy(Agriculture, Industry & Services)*

INTRODUCTION

The idea of adopting GST was firstly suggested by The Atal Bihari Vajpayee Govt. in 2000. An Empowered Committee was formed, headed by Asim Dasgupta to create a structure for GST. A task force that was headed by Vijay L. Kelkar indicated that the existing tax system had many issues in 2004. The task force said that these issues would be mitigated by the GST System. In Feb 2006, the finance minister set 1st April 2010 as the date of introduction of GST. In July 2009, Pranab Mukherjee , the new Finance minister of India, declared the basic layout of GST System. EC headed by Dasgupta put forth the Proposed GST regime in Nov, 2009. In Feb 2010, implementation of GST was pushed by one year because the project needed budgetary outlay of Rs. 1133 cr. In Mar 2011 , the government put forth 115th Amendment bill for introduction of GST. On the protest by opposition party,the bill was sent to standing committee for detailed investigation. In Nov 2012 , P Chidambaram and the finance ministers of states set the deadline for resolution of issues by 31st Dec 2012. In Aug, 2013 the standing committee submitted its report to the Parliament. The panel approves few amendments. But In Oct 2013 , The Gujarat opposes the bill because State would have to bear a loss of Rs. 14000 cr. Per annum due to destination based taxation system. In Dec, 2014 , India's New Finance Minister, Arun Jaitley, submits the 122nd Amendment bill in the parliament. In Feb 2015, Jaitley indicated that government is looking to implement GST by 1st April 2016. In May 2015 , Lok Sabha passes the Amendment bill and announced that petroleum would be kept out of GST ambit. In Aug 2015 , The bill is not passed in The Rajya Sabha. In Aug 2016, The opposition finally agrees to the Government proposal on the four amendments to the bill and the bill was passed in Rajya Sabha. In Sept, 2016 , The President of India gives his consent for the Constitution Amendment Bill to become an Act. In 2017, four bills related to GST become Act. The GST Council also finalized on the GST rates and rules. So finally a long-awaited indirect tax reform came into existence on 1st July, 2017. It considers as a significant step towards the economic growth of the country.

OBJECTIVES OF THE STUDY

1. To understand the concept of GST.
2. To study the impact of GST on Indian Economy i.e on various sectors of the economy.

CONCEPT OF GOODS AND SERVICES TAX

GST (Goods and Services Tax) is a greatest indirect tax reform came into existence since independence. It has replaced a lot of taxes with a single unified tax rate on various goods and services. GST is a comprehensive, multistage, unified single tax rate levied on value addition at every stage. It is a dual taxation based system consists of CGST and SGST. CGST (Central Goods and Services tax) has replaced the various central taxes like central excise duty, central sales tax and service tax etc. SGST (State goods and Services tax) has replaced the state taxes like purchase tax, octroi etc. The taxes collected in the form of CGST and SGST goes to centre and state respectively. IGST (Integrated goods and Services taxes) levies on the interstate supply of goods and services tax that has replaced the central sales taxes on interstate transactions. The taxes are collected by the centre. UTGST (Union Territory Goods and Services Tax) to be levied on Union Territories.

Features of Goods and Services Tax

- GST levies on the supply of goods and services as against the previous concept of taxes on the manufacture of goods or sale of goods or provision of services.
- It is based on the principle of destination based consumption tax.
- Import of goods and services would be treated as interstate supplies and came under IGST.
- CGST, IGST, UTGST/ SGST rates are mutually decided by the centre and state under the aegis of GSTC (Goods and Service Tax Council).
- GST levies on all goods and services except Alcohol for human consumption.
- GST rates are 5% , 12%, 18%, 28%.
- On rough diamonds, 0.25% rate is applicable.
- GST rate on pearls, precious or semi-precious stones, diamonds (other than rough diamonds), precious metals (like gold and silver), imitation jewellery, coins – 3%
- Taxpayers with an annual turnover of 20 lakhs (10 lakhs for Jammu & Kashmir) is exempted from GST.
- A Composition levy scheme is available to small taxpayers having an annual turnover of 1 crore. (75 lakhs for special category states except for J&K and Uttarakhand).
- Various modes of payment of taxes are available for taxpayers like Debit/ Credit card, NEFT and RTGS.

IMPACT OF GST ON INDIAN ECONOMY

In the middle of economic crisis across the world, GST has been introduced to foster the economic growth of the economy. The Government has launched various plans like Make In India, Digital India etc. To make these plans a success a better taxation system was needed. So GST has been implemented. It is a long-awaited tax reform since independence. It is a unified single tax rate that has replaced the complicated taxation structure. Since its implementation, it is influencing the various sections of Indian economy. Indian economy consists of three main sections. The impact of GST on various sectors will be discussed in below paragraphs. The sectors of Indian economy are mentioned in the figure below:-

A Figure of sectors of Indian Economy

AGRICULTURE SECTOR

The Agriculture sector is an important sector of Indian economy. It contributes around 17.4% of GDP of India. GST impact on agriculture sector is foreseen to be positive. Some of the effects of GST on Agriculture sector are discussed as below:-

- The major issue faced by the agriculture sector pre-implementation of GST is the transportation of agriculture products across India. With the implementation of GST, all the major indirect taxes like CST/Octroi/Purchase taxes are subsumed, which will lead to free movement of agriculture products across India.
- With the implementation of GST, Supply chain mechanism of agri products will be hassle-free, transparent and more efficient. It will reduce the wastage and cost for retailers and farmers.
- In the pre-implementation era of GST, Agriculture products were taxed with the variety of rates in different states of India. With the GST came into the picture, all the agriculture products are taxed with single rate across the country. Therefore farmers can sell their product anywhere in the country at best prices.
- A scheme has been introduced by the central government for the promotion of National Agriculture Market (NAM). It is a common e-commerce platform which will unite the various farmers and traders in regulated markets. GST is very important for successful implementation of NAM.

- After the 22nd GST Council Meeting, the rates on pump sets have been reduced to 18% from 28%. The reduction in the tax rate will boost the confidence level of pump makers.
- In the recently held 25th GST Council Meeting, the government has reduced the tax rates on Sprinkles and Nozzles to 12%. It will increase the use of various deep irrigation techniques among farmers.
- Contract farming, Dairy farming, poultry, and stockbreeding has been included in GST ambit. It will increase the revenue to the government.

INDUSTRIAL AND SERVICE SECTOR

E-commerce operators:-

It is one of the industry which has been growing by heaps and bounds. In the pre-implementation period of GST, a seller had to pay VAT/CST to the government. After the implementation, the e-commerce operators collects 1% (0.5% CGST + 0.5% SGST) of net value of taxable supplies. So their burden has been increased and due to that, they are not so happy about this.

Textiles Industry:-

The textiles industry has been adversely affected by the implementation of the GST. The Government put the textiles under 5% bracket, but still, there are hidden taxes that makes the tax liability to 13%. The government promised that it would lower the prices of raw material for textile and apparel Industry but it didn't happen. So it became hard for small traders to do business in such environment. Textile industry contributes around 10% of total annual exports but with the implementation of GST exports from the industry is also suffering. There is a lot of chaos and confusion among the traders. Business has been declined due to delay in refunds, the procedure for claiming input tax credit, paperwork for small manufacturers etc. There is a shortage of working capital because GST is based on first pay –refund later mechanism.

FMCG Industry:-

FMCG sector is positively impacted by the implementation of GST. GST has increased the input tax credit on capital goods and input services. There is also a reduction in logistics cost for this sector as the check posts have been abolished.

Pharma Industry:-

Pharmaceutical Industries have been benefitted due to the implementation of GST. Under GST regime, tax on raw material is low than the previous tax rates that reduced their cost of purchase. Medical devices and equipment manufacturers also getting tax concession of 1% which will help them in boosting the production. The only area of concern is coverage of health care services under exempted supply and as per law if supply is exempted then the input tax credit shall not be available. It disturbed the flow of input tax credit from one supplier to another supplier.

Telecom Industry:-

Under the GST regime, the rate of the supply of telecom services and products is 18%. The previous tax rate was 15%. Due to increase in tax rate, the debt burden of the telecom operators has increased. Telecom sector is the second largest diesel consuming sector after railways. With the petroleum products out of the purview of GST, it is very difficult for the operators to set of input liabilities. So it is must for the GST Council to consider all these facts and to solve these issues as soon as possible so that it may not further affect this sector adversely.

Transporation Industry:-

Transporation industry is the backbone of an Economy. With the implementation of GST, the railway tickets for passengers and railway transport of goods has seen a slight increase in their prices. But now they can claim Input Tax Credit if their purpose of transportation is related to business. In case of Road Transport, the government has exempted all the road transport services of goods except the services of Goods Transport Agencies (GTA) and Courier agencies.

Real Estate Industry:-

GST has brought transparency and maturity in the real estate sector. In the previous GST regime, developers had to pay a lot of indirect taxes that makes the houses costly for buyers. Under GST regime, changes have been made and all the various taxes have been subsumed by a single tax rate. For the Under Construction properties, 12% GST is applicable. Houses purchased under CLSS (Credit- Linked Subsidy Scheme) attracts 8% GST. Ready-to-move-in properties are kept out of GST. All of these changes will impact the real estate positively only if there is proper implementation of various rules and regulations. It seems that customers will get the benefit only from the projects executed post GST period.

CONCLUSION

GST has mixed impact on Indian economy. Some sectors are positively impacted by it and others are adversely affected. There is still need for clarification of various rules and regulations. Overnight the rates of the goods changes which bring losses for businessmen. For SMEs, compliance cost has been increased despite various efforts by the government. Suppliers are not getting the timely refund from the government because there is poor connectivity between custom and GST, non-updated software and changes in the mode of refund by the GST Council. There is a need for proper technological infrastructure for smooth functioning of GST. So to get the long term benefits from the GST system, the government should focus on smooth functioning of various rules and regulations of this system.

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