

IMPACT OF GOODS AND SERVICES TAX (GST) ON INDIAN ECONOMY

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ABSTRACT

Goods and Services Tax (GST) is one tax subsuming all the indirect taxes in the economy. It is said to be national tax. Because, it is a uniform tax across all states of the country: only one rate will prevail on one set of goods across all parts of the country. GST is essentially a tax on value addition covering the entire range of production activity from manufacturer to the consumer. The present paper tries to explain the concept of GST, find out the structure of GST and its types, explore the positive as well as negative impact of GST on Indian economy. The present study is based on secondary data and the secondary sources includes books, journals, websites, newspapers, magazines etc.

Keywords: GST, Cascading effect, Unified market, Tax compliance etc.

INTRODUCTION

Goods and Services Tax (GST) is one tax subsuming all the indirect taxes in the economy. It is said to be national tax. Because, it is a uniform tax across all states of the country: only one rate will prevail on one set of goods across all parts of the country. Accordingly, GST carries the slogan of ‘one tax, one nation, one market’. GST has covered a long journey of nearly 18 years before coming to its final shape, implying, that it was indeed very difficult for the government to work out a simplified tax structure relating to goods and services. GST is essentially a tax on value addition covering the entire range of production activity from manufacturer to the consumer. If the producer pays GST on the purchase of inputs, he can avail of GST credit when he converts inputs into output and there is value addition. Thus, if Good-X passes through 3 stages of value addition, the consumer is loaded with GST only at the third stage when it is purchased for final consumption. At the other two stages (which are intermediate stages of production) tax burden will automatically be siphoned off. GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. It is a value added tax levied on manufacture, sale and consumption of goods and services. GST does not differentiate between goods and services and thus, the two are taxed at a single rate. GST has subsumed multiple indirect taxes like excise duty, service tax, VAT, entertainment tax, luxury tax etc. Its main aim is to consolidate all indirect tax levies into a single tax, replacing multiple tax levies, overcoming the limitations of existing indirect tax structure and creating efficiencies in tax administration. GST is one indirect tax for the whole

nation, which will make India one unified common market. There is no cascading of taxes under GST. GST has been identified as one of the most important tax reforms post-independence.

RATIONALE OF THE STUDY

The present study is justified on the ground that introduction of integrated Goods and Services Tax (GST) to replace the existing multiple tax structures of Centre and State taxes is not only desirable but imperative in the emerging economic environment, Increasingly, services are used or consumed in production and distribution of goods and vice versa. GST would subsume with a single comprehensive tax, bringing it all under a single umbrella, eliminating the cascading effect of taxes on production and distribution prices of goods and services.

OBJECTIVES

- To understand the concept of GST
- To know the structure of GST
- To explore the type of tax under GST
- To study about the impact of GST on Indian Economy.

REVIEW OF LITERATURE

Nitin Kumar (2014) studied, “Goods and Service Tax- A Way Forward” that implementing GST in India would help in removing current indirect tax system and expected to encourage unbiased tax structure which is indifferent to geographical locations.

Nishita Gupta (2014) in her study stated that by implementing GST would give many benefits to our country which is not given by current tax structure and will benefit the economy

Rathod M (2017) in his paper “An Overview of Goods and Service Tax (GST) In India” concludes that GST will be a step towards a developed India benefiting too many parties and entire nation

World Bank (2018) and et al “Study on GST in India” concluded that the Indian GST system is among the most complicated ones in the world, with its high tax rates and a larger number of tax rates and negative impact on its economy.

METHODOLOGY

The present paper is based on descriptive as well as exploratory research. It is descriptive in the sense that proper description has been made regarding the concept of GST in India. It is exploratory in the sense that various impacts of GST on Indian economy which can be positive as well as negative have been identified. The present study is based on secondary data and the various secondary sources includes books, journals, magazines, newspapers, websites etc.

TYPES OF TAXES UNDER GST

- **Central Goods and Services Tax (CGST)** :It is the GST levied on the ‘Intra -State’ supply of goods or services by the Centre.
- **State Goods and Services Tax (SGST)** : It is the GST Levied on the ‘Intra -State’ supply of goods or services by the State.
- **Union Territory Goods and Services Tax (UTGST)**: It is the GST levied on the supply of goods and services that takes place in any of the Union Territories of India.

- **Integrated Goods and Services Tax (IGST):** It is the GST levied on the ‘Inter-State’ supply of goods or services and is collected by the Centre. IGST is the sum total of CGST and SGST/UTGST and is levied by centre on all interstate supplies.

STRUCTURE OF GST

GST Council has specified multi-tier tax structure of 0%, 5%, 12%, 18% and 28% as applicable to different categories of goods and services. The latest category list is as under:

(1) No Tax Category

It includes goods like sanitary napkin, deities made of stone, raw material used in rooms, and fortified milk, fresh fruits & vegetables.

It also includes services like hotels and lodges who carry a tariff below Rs 1000.

(2) 5% Tax Category

It includes goods like skimmed milk powder, fish fillet, frozen vegetables, tea, coffee, spices, pizza bread, kerosene, coal, fertilizers, electric vehicles and so on.

Services like railways and airways are also included.

(3) 12% GST Category

It includes goods like frozen meat products, butter, cheese, ghee, pickles, sausages & fruit juices, jewellery box, ayurvedic & homeopathy medicines, wooden frames for painting and photographs.

Business Class air tickets and movie tickets below Rs 100 also fall in this category

(4) 18% GST Category

Preserved vegetables, flavored refined sugar, cornflakes, pasta, pastries and cakes, detergents are some notable items in this category.

It also includes services of restaurants located inside hotels with tariffs between Rs 2500 and Rs 7500 and above, outdoor catering & movie tickets priced above Rs 100

(5) 28% GST Category

This includes over 200 goods, mainly sunscreen, pan masala, automobiles, dishwasher, vending machines.

Services like five-star hotels with tariff exceeding Rs 7500

POSITIVE IMPACT OF GST ON INDIAN ECONOMY

(1) Common Man Friendly

A common man should get following benefits of GST:

- GST Act provides that the common items of consumption of the common man remain tax-free. Thus, no tax is levied on items like milk, curd, fresh fruits, vegetables and the like. This should give a big relief to the common man
- Only a moderate tax of 5% is levied on items like tea, coffee and medicines which is another set of items being commonly used by most people of the country. Briefly, the essentials of life of a common man are either tax-free or moderately taxed.

(2) Advantages for Trade and Industry

In this context, we may note the following observations:

- Procedure for filling GST returns has been simplified. Facility for the filing e>Returns will definitely save a lot of time of the traders and the industrialists.
- There shall be an uninterrupted flow of 'input credits. So that, the incidence of taxation does not cascade. The traders and the industrialists can claim 'input credit' themselves while filing GST returns.
- A cut in taxation would enhance competitive power of the traders and the industrialists in the international goods market.
- Tax-exemption on many commonly used items would offer a more favorable market environment to the to the small traders who deal in these items.

(3) Benefits to the economy

Following points highlights the benefits of GST to the economy:

- GST is expected to create one unified market for most goods and services in the country. It means that for every producer in the economy the size of the market will expand
- If the prices of the goods and services tend to fall in the domestic economy, exports will rise, leading to higher earnings of the foreign exchange.
- A unified market is expected to lead to Balanced Regional Growth
- With the growth of market size, GST is expected to raise the level of economic activity in the economy. Implying faster GDP growth. It would also mean faster generation of the opportunities of employment.
- GST is expected to improve tax compliance. Because:
 - (a) Input credits will be available to only those who buy their inputs from GST-compliant firms.
 - (b) There is to be a digital record and monitoring of value of value addition at stages of production activityHigher degree of tax compliance would mean:
 - (a) Higher tax-GDP ratio, and
 - (b) Gradual elimination of the 'shadow economy' or the black money economy

NEGATIVE IMPACT OF GST ON INDIAN ECONOMY

- Due to compulsion of tax compliance, small and marginal producers of the shadow economy may find it difficult to continue their business operation
- If the small and the marginal producers are eliminated, production activity will decline, still harder will be the impact on employment because it is production activity in the shadow economy which generates most employment opportunities in the country
- The government proposes to set up 'Anti-profiteering Authority' to monitor that the benefits of lower taxation is actually passed on to the consumers. This authority shall have the right to cancel registration of such business establishments which are found to be exploiting the consumers by charging higher price. The business community has expressed their serious resentment over this issue. They

are fearing that the Anti-profiteering Authority will mean the return of ‘Inspector Raj’ leading in corruption.

- It is feared that the operating cost of small and marginal producers will rise owing to the maintenance of records at all levels of sale and purchase of goods and services
- There is a definite possibility that post-GST, the prices of some goods and services will rise. This might contribute to inflationary spiral in the country. Inflationary spiral is also feared owing to the fact that post-GST nearly 75% goods and services will bear the incidence of taxation
- According to P. Chidambaram, small, medium and microscale entrepreneurs are not GST-prepared. Even when GST is a tax-reform, its introduction should have wait till these entrepreneurs fully understand the pros and cons of this tax. These entrepreneurs, according to Chidambaram, are still not clear as to who is levying GST-state or the centre.
- Petroleum and Electricity are out of the ambit of GST, even when these products constitute nearly 35-40% of the economy. This is a serious demerit or deficiency of GST.

CONCLUSION

Change is definitely never easy. The government is trying to smoothen the road to GST. It is important to take a leaf from global economies that have implemented GST (like France was the first country to implement GST in 1954) and who overcame the teething troubles to experience the advantage of having a unified tax system and easy input credits. GST will make taxation easy for industries. Customer will also be benefited as the overall tax burden on goods and services are reduced. The government must make GST a landmark tax reform rather than a tax regime laden with fears and apprehensions.

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