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

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Abstract

Goods and services tax (GST) is a system of indirect taxation which will merge the present multiple taxes into one single system of taxation. It is the biggest tax reform that took place in India which was founded on the notion of one nation, one market and one tax. The GST scheme is aimed at reforming the indirect tax and as well dismantling all the inter-state barriers with respect to trade. Goods and services tax would be a comprehensive indirect tax on manufacture sale and consumption of goods and services throughout India, to replace taxes levied by the central and state governments. Currently, companies and businesses pay different indirect taxes in the form of the VAT, Service tax, Sales tax etc. Once GST was implemented all these taxes would cease to exist. There would be only one tax, that too at the national level, monitored by the central government. GST is also different in the way it is implemented at the final point of consumption and not at the manufacturing stage. At present, separate tax rates are applied to goods and services. Under GST there would be only tax rate for both goods and services. The goods and services tax will indeed be a further considerable improvement towards a comprehensive indirect tax reform in the country. Integration of goods and services taxation would give India a world-class tax system and improve tax collection. The major objectives of the study are: 1. To understand the concept of GST and its rate structure. 2. To compare the earlier tax regime with GST. 3. To study the current status of the GST and its impact on Indian economy. 4. To examine the advantages and disadvantages of GST. Goods and Services Tax or GST as it is known all set to be a game changer for the Indian Economy. It is one of the most crucial tax reforms in India. It is expected to simplify tax administration, ensure 'Ease of Doing Business' and promote 'Make in India'. Exports will become competitive as the GST regime will eliminate the cascading impact of taxes. GST could boost India's GDP growth by 0.9-1.7 percent. It is a key for India's Gross Domestic Product in times of challenging global environment. The passing of the GST will be welcome news for the Indian rupee (INR). GST will lead to higher foreign direct investment inflows and a narrow current account deficit-factor that should help the rupee to increase. GST will lead to the creation of a unified market, which would facilitate the seamless movement of goods across states and reduce the transaction cost of businesses. The tax reforms through GST will play a crucial role to attract large-scale investment. GST will reduce the cost of production and allows the hassle-free supply of goods.

Keywords: GST, Impact, Tax Structure, Indirect Tax, CGST, SGST

INTRODUCTION

The word 'Tax' is derived from the Latin word 'Taxare' which means 'To Estimate'. A tax is an enforced contribution, exacted pursuant to legislative authority. Taxation System in India includes both Direct and Indirect Tax. Goods and Services Tax (GST) is one of the most debated Indirect Taxation reforms. GST is a comprehensive tax regime levied on the manufacture, sales and consumption of goods and services. It is expected to bring about 2%incremental GDP growth of the country. Therefore, the introduction of GST would be a substantial step in the reform of indirect taxation in India. Merging several Central and State taxes into a single tax would diminish cascading or double taxation, facilitating a common national market. The simplicity of the tax would lead to easier administration and enforcement. From the consumer point of view, the major advantage would be in terms of a reduction in the overall tax burden on goods, which is currently estimated at 25 percent – 30 percent, free movement of goods from one state to another without stopping at state borders for hours for payment of state-tax or entry-tax and reduction in paperwork to a large extent. The proposed GST is likely to change the whole scenario of the current index tax system. It is considered as biggest tax reform since 1947. Currently, in India, the complicated indirect tax system is followed with imbrications of taxes imposed by union and stats separately. GST unify all the indirect taxes under an umbrella and will create a smooth national market. Experts say that GST will help the economy to grow in a more efficient manner by improving the tax collection as it will disrupt all the tax barriers between states and integrate country via single tax rate. GST was first introduced by France in 1954 and now it is followed by 140 countries. Most of the countries followed unified GST while some countries like Brazil Canada follow the dual GST system where tax is imposed by central and state both. In India initially, it was agreed that there would be a "Dual GST" in India i,e both by center and state which will take the responsibility of levying the taxes on the goods and services. As GST is known to be another type of value-added tax, imposed on various goods and services, several countries impose it on goods and services in various forms and with that, the taxes charged on the goods and the services differ amongst countries. Like in China GST applies only to goods and the provision of repairs, replacement and processing services. Countries like Singapore and New Zealand, the tax applied is at a single rate while Indonesia has five positive rates and over 30 categories of exemptions. The GST rates of such various countries also differ and some could be stated as Australia 10 percent, France 19.6 percent, Canada 5 percent, Germany 19 percent, Japan 5 percent, Singapore 7 percent, Sweden 25 percent and Newzealand 15 percent. However, under the GST scheme in levying of tax differentiation is not made between goods and services. That is to say, goods and services tax attract to rate. GST is a multitier tax where ultimately the tax burden is put on the final consumer of the goods and services. It is being paid on the value addition.

Goods and services tax GST is the biggest tax reform since 1947. GST was founded on the notion of one nation one market and one tax." Lok Sabha passed the GST Act on 29th March2017 which came into effect from First July 2017. GST was applicable throughout India, it replaced multiple cascading taxes levied by the central and state governments. It was introduced as the constitution (one hundred one first) amendment Act 2017, following the passage ofconstitution122nd amendment bill. The GST is governed by a GST council and its chairman is the finance minister of India. There are 3 applicable taxes under GST: CGST, SGST and IGST.

1. CGST: It is collected by the central government on an intra-state sale
2. SGST: It is collected by the state government on an intra-state sale
3. IGST: It is collected by the central government for inter-state sale

REVIEW OF LITERATURE

Akanksha Khurana et. al., (2016) has revealed that relief will be provided to producers and consumers by GST by providing wide and comprehensive coverage of input tax credit set-off, service tax set-off and incorporating the several taxes. They also pointed out that an efficient formulation of GST would lead to resource and revenue expansion for both Centre and State governments majorly through the widening of tax base and improvement in tax compliance.

Monika Sehrawat et. al., (2015) stated that GST implementation stands for a coherent tax system which will colligate most of the current indirect taxes and in long-term, it will lead to higher output, will generate more employment opportunities and will flourish GDP by 11.5percent. Further, they stressed that GST will give India a world-class tax system by clutching different treatment to manufacturing as well as service sectors.

Nitin Kumar (2014) concluded from his study 'Goods and Service Tax-A Way Forward' that, the implementation of GST in India would help in removing economic distortion by current indirect tax system and this would encourage an unbiased tax structure which is indifferent to geographical locations.

Pradeep Chaurasia et. al., (2016) revealed that, in India, the unified tax will take the form of a Dual GST, to be levied concurrently by both the Centre and States. They concluded that GST will be helpful for the development of the Indian economy as well it will be very much helpful in improving the GDP of our country higher than 2 percent.

Saravanan Venkadasalam (2014) has analyzed the post effect of the goods and service tax (GST) on the national growth on the ASEAN States using Least Squares Dummy Variable Model (LSDVM) in his research paper. He stated that seven of the ten ASEAN nations are already implementing the GST. He also suggested that the household final consumption expenditure and general government consumption expenditure are positively significantly related to the gross domestic product as required and support the economic theories. But the effect of the post GST differs in countries.

OBJECTIVES

1. To understand the concept of GST and its rate structure.
2. To compare the earlier tax regime with GST.
3. To study the current status of the GST and its impact on Indian economy.
4. To examine the advantages and disadvantages of GST.

ANALYSIS AND DISCUSSIONS

CONCEPTS OF GST

Components of GST

GST is an indirect tax which will subsume almost all the indirect taxes of central government and state governments into a unified tax. GST being a destination based tax got divided into three categories:

1. State Goods and Services Tax (SGST)
2. Central Goods and Services Tax (CGST)
3. Integrated Goods and Services Tax (IGST)

GST Intra-state versus Inter-state Supply

Under GST, interstate supply attracts Integrated Goods and Services Tax or IGST. Intrastate supply attracts both Central Goods and Services Tax (CGST) and State Goods and Services Tax (SGST). In the case of intrastate supply, the GST rate for the goods or services would remain the same. However, the GST rate and tax amount are divided equally into the two heads namely SGST and CGST.

Intra-State Supply - CGST and SGST

Under GST, the supply of goods or services within the same state or union territory is called as intrastate supply. For example-a cloth trader from Anantnag, Jammu and Kashmir supply 50,000 worth cloth to a clothing store in Srinagar, Jammu and Kashmir. The rate of CGST and SGST is fixed at 6 percent each (12 percent GST). So the trader will have to pay 3000 CGST into the Central Government account and □3000 SGST into the State Government account.

Inter-State Supply – IGST

IGST is charged when movement of goods and services from one state to another. For example – a cloth trader Jammu City, Jammu and Kashmir supplies cloth worth 50,000 to a cloth store in Jaipur, Rajasthan. The rate of IGST is fixed at 12 percent which comes to a total IGST of 6,000 which the trader will deposit in the Central Government account.

GST Rates

Goods and services are divided into five tax slabs for the collection of tax - 0 percent, 5 percent, 12 percent, 18 percent and 28 percent. Petroleum products and Alcoholic drinks are taxed separately by the individual state governments. There is a special rate of 0.25 percent on rough precious and semi-precious stones and 3 percent on gold. In addition, a cess of 22 percent or other rates on top of 28 percent GST applies on few items like aerated drinks, luxury cars and Tobacco products.

GST Rate in other Countries

Table-1
GST Rate in other Countries

S.No.	Country	Percentages
1.	Canada	13-15
2.	France	20
3.	U.K	20
4.	New Zealand	15
5.	Malaysia	6
6.	Singapore	7

Goods and Services Tax Network (GSTN)

"Goods and Services Tax" Network (GSTN) is a non-profit organization formed for creating a website/platform for all the concerned parties related to the GST, namely stakeholders, government and taxpayers to collaborate on a single portal. When up and running, the portal is supposed to be accessible to the central government which allows it to track down every transaction on its end while taxpayers are advertised to have the ability to connect this to their tax returns.

Comparison between the Previous and Present Tax Systems in India

Previously followed tax system comprises a multitude of indirect taxes, applied at the central (federal) and state levels. Under this system, the consumer pays tax which an inefficient tax credit system is having a cascading effect of taxes- a tax on tax paid goes into the manufacture of goods.

The new GST merges the indirect central and state taxes into a five-tier schedule of 0 percent 5percent, 12 percent, 18 percent and 28 percent. The previously existed tax system generally taxes on production whereas the GST aims to tax on final consumption. GST reduces the overall tax burden, which is currently estimated at 25-30 percent. GST revenues shall be shared between the center and states as all other indirect taxes are subsumed in GST

Tax System before GST

The Table-2 shows the most notable ones, which the GST subsumes with the help of currently implemented tax system

Table-2
Details of the Central Taxes

Tax Details	Percentages
Central Value Added Tax (CENVAT) or Central Excise duty The tax levied on the production of manufacturing goods	15
The tax levied on provided services.15 Central Sales Tax (CST) Tax on cross (state trade)	2
Countervailing Duties (CVD) Additional import duty on imported goods which are produced in India in order to level the playing between domestic and foreign producers	12.36
Special Additional Duty of Customs (SAD)	4

Additional import duty to counterbalance the sales or value-added tax payable by local manufacturers. Apart from the Central tax duties, the state tax range rates are composed of the following

Table-3
Details of the State Taxes Range Rates

Tax Details	Percentages
Value Added Tax (VAT) The tax levied on the production of manufacturing goods	10-14.5
Sales tax, the additional tax levied on the production of manufacturing goods	0-15
Entry Tax Tax on the entry of goods for consumption, use or sale in that state	0-12.5
Luxury Tax Tax on luxury goods and services that include hotels, resorts, and halls used for weddings, conferences, etc.	3-20

Table-4
Tax System under New GST

Goods				Services
0 Percent	5 percent	12% and 18%	28 percent	12 percent
Agricultural Goods	Necessity Goods	Distribution is undecided	Luxury Goods	Distribution is undecided

GST SLAB

The four GST slabs have been set at 5 percent, 12 percent, 18 percent and 28 percent for different items or services. The GST Council meeting in Guwahati on November 10, 2017, decided to cut tax rates on daily use items such as chewing gum, chocolates, shaving and aftershave items, leaving only the "sin goods" in the top slab.

Highlights

1. As many as 178 items were shifted from the top tax brackets of 28 percent to 18 percent.
2. A uniform 5 percent tax was prescribed for all restaurants both AC and Non-AC
3. The top tax rate is now restricted to luxury and demerit goods like pan masala, aerated water and beverages and cigarettes etc. Vishal Raheja of Taxmann described the move as "great step" and said, "In future, we may expect that Government will further slash tax rates by moving from 4-tier tax slabs to lesser slabs or even single GST rate".

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Table-5
Comparing GST with Previous Tax System

Particulars	Without GST	With GST
	Manufacturer to Wholesaler	
Cost of Production	5000.00	5000.00
Add: Profit margin	2000.00	2000.00
Manufacturer Price 7000.00	7000.00	7000.00
Add: Excise Duty @12%	840.00	-
Total Value (A)	7840.00	7000.00
Add: VAT @ 12.5%	980.00	-
Add: SGST @ 6%	-	420.00
Add: CGST @ 6% - 420.00	-	420.00
Invoice Value	8820.00	7840.00
	Wholesaler to Retailer	
Cost of Production	5000.00	5000.00
Add: Profit margin	2000.00	2000.00
Manufacturer Price	7000.00	7000.00
Add: Excise Duty @12%	840.00 -	840.00 -
Total Value (A)	7840.00	7000.00
Add: VAT @ 12.5%	980.00 -	980.00 -
Add: SGST @ 6%	-	420.00
Add: CGST @ 6%	-	420.00
Invoice Value	7840.00	7840.00
	Retailer to Consumer	
Cost of Goods Sold (B)	8624.00	7700.00
Add: Profit Margin @10%	862.40	770.00
Total Value (B)	8470.00	8470.00
Add: VAT @ 12.5%	1185.80	1185.80
Add: SGST @ 6%	-	508.20
Add: CGST @ 6%	-	508.20
Total Price to Final Consumer	10672.20	9486.40
Cost Saving to Consumer	-	1185.80
% of Cost Saving	-	11.11%

From the above Table-5, it is evident that the final price of the product has slashed down because of the unrestricted flow of input tax credit among the manufacturers, wholesalers and retailers. A large number of small retailers are either exempted from taxation or levied with very low rates of tax. Hence, purchasing from these retailers has become cheaper for consumers.

IMPACT OF GST ON INDIAN ECONOMY

It is expected that the creation of the Goods and Service Tax act and its implementation will have a great impact on various aspects of business in India by changing the traditional pattern of pricing the products and services. The Goods and Service Act will also have a great impact on the tax system in India by reducing the unfavorable effect of the tax on the cost of goods and services. GST is expected to change the whole indirect tax system by impacting the tax structure, tax computation, credit utilization and tax frequency. It will also help in supply chain optimization. It will help in creating a single national market by merging several Central and State taxes under a one single tax procedure.

The tax rate under GST is set at 0 Percent, 5 Percent, 12 Percent, 18 Percent and 28Percent for various goods and services, and almost 50 percent of goods & services comes under18 percent tax rate. Let's now examine how GST on some day-to-day good and services will have an impact on the final consumer.

1. Mobile Bills: People will have to pay more for mobile phone bills as GST on telecom services is now 18 percent, as opposed to the earlier tax rate of 15 percent. However, telecom companies may absorb this 3 percent raise due to stiff competition.

2. Footwear & Apparels/Garments: Footwear costing more than INR 500 will have a GST rate of 18 percent from an earlier rate of 14.41 percent rate but rates for the footwear below INR 500 has been reduced to 5 percent. So, one will spend more on purchasing footwear above INR 500/-. And with respect to the ready-made garments, the rates have been reduced to 12 percent from an existing rate of 18.16 percent which will make the goods cheaper.

3. Cab and Taxi rides: Taking an Ola or an Uber now will be cheaper because the tax rate has fallen to 5 percent from an earlier 6 Percent for a cab booking made online.

4. Airline tickets: Under the GST, the tax rate for economy class for flight tickets is set at 5% but the tax for business class tickets will have a higher tax rate of 12 Percent.

5. Train Fare: In the case of the train fare, there will be no much impact because the effective tax rate has increased from 4.5 Percent to 5 Percent in GST. But, passengers who travel for business trips can claim Input Tax Credit on their rail ticket which can help them to reduce expenses. People traveling by local trains or in the sleeper class will not be affected, but first class & AC travelers will have to pay more.

6. Movie Tickets: Movies tickets costing below INR 100 will be charged a GST rate of 18 Percent but prices above INR 100 will have a higher tax rate of 28 Percent.

7. Life Insurance Premium: The Premium Amounts on policies will rise with an immediate impact which can be seen on the term and endowment policy premiums as the rates have been increased under GST across life, health and general insurance.

8. Jewelry: The Gold investment will become slightly expensive because there will be 3 Percent GST on gold & 5 Percent on the making charges. The earlier tax rate on gold was around 2 Percent in most of the states and the GST is increased from the existing rate to around 2 Percent to 3 Percent.

9. Property: Under construction, properties will be cheaper than ready-to-move-in properties. GST rate for an under-construction property is 18 Percent but the effective rate on this kind of property will be around 12 Percent due to input tax credits the builder will avail off.

10. Education & Medical Facilities: Education and Medical sectors have been kept outside the GST scope and both the primary education & healthcare is exempted from GST. It means a consumer will not pay any tax for the money spent on these services. But due to an increase in tax rates for certain goods & services as procured by these organizations, they may pass on the additional tax burden to the consumers.

11. Hotel services: For any hotel stay, if a room tariff is less than Rs.1,000, there will be no GST, but anything above Rs.5,000 will attract 28 Percent tax.

12. Car purchase: Most of the cars in the Indian market will become slightly cheaper, except for

the hybrid cars because the GST rate will be 28 Percent tax on all the vehicles irrespective of their make, engine capacity or model. However, over and above this 28 %, an additional cess will be levied which can be either 1 Percent, 3 Percent or 15 Percent, depending on the particular car segment.

13. Restaurant Bills: This will depend on whether one dined at an AC or Non-AC establishments which do not serve alcohol. Now dining at five-star hotels will be charged at 18 Percent GST rate and the Non-AC restaurants will be charged 12 Percent and a 5 Percent GST will be charged from small hotels, Dhabas and Restaurants that do not cross an annual turnover of INR 50 Lakh.

14. IPL & other related events: Events like IPL i.e. sporting events will have a 28 Percent GST rate which is higher than the earlier 20 Percent rates. Hence, this will increase the ticket price. And the GST rate for other events like theatre, circus or Indian classical music shows or a folk dance performance or a drama show will be at 18 Percent GST rate, this is lesser than the earlier tax rate.

Goods and Services Tax or GST as it is known all set to be a game changer for the Indian Economy. It is one of the most crucial tax reforms in India. It is a comprehensive tax system that subsumes all indirect taxes of states and central government and a unified economy into a seamless national market.

- It is expected to simplify tax administration, ensure 'Ease of Doing Business' and promote 'Make in India'.
- It will reshape the indirect tax structure by a subsuming majority of indirect taxes like excise, sales and services levies.
- This will do away with the complex indirect tax structure of the country, thus improving the ease of doing business in the country.
- Exports will become competitive as the GST regime will eliminate the cascading impact of taxes.
- GST could boost India's GDP growth by 0.9-1.7 percent. It is a key for India's Gross Domestic Product in times of challenging global environment.
- The passing of the GST will be welcome news for the Indian rupee (INR). GST will lead to higher foreign direct investment inflows and a narrow current account deficit-factor that should help the rupee to increase.
- GST will lead to the creation of a unified market, which would facilitate the seamless movement of goods across states and reduce the transaction cost of businesses.
- The tax reforms through GST will play a crucial role to attract large-scale investment.GST will reduce the cost of production and allows the hassle-free supply of goods.

ADVANTAGES OF GST

1. A unified tax system removing a bundle of indirect taxes like VAT, CST, Service tax, CAD, Excise etc.

2. Simplified tax policy as compared to the earlier tax structure.

3. Removes cascading effect of taxes (i.e) removes the tax on tax.

4. Due to a lower burden of taxes on the manufacturing sector, the manufacturing costs will be reduced, hence prices of consumer goods likely to come down. Due to reduced costs, some products like cars, FMCG etc. will become low-priced. This will help in lowering the burden on the common man (i.e) you will have to spend less money to buy the same products which were earlier costly.

5. The low prices will further lead to an increase in the demand for goods. Increased demand will lead to an increase in supply. Hence, this will ultimately lead to an increase in the production of goods. The increased production will lead to more job opportunities in the long run. But, this can happen only if consumers actually get low-priced goods. More business entities will come under the tax system thus widening the tax base. This may lead to better and more tax revenue collections.

6. E-Commerce will get a boost by increasing market penetration.

7. Increase in Foreign Direct Investment and improvement in international investors confidence.

8. Companies which are under the unorganized sector will come under a tax regime.

9. The entire Indian market will be a unified market which may translate into lower business costs. It can assist the seamless movement of goods across states and reduce the transaction costs of businesses.

10. It is good for export-oriented businesses. Because it is not applied to goods or services which are exported out of India.

11. The procedure of GST registration would also be made simple, thereby improving the ease of starting a business in India.

12. Less developed states such as Bihar, Odisha will benefit as the present 2 percent interstate tax will be dispersed.

13. As goods, will move in and out of states without any hurdle, it will lower down the logistics and inventory management costs of corporates, which is quite high in India. As goods, will move in and out of states without any hurdle, it will lower down the logistics and inventory management costs of corporates, which is quite high in India.

14. GST is expected to boost the Indian economy by nearly 2 percent as the movement of goods will be quicker, simpler and cheaper. But, this is possible only if the actual benefit of GST is passed on to the final consumers. There are also various other factors like the

seller's profit margin that determine the final rate of goods. This shows that GST alone does not determine the final price of goods.

DISADVANTAGES OF GST

1. Service tax rate @ 15 percent is presently charged on the services. So, if GST is introduced at a higher rate which is likely to be seen in the near future, the cost of services will increase i.e all the services like telecom, banking, airline etc. will become more expensive.
2. The increased cost of services means, an add-on to your monthly expenses.
3. You will have to reorganize your budgets to bear the additional services cost.
4. An increase in inflation might be seen initially.
5. If the actual benefit is not passed to the consumer and the seller increase his profit margin, the prices of goods can also see a rising trend.
6. But the rate of GST and how effectively GST is introduced in all the States and at the Centre also plays a crucial role in deciding the actual impact of GST.
7. Some Economists say that GST in India would impact negatively on the real estate market. It would add up to 8 percent to the cost of new homes and reduce demand by about 12 percent.
8. Some Experts says that CGST (Central GST), SGST (State GST) are nothing but new names for Central Excise/Service Tax, VAT and CST. Hence, there is no major reduction in the number of tax layers.
9. Some retail products currently have only four percent tax on them. After GST, garments and clothes could become more expensive.
10. Adoption and migration to the new GST system would involve teething troubles and learn for the entire ecosystem.

CONCLUSION

The GST System is basically structured to simplify the current indirect tax system in India. A well designed GST is an attractive method to get rid of deformation of the existing process of multiple taxations, also the government has promised that GST will reduce the compliance burden at present there will be no distinction between imported and Indian goods and they would be taxed at the same rate. Many indirect taxes like sales tax, VAT etc., will be because there will be one tax system i.e. GST, that will reduce compliance present burden. GST will face many challenges after its implementation and will result to give many benefits. Though GST creates many challenges for both tax collector and the taxpayers in the short run, it is seen as a major tax reform to make the country as a single market with a single tax. It is expected to give the real benefits of lower prices, economic growth, ease of doing business, FDI inflows etc in the long run. The above-suggested measures may help in addressing the short-term issues with GST and will help the country to achieve the real benefits of GST Implementation in Long Run. All sectors of the economy have benefits and impact with GST whether individual, industry, trade, government departments, service sector, professionals, importers etc. Implementation of GST has a positive impact on manufacturers and distributors because the cascading effect is reduced and supply chain cost comes down. This will not only reduce the final price of the goods but also increase the competitiveness of the industry along with profits and create a common market. It is a simple mechanism yet can boost economy compared to the previous system also having a uniform and transparent system to all players than previous complexities. GST is a reform move where one can be fairly sure that short-term pain will lead to long-term gains.

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