

GST in Indian Economy: It's Benefits and Impact

Dr. Chandu Ravi Kumar

Assistant Professor, Ethiopian Civil Services University, Addis Ababa, Ethiopia

Abstract: *The Goods and Services Tax (GST) is a value added tax implemented in India. GST is the only indirect tax that directly affects all sectors and sections of our economy. The goods and services tax (GST) is aimed at creating a single, unified market that will benefit both corporate and the economy. Business is undergoing rapid transformation due to the globalization. Tax regime and policies of any country are gaining high importance due to growing foreign trade between various countries. In the competitive world of business, GST is a significant topic which requires lot of deliberations from academia and industry. GST is expected to create a business friendly environment, as price levels and hence inflation rates would come down overtime as a uniform tax rate is applied. It will power government's fiscal health as the tax gathering system would become clearer, making tax evasion difficult. An attempt is made in this paper to study the concept of goods and service tax and its impact on Indian economy. The study also aims to know the advantages and disadvantages of GST in Indian scenario.*

Keywords: Value Added Tax, Central Value Added Tax, government, Economy, globalization

1. Introduction

The Goods and Services Tax (GST) is a value-added tax imposed on most goods and services sold for domestic intake. The GST is paid by consumers, but it is remitted to the government by the businesses selling the goods and services. In effect, GST offers revenue for the government. The goods and services tax (GST) is an indirect sales tax that is applied to the cost of certain goods and services. The business adds the GST to the price of the product, a customer who buys the product pays the sales price plus GST; and the GST share is collected by the business or seller and furthered to the government.

Initially France implemented GST to decrease tax-evasion. Now, more than 140 nations have initiated GST with some nations having Dual-GST, for example Brazil and Canada. India has preferred the Canadian model of dual GST as it has a federal structure where the Centre and states have the powers to charge and collect taxes. India joins the GST group on July 1, 2017.

2. Literature Review

Ehtisham Ahmed and Satya Poddar (2009) in their study on "Goods and Service Tax Reforms and Intergovernmental Consideration in India" found that GST introduction will provide simpler and transparent tax system with increase in output and productivity of economy in India. However the benefits of GST are depend on the rationally designed GST.

Dr. R. Vasanthagopal (2011) in his research paper "GST in India: A Big Leap in the Indirect Taxation System" concludes that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy.

Syed Mohd Ali Taqvi (2013) "Challenges and Opportunities of Goods and Service Tax in India" the researcher explains the GST is only indirect tax that directly affect all sectors and sections of our country. It is aiming at creating a single, unified market that will benefit both corporates and

economy. He also explain the proposed GST model will be implemented parallel by the central and state governments as Central GST and State GST respectively.

Nishitha Guptha (2014) in her study stated that implementation of GST in the Indian framework will lead to commercial benefits which were untouched by the VAT system and would essentially lead to economic development. Hence GST may usher in the possibility of a collective gain for industry, trade, agriculture and common consumers as well as for the Central Government and the State Government

Pinki, Supriya Kamma and Richa Verma (2014) in their paper titled "Goods and Service Tax- Panacea For Indirect Tax System in India" concluded that the new government in India is positive towards implementation of GST and it is beneficial for central government, state government and as well as for consumers in long run if its implementation is backed by strong IT infrastructure.

3. Need for GST

India's latest progress towards economic growth stems from reforms undertaken after the 1991 fiscal crisis, which lifted India from years of slow growth under socialist rule and open an opportunity to progress living conditions in the immense, poor country. At the same time much had improved in India after the balance of payments crisis of 1991. Indian policies became more positive about encouraging export and permitting foreign capital to participate in the process of India's growth.

Globalization and liberalization have turn out to be order of the day. The interdependence of economies in their transfer for development compelled the Governments of all the countries to follow the globalization policies accepted by the major economies of the world. To survive and grow in this economic order rational and competitive tax policies are being accepted by every country. India has also fallen in line with the requirement and has been introducing modifications in direct and indirect taxes. The recent applications of Direct Taxes Code (DTC) and Goods and Services Tax (GST) are

considered as path breaking in the economic restructuring in general and in the taxation area in particular.

Objectives of the Study

- 1) To have a brief understanding on GST.
- 2) To understand how GST will work in Indian Economy System.
- 3) To know the advantages and disadvantages of GST in Indian context.

4. Research Methodology

The study is descriptive and exploratory considering the objectives of the study the data collected are secondary source of data like Journals, Newspapers and Government Reports.

Brief time line of GST in India

Year	GST Status
2000	PM Vajpayee set up a committee to draft GST law
2004	a task force concludes GST must be implemented to improve current tax structure
2006	finance minister proposes GST introduction from April 1, 2010
2007	CST to be phased out rates reduced 4 percent to 3 percent
2008	EC finalizes dual GST structure to have separate levy, legislation
2010	project to computerize commercial taxes launched but GST implementation postponed
2011	constitution amendment bill to enable GST law introduced
2012	standing committee begins discussion on GST but delayed it over clause 279B
2013	standing committee tables its report on GST
2014	GST bill reintroduced in parliament by finance minister
2015	GST bill passed in Lok Sabha but not passed in Rajya Sabha
2016	amended model GST law passed in both houses and president gives assent
2017	Four supplementary GST bills passed in Lok Sabha and approved by cabinet. Rajya Sabha passes four supplementary GST bills. Finally GST is launched on 1 st July

5. How GST is applied

GST is an intake based tax/levy. It is built on the “Endpoint principle.” GST is applied on goods and services at the place where final/actual consumption happens. GST is collected on value-added goods and services at each stage of sale or buying in the supply chain. GST paid on the getting of goods and services can be set off in contradiction of that payable on the supply of goods or services. The manufacturer or wholesaler or retailer will pay the related GST rate but will claim back through tax credit mechanism. But being the last person in the supply chain, the end consumer has to bear this tax and so, in numerous respects, GST is like an end-point retail tax. GST is going to be collected at point of Sale.

6. Salient Features of the GST Model

- 1) The GST shall have two components: one imposed by the Centre (hereinafter referred to as Central GST), and the other imposed by the States (hereinafter referred to

as State GST). Rates for Central GST and State GST would be prescribed suitably, replicating revenue concerns and acceptability.

- 2) The Central GST and the State GST would be valid to all dealings of goods and services made for a consideration except excused goods and services, goods which are outside the purview of GST.
- 3) The Central GST and the State GST are to be paid to the accounts of the Centre and the States distinctly
- 4) As the Central GST and State GST are to be treated distinctly taxes paid by the Central GST shall be allowed to be taken as input tax credit (ITC) for the Central GST and can be used only beside the payment of Central GST. The same principle will be applicable for the State GST.
- 5) To the point feasible, constant procedure for collection of both central GST and the State GST would be arranged in the respective legislation for the Central GST and the State GST.
- 6) The government of Central GST to the Centre and for State GST to the States would be given.
- 7) The tax payer would need to submit periodical returns, in joint format 42 Presenting GST and Its Impact on Indian Economy as far as probable to both the Central GST right and to the concerned State GST authorities.
- 8) Each tax payer would be allotted a PAN-Linked taxpayer Identification number with a total of 13/15 digits. This would bring the GST PAN-Linked system in line with the prevailing PAN-Based system for Income Tax, enabling exchange and taxpayer compliance.

7. Advantages of GST Bill implementation

- 1) GST is a transparent tax and also reduces number of indirect taxes.
- 2) GST will not be a cost to registered retailers therefore there will be no hidden taxes and the cost of doing business will be lower.
- 3) Benefit people as prices will come down which in turn will help companies as consumption will increase.
- 4) There is no doubt that in production and distribution of goods, services are progressively used or consumed and vice versa.
- 5) Distinct taxes for the goods and services, which is the current taxation system, needs separation of transaction values into value of goods and services for taxation, leading to the greater problems, administration, including compliances costs.
- 6) In the GST system, when all the taxes are integrated, it would make possible the taxation burden to be split equitably between manufacturing and services.
- 7) GST will be imposed only at the end destination of consumption centered on VAT value and not at several points. It will help in removing economic falsifications and bring about increase of a common market.
- 8) GST will also help to build a clear and fraud free tax administration.
- 9) Now, a tax is imposed on when a finished product moves out from a factory, which is paid by the producer, and it is again levied at the retail outlet when sold.

10) GST is supported by the GSTN, which is a completely united tax platform to deal with all aspects of GST.

8. Disadvantages of GST Bill implementation

- 1) Certain Economist says that GST in India would impact adversely 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.
- 2) Certain Specialists says that CGST (Central GST), SGST (State GST) are nothing but new names for Central Excise/Service Tax, VAT and CST. Therefore, there is no major drop in the number of tax layers.
- 3) Some retail products currently have only four percent tax on them. After GST, garments and clothes could become more lavish.
- 4) The aviation industry would be affected. Service taxes on airfares presently range from six to nine percent. With GST, this rate will surpass fifteen percent and effectively double the tax rate.
- 5) Adoption and migration to the new GST system would involve teething troubles and learning for the entire ecosystem.

9. Conclusion

No doubt the GST by subsuming large number of indirect taxes and having a uniform Indirect tax structure throughout the country will definitely boost up economic unification of India. Again with better conformity and revenue resilience GST will evade the cascading effect in Indirect tax regime. It is preferred every economy must adopt GST or VAT at national level to make their economy attractive for foreign investors. History has proved that many countries have benefited from moving to a GST regime. In India, Execution of GST would also significantly help in removing economic biases caused by present complex tax structure and will help in progress of a common national market. By instigating GST, the developing economy like India can accomplish sustainable and balanced development.

References

- [1] A Primer on Goods and Services Tax in India, Centre for Budget and Governance Accountability, new delhi, 2011
- [2] Aarti Saxena, Overview of Proposed Goods and Services Tax (GST) Regime in India, Deputy
- [3] Secretary (State Taxes), Department of Revenue, Ministry of Finance, Government of India
- [4] Dr. R. Vasanthagopal (2011). "GST in India: A Big Leap in the Indirect Taxation System", International Journal of Trade, Economics and Finance, Vol. 2, No. 2, April 2011.
- [5] Ehtisham Ahmad and Satya Poddar (2009). "Goods and Service Tax Reforms and Intergovernmental Consideration in India", Asia Research Center, LSE, 2009.
- [6] Govinda Rao, Goods and Services Tax in India: Challenges and prospects, Topics: Macroeconomic Policy, 25th Aug, 2014

- [7] K.C. Archana, What is the GST Bill? What does it mean to you and me, India Today, November 28, 2015
- [8] Nishita Gupta, Goods and Services Tax: Its implementation on Indian economy, CASIRJ Volume 5 Issue 3 [Year - 2014] ISSN 2319 – 9202, Pg. No.126-133.7]
- [9] Pinki, Supriya Kamna, Richa Verma (2014). "Good and Service Tax – Panacea For Indirect Tax System In India", "Tactful Management Research Journal", Vol2, Issue 10, July 2014
- [10] Syed Mohd Ali Taqvi, (2013) "Challenges and Opportunities of Goods and Service Tax (GST) in India".