

IMPACT OF GST ON INDIAN ECONOMY

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Abstract—Goods and Services Tax (GST) is a value-added tax levied on most goods and services sold for domestic consumption. The GST is paid by consumers, but it is remitted to the government by the businesses selling the goods and services. In effect, GST provides revenue for the government. The Centre and States will have to come to consensus on the uniform GST rates, inter-state transaction of goods and services, infrastructural requirements to implement the new tax reform, all of which needs to be worked upon for the smooth transition into GST pattern. GST is not only investor or business friendly but also consumer friendly. GST is the need of the hour and any hindrance to its enactment is clearly unjustified and not in national interest.

Keywords— CGST, GDP, GST, Indian Economy, SGST.

INTRODUCTION

The Government of any country needs money for its functioning and taxes are a major source of revenue for a Government. The taxes thus collected are spent by Govt. on the public. These taxes are broadly classified into two types: Direct Tax and Indirect Tax. Direct Tax is imposed on the Income of an individual. The amount of Tax payable varies on the income earned by the individual from various sources such as salary, house rent income etc. So, the more you earn, the more tax you pay to the Government which essentially means the rich pay more tax in comparison to the poor. Indirect tax is not imposed directly on income of individuals. Instead, it is imposed on goods and services which in turn increase the cost (MRP) of Goods and Services. Unlike direct tax, indirect tax should be borne by the end customer, rich and poor alike., There are many indirect taxes. Some of these are levied by the Central Government whereas some are levied by the State Government making the indirect tax system an extremely complicated system.

Goods and Services Tax (GST) is an indirect tax which was introduced in India on 1 July 2017 and was applicable throughout India which replaced multiple cascading taxes levied by the central and state governments. It was introduced as The Constitution (One Hundred and First Amendment) Act 2017, following the passage of Constitution 122nd Amendment Bill. The GST is governed by a GST Council and its Chairman is the Finance Minister of India. Under GST, goods and services are taxed at the following rates, 0%, 5%, 12%,18% and 28%. There is a special rate of 0.25% on rough precious and semi-precious stones and 3% on gold. In addition a cess of 15% or other rates on top of 28% GST applies on few items like aerated drinks, luxury cars and tobacco products. GST was initially proposed to replace a slew of indirect taxes with a unified tax and was therefore set to dramatically reshape the country's 2 trillion dollar economy. The rate of GST in India is between double to four times that levied in other countries like Singapore. GST is charged at each stage of the supply chain and is included in the price of goods and services provided by registered businesses. GST is charged on all sorts of things, including sale of goods, lease of premises, hire of equipment, and services like providing advice.

FEATURES OF GST:

- GST will have two components namely Central GST levied by the Centre and State GST levied by the states.
- Petroleum products, alcohol for human consumption and tobacco have been kept out of the purview of the GST.
- The final consumer will have to bear only the GST charged by the last dealer in the supply chain.

- The tax collected would be divided between the Centre and the States in a manner that would be defined by the parliament, as per the recommendations of the GST Council.
- The bill proposes an additional tax not exceeding 1% on inter-state trade in goods, to be levied and collected by the Centre to compensate the states for two years, or as recommended by the GST Council, for losses resulting from implementing the GST.

CHALLENGES IN THE IMPLEMENTATION:

India is adopting a dual GST, namely the Central GST (CGST) and state GST (SGST). The main hurdle in the implementation will be the coordination among different states. The Centre and States will have to come to consensus on the uniform GST rates, inter-state transaction of goods and services, infrastructural requirements to implement the new tax reform, all of which needs to be worked upon for the smooth transition into GST pattern.

- Since GST is a destination based tax, there should be clarity on where the goods are going. Proper methodology should be chalked out as it would require proper management in terms of services provided.
- There has to be uniformity in the implementation of GST in all states at the same time and the same rates or else it would be difficult to comply with the law provisions.

BENEFITS OF GST TO INDIA

Introduction of GST is considered to be a significant step in the reform of indirect taxation in India. Amalgamating several Central and State taxes into a single tax would help mitigate the double taxation, leading to a common national market. From the consumers point of view, the advantage would be in terms of a reduction in the overall tax burden on goods, which is currently estimated at 25%-30%. GST's successful implementation would give a strong signal to the foreign investors about India's ability to support business. GST will be beneficial with more transparency, efficient compliance, ramp up in GDP growth to the Centre, states, industrialists, manufacturers, the common man and the country at large.

- **Reduction in prices**

Manufacturers or traders would not have to include taxes as a part of their cost of production, which would lead to reduction in prices.

- **Lower compliance and procedural cost**

There would be reduction in the load to maintain compliance. Also keeping record of CGST, SGST and IGST separately would not be required.

- **Move towards a Unified GST**

Although India is adopting dual GST, it is still a good move towards a Unified GST which is regarded as the best method of Indirect Taxes.

- **Helps in reducing tax evasion:**

All the distributors will prefer purchase with invoices, because that would give them better profit margins as the distributor will get credit of all the taxes paid at the previous stage. Currently, it is the distributor who has to bear the burden of the excise duty. So, if the customer insists on taking the bill, we can presume that the tax evasion should fall. This will indeed be the biggest advantage of GST.

- **Removal of location bias approach**

GST would help to even out the tax structures across various states, omitting location bias. As taxes should not be a hindrance to the investment decision of an individual, introduction of GST would help an investor to put up business units in any state without the worry of tax difference. This would boost the business in undeveloped locations as well.

- **Lesser incentive for tax evasion**

Currently, taxes are being paid on the entire underlying value of a product or service, but with GST, companies will have to pay tax only on the value-addition. This would lead to reduction in the actual tax paid and also decrease the incentive for evasion.

- **Unified market**

With the implementation of GST, there will be cut down of individual taxes imposed by the central government as well by the states. This would lead to a unified market and would boost the movement of goods across states with drop in the business costs.

- **Increase in State revenues**

GST will expand the tax base and thereby lead to increase in the revenues available at the states' and centre's disposal. This would thereby help in increasing the resources of the poorer / consumer states like, Bihar, Uttar Pradesh and Madhya Pradesh will increase substantially.

- **Improvement in tax governance**

GST would improve tax governance in two ways. One it is related to self-policing incentive inherent to a valued-added tax that can work very powerfully in the GST. The second relates to the dual monitoring structure of GST, one by the States and the other by the Centre.

IMPACT OF GST ON THE 'MAKE IN INDIA' INITIATIVE

The current indirect tax regime is a hindrance in the growth of the domestic manufacturing sector as well as flow of foreign investment to the sector. Introduction of GST is important as it would help alleviate the situation. There would be reduction in cost of manufacturing both from a tax view as well as compliance front. In spite of being one country, India has more than 30 markets which would be transformed into a single market with GST. Since it will also be applicable on imports, the tax factor working against 'making in India' will disappear, further boosting the production and in turn the exports as well.

NEGATIVE IMPACT OF GST

- Services will become expensive. e.g. Telecom, Banking, Airline etc.
- Being a new tax, it will take some time for the people to understand its implications.
- It is easier said than done. There are always some complications attached. It is a consumption based tax, so in case of services the place where service is provided needs to be determined.
- If actual benefit is not passed to consumer and seller increases his profit margin, the prices of goods can also see a rising trend.

CONCLUSION

GST will bring in transparent and corruption-free tax administration, removing the current shortcomings of the supply chain owing to the multi-layered policies. GST is not only investor or business friendly but also consumer friendly. GST is the need of the hour and any hindrance to its enactment is clearly unjustified and not in national interest. Critics argue about the feasibility of implementing GST. But one should always remember that there is no reform that is perfect. It is important that we start with the current bill and gradually improvise the same in due course.

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