Goods and Services Tax (GST): Impacts on Indian Economy

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ABSTRACT: *Goods and Services Tax (GST) was implemented in India on 1st July, 2017. GST is a comprehensive indirect tax on manufacture, sale and consumption of goods and services at national level. GST is one of the most crucial steps taken by the government of India in 21st century. It is the biggest reform of all times in taxation system of Independent India. Now, as more than one and a half year has been passed since GST is introduced, short-run impacts on Indian economy can be analysed. To study actual long-run effects of GST, we need to wait more. In 1st part of this paper, introduction and a brief explanation of GST is given, it contains the answer for the question, 'what actually GST is?'. In 2nd part, objectives of GST are studied i.e. need and scope of GST. Then in next two parts, advantages and limitations of GST are analysed. At last, an attempt is carried out to trace the changes in the indirect-tax revenue raised by the central and state government.*

Key Words: *Goods and Services Tax, Indian Economy, Indirect Tax, Taxation.*

Introduction

An efficient and equitable taxation system is very important for the economy of a country to grow progressively. Taxation not only generate revenue to government to undertake public expenditure but also helps to tackle other problems like economic inequality. Taxes in India are broadly classified in two types – direct taxes and indirect taxes. Direct taxes are the taxes directly levied on the person who will bear the burden of the tax i.e. in direct tax system, impact and incidence of tax is on same individual. Shifting of tax is not possible in case of direct taxes, e.g. Income tax, Surcharge tax, Gift tax etc. Indirect taxes are the taxes levied on the seller of goods and provider of services, and in most of the cases, burden of the indirect taxes get shifted to consumer. Hence, it is the consumer at the end who bear the incidence of tax. GST is a comprehensive Indirect tax levied on manufacturing, sale and consumption of goods and services at national level. The GST implemented in India is of dual nature i.e. it has two components – one is Central Goods and Services Tax (CGST) levied by central government and other is State Goods and Services Tax (SGST) levied by state governments. Various indirect taxes are subsumed in the new GST both at central as well as state level. At central level, central excise duty, additional excise duty, service tax, additional custom duties commonly known as countervailing duty and special additional duties of custom are included in GST. At state level, state value added tax/sales tax, entertainment tax(other than the tax levied by local governments), central sales tax (levied by centre and collected by states), octroi and entry tax, purchase tax and luxury tax are subsumed in GST. BJP government under the leadership of Atal Bihari Vajpayee starts discussion on GST in 2000, by setting up a committee headed by Asim Dasgupta. In 2006, Finance Minister P. Chidambaram proposed to introduced GST by 1st April, 2010. First Discussion Paper (FDP) on the GST was released by empowered committee of State Finance Ministers in November, 2009. This starts the discussion between centre and states regarding implementation of GST. In 2014, Revised Constitutional Amendment Bill tabled in parliament and passed in Lok Sabha in 2015. In August 2016, Rajya Sabha passed the Constitutional Amendment Bill. On 1 July 2017, GST was implemented replacing all other indirect taxes. Four GST related bills are passed – Central GST Bill 2017, The Integrated GST Bill 2017, Union Territory GST Bill 2017, GST (Compensation to States) Bill 2017. GST in India is introduced on slabs basis, different goods and services are under different slabs of tax rate. Tax rate classification for goods are 0%, 5%, 12%, 18%, 28%, 28%+cess. In 0% or exempted slab, goods falls are food grains, cereals, milk, jaggery and common salt. Under 5%, we have coal, sugar, tea & coffee, drugs & medicine, edible oil. Under 12%, it includes fruit juices, vegetable juices, beverages containing milk, jams.Goods under 18% are kitchenware, hair oil, soap, toothpaste, glass fibre. 28% slab contains air conditioners, refrigerators. Tax rate on small cars is 28% + 1% or 3% cess. On luxury cars there is 15% cess beside 28% tax. Slabs for tax rates on services are 0%, 5%, 12-18%, 28%. Services exempted under GST are education, healthcare, residential accommodations, hotel/lodges with tariff below INR 1000. Under 5% tax rate it includes goods transport, train tickets (other than sleeper class), economy class air tickets, cab aggregates, selling space for advertisements in printed media. Services falls under 12-18% tax rate are works contract, business class air travels, telecom services,

financial services, restaurant services, hotel/lodges with tariff between INR 1000 and7500. 28% Tax is applicable on services such as cinema tickets, betting, gambling and hotel/lodges with tariff more than INR 7500.

Objectives of GST

The main objective of Goods and Services Tax is to counter the cascading effect on production and distribution cost of goods and services. Cascading effect means the consumer bear the burden of tax on tax or multiple taxes are levied on consumer. As GST abolish a number of indirect taxes, so it is helpful to remove cascading effect in Indian taxation system. The motto of GST is "One Nation, One Tax and One Market" so, GST is an attempt to cover the whole nation in one common tax regime. Effort is to simplify the taxation system by eliminating the numerous different indirect tax levied by the central and state governments. Moreover, it is also believed that GST would help to prevent the tax evasion and raise more tax revenue to government. However, the success of GST in these objectives is a matter of long-run studies.

Impacts of GST on Indian Economy

Goods and Services tax is considered to be the biggest tax reform in India since 1947. It is a very significant change and long time period of almost two decades it takes to formulate and implement it throughout the country. It is very obvious that such major policy like GST bring up some significant changes in the economy. In this section, both the positive as well as negative impacts of GST are discussed in some details.

Positive impacts of GST implementation or benefits from GST implementations are;

- Simple and Transparent Taxation System: GST is very simplified process of taxation as compared to the older tax regime of India. Many taxes are subsumed in a single Goods and Services Tax, so now it is easier to pay as well as to collect. With abolish of multiple level taxation, calculation of tax become comparatively much easier than before. GST established a common ground for the taxation laws of various state governments.
- Benefits in Inter-State Trade: Trade across different states of the country become convenient and hassle-free. Procedure of generation of e-way bills has been adopted to transport the goods across state boarders and helped in reducing the waiting time for trucks to cross the boarders and also solve the issue of corruption to some sort.
- Decline in Input Cost: The taxes on inputs like VAT, Excise which was applicable before get abolished with the introduction of new single GST. Due to this this, the costs of inputs get decreased resulting in more profit for traders.
- Prevent Tax Evasion: GST bring transparency through GST Identification Number (GSTIN), and the online system of tax collection, granting of credit, settlement between states and e-way bills generation through a centralised database. In this process scope of tax avoidance will be diminish in long-run.
- The most important positive factor of GST is that it neutralises the state boundaries and integrate the whole country market in real sense. It would have the positive effect of greater optimality in locational choice, larger scale of output, beside the realization of public scale economies through agglomeration and cluster effect.
- Major benefits to the Exporters: As the export of goods and services is considered as zero-rated supply. GST will not be levied on export of any kind of goods or services. So, the cost of locally manufactured goods and services get reduced and this will increase the competitiveness of Indian goods and services in the international market.
- Promote Competition in the Market: GST has also encouraged the healthy competition in the market. With implementation of GST, burden of paying taxes has fallen onto the end customer of goods and services. Therefore, there is scope for businesses to produce more at cheaper and effective costs. This has resulted in significant increase in competition which is a positive move for the market.
- Government predicted the profit of 15 billion $ a year to the central and state governments with the implementation of GST as it is expected to bring about raise in employment, promotion of exports resulting in a significant boost in overall economic growth.

  As it happens in every public policy, besides these positive effects there are some negative impacts of GST in Indian context. That are;
- Burden on Consumers: In production side, GST impacts look very positive but as it is a destination-based tax which means the burden of taxation falls on end consumer. So, it may stimulate economic

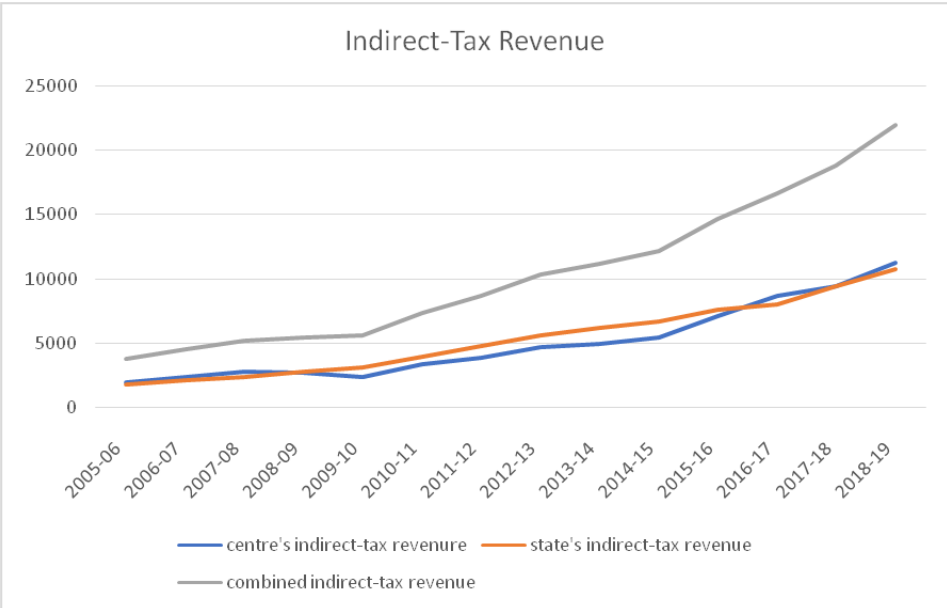
growth but it will increase the burden on consumers.

- Complex Procedure: Return filling is very complex phenomenon under GST as any businessman or trader need to fill 37 returns in a financial year. It requires all the record keeping of sales and purchases and many traders are not skilled. So, for this purpose they need to appoint a worker. This will increase the burden on the trader.
- Lack of Awareness: As the GST have changed the taxation system completely, taxpayers and businesses have to be made aware regarding working of GST. It needs to be informed to the general public that how this new system of taxation will affect the day to day activities. This will need a significant amount of resources and public money.
- Dual Tax: it is being said and promoted by saying that GST is a Single tax but in reality, it is a dual tax because both the centre and state government collect separate tax on a single transaction of sale of goods or services.
- Lack of Centralised Accounting System: Personalised accounts are maintained by every state government under the provision of GST and there is no central accounting system for this purpose. So, to be more efficient in taxation, there is a need of centralised system otherwise, every state is individually financially accountable for taxation.
- Inflationary Effect: As inflation rate in India increases from 1.79% to 5.11% from January 2017 to January 2018, GST is considered to be the reason for this negative impact on price level and it has largely affected the consumption and demand of poor people in India.

Changes in indirect-tax revenue of central and state governments over time: (2005-06 to 2018-19)

The following chart shows the trend of indirect tax revenue of central government, state governments and combined data of both. The data used to make this chart is taken from 'Handbook of Statistics on Indian Economy' published annually by Reserve Bank of India. The data for year 2017-18 is revised estimates and for the year 2018-19 is budget estimates. Actual figures for these years are not available yet.

The data is taken from 2005-06 i.e. after the introduction of VAT. It will help in analysing the trend of indirect tax revenue of both state and central governments after the implementation of VAT in indirect taxes.



VAT was implemented in 24 states/UTs in 2005 and again in other 5 states in 2006. VAT was a major change in the regime of indirect taxation and with its implementation revenue from indirect taxes to the state and central governments start rising slowly. In 2009, Empowered Committee of Finance Ministers released its First Discussion Paper on GST implementation and with this issue of GST implementation become one of the most debatable. GST is a comprehensive indirect tax purposed to overcome the limitations of VAT. The process of policy formation and implementation for GST was a long journey of decades and finally GST became effective from 1st July, 2017. It can be analysed from above chart that that after the implementation of GST there is a more rapid increasing trend in indirect-tax revenue of state

governments and central governments and thus, an increase in combined non-tax revenue of state and central governments. Increase in the revenue of the governments is there after implementation of GST but it is not that much increase as it was claimed by the government.

Conclusion

In this paper, it is discussed that how the most debateable policy of government of India that is Goods and Services Tax(GST) is formulated and implemented in the country. Main objectives of GST are discussed in brief and then both positive and negative impacts on the economy and people of the country are discussed. In last part, analysis of government revenue from indirect taxes is carried out and it can be concluded that no doubt the revenue has increased but this increase is very less than expected. So, there is a scope to implement the GST more efficiently to bring better results. Moreover, the data of revenue for the last two years is revised estimates and budget estimates. So, the results may vary a little when actual data will consider. The big question here arises is that what and where is the problem that GST become unable to get the best results. Other study can be carried out to find the causes of not a big success of GST.

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