

Impact of GST on Indian Economy

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Abstract: *The introduction of the Goods and Services Tax in India may be considered as the most important financial reform ever in the history of our country. On 30th June 2017, the joint session of parliament was convened to proclaim and witness the transition of the while country towards the new indirect tax regime applicable with effect from 1st July 2017. With the motto 'one nation, one tax, one market', the country virtually wake up on 1st July 2017, with a single GST, abolishing all the check posts and barriers in the movement of goods from one state to another and replacing the multiple tax structure prevailed in different states and union territories. By amalgamating a large number of central and state taxes into a single Goods and services Tax, the aim was to mitigate cascading or double taxation and pave the way for a common national market. Introduction of GST would also make Indian products competitive in the domestic and international markets and will boost up the economic growth of the country in a big way.*

Keywords: GST, SGST, CGST

1. Introduction

Goods and Services Tax, popularly known as GST, is a reform for our economy's indirect tax plan. On 8th August 2016, GST Bill was passed in Lok Sabha and came into effect from July 1, 2017. The GST has made changes in the tax structure between the center and the state. GST is a destination based tax and levied at a single point at the time of consumption of goods or services by the ultimate consumer. GST is based on the principle of value added tax. GST law emphasizes on voluntary compliance and on accounts based reporting and monitoring system. It is a comprehensive levy and envisages tax collection on both goods and services at the same rate. Internationally, GST was first introduced in France and now more than 160 countries have introduced GST.

1.1 What is GST?

The Goods and Services Tax or GST came into effect on the 1st of July 2017. The aim of introducing the tax was to replace all the existing indirect taxes with a single comprehensive tax. Through GST, all indirect taxes such as central excise tax, service tax, VAT and entertainment tax were consolidated. This major step has helped the citizens of India to file their taxes easily without the hassles they faced earlier. And, this article will discuss the impact of GST on the Indian economy.

Goods and Services Tax is levied on the manufacturing and sales of goods and services across the country. The tax is charged at every stage of the manufacturing process. GST is applicable for both the customer and the manufacturer. It is a destination-based tax. This means that GST is to be collected at the point of consumption. So, if a product is manufactured in Bihar and is sold in Bhopal, the tax will be levied in Bhopal. Moreover, at every stage of the manufacturing process where value is added to the product, GST is collected.

The types of GST are as follows:

CGST (Central Goods and Services Tax): The tax is collected by the central government on the intrastate sale of goods and services.

SGST (State Goods and Services Tax):

The state government collects this tax based on the intrastate supply of services and products.

IGST (Integrated Goods and Services Tax): The tax is charged on the supply of products and services between two states. The taxes are shared between the central and state governments.

1.2 Effect of GST on the Indian economy

The implementation of GST has significantly affected the Indian economy in the following ways:

Simplification of the tax structure:

GST has simplified the taxation system of the country. As GST is a single tax, calculating taxes at the multiple stages of the supply chain has become easier. Through this, both customers and manufacturers get a clear idea of the amount of tax they are charged and its basis. Further, hassles of handling tax officials and authorities can also be avoided.

Fostering production:

As per the Indian retail industry, the total tax component is around 30% of the product cost. Due to the impact of GST, the taxes have gone down. So, the end consumer has to pay lesser taxes. The reduced burden of taxes has enhanced the production and growth of the retail and other industries.

SME support:

Small and medium enterprises can now register under the Composition Scheme introduced by GST. Through this scheme, they pay taxes according to their annual turnover. Therefore, businesses having an annual turnover of Rs. 1.5 crores only have to pay 1% GST. Moreover, other enterprises having a turnover of Rs. 50 lakh are required to pay 6% as GST.

Enhanced pan India operations:

Companies can now avoid taxation roadblocks, such as toll plazas and check posts. Earlier, these created problems, including damage to unpreserved products while transporting them. So, manufacturers had to keep buffer stock to make up for the damages. These overhead costs of storing and warehousing hampered their profit. A single taxation system has reduced these problems. They can now transport their goods easily across India. This has resulted in the improvement of their pan India operations.

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Increase in exports:

GST has reduced the customs duty on exporting goods. The cost of production in the local markets has also decreased due to GST. All these factors have increased the rate of exports in the country. Companies have become more competitive when it comes to expanding their businesses globally.

The introduction of GST has helped merge the taxes of the state and central governments. This has helped remove the cascading effect of multiple taxes. Therefore, the burden of taxes has reduced for companies and customers. Not just this, taxpayers have increased in number and hence, the tax revenues have also increased significantly. The overall taxation system is now easier to administer. Moreover, small- and medium-sized enterprises are able to enhance their businesses. It is expected that GST will help more Indian organisations to establish themselves in the international markets.

1.3 Benefits of GST to the Indian Economy

- Removal of bundled indirect taxes such as VAT, CST, Service tax, CAD, SAD, and Excise.
- Less tax compliance and a simplified tax policy compared to current tax structure.
- Removal of cascading effect of taxes i.e. removes tax on tax.
- Reduction of manufacturing costs due to lower burden of taxes on the manufacturing sector. Hence prices of consumer goods will be likely to come down.
- Lower the burden on the common man i.e. public will have to shed less money to buy the same products that were costly earlier.
- Increased demand and consumption of goods.
- Increased demand will lead to increase supply. Hence, this will ultimately lead to rise in the production of goods.
- Control of black money circulation as the system normally followed by traders and shopkeepers will be put to a mandatory check.
- Boost to the Indian economy in the long run. Benefits of GST to the Indian Economy

2. Disadvantages of GST**1) Increased costs due to software purchase**

Businesses have to either update their existing accounting or ERP software to GST-compliant one or buy a GST software so that they can keep their business going. But both the options lead to increased cost of software purchase and training of employees for an efficient utilization of the new billing software. ClearTax is the first company in India to have launched a ready-to-use GST software called *ClearTax GST software*. The software is currently available for free for SMEs, helping them transition to GST smoothly. It has truly eased the pain of the people in so many ways.

2) Being GST-compliant

Small and medium-sized enterprises (SME) who have not yet signed for GST have to quickly grasp the nuances of the GST tax regime. They will have to issue GST-complaint invoices, be compliant to digital record-keeping, and of

course, file timely returns. This means that the GST-complaint invoice issued must have mandatory details such as GSTIN, place of supply, HSN codes, and others. ClearTax has made it easier for SMEs with the *ClearTax BillBook* web application. This application is available for FREE until the end of September and is an easy solution to this problem. This will help every business to issue GST-compliant invoices to their customers. These same invoices can then be used for return filing through the *ClearTax GST* platform.

3) GST will mean an increase in operational costs

As we have already established that GST is changing the way how tax is paid, businesses will now have to employ tax professionals to be GST-complaint. This will gradually increase costs for small businesses as they will have to bear the additional cost of hiring experts. Also, businesses will need to train their employees in GST compliance, further increasing their overhead expenses.

4) GST came into effect in the middle of the financial year

As GST was implemented on the 1st of July 2017, businesses followed the old tax structure for the first 3 months (April, May, and June), and GST for the rest of the financial year. Businesses may find it hard to get adjusted to the new tax regime, and some of them are running these tax systems parallelly, resulting in confusion and compliance issues.

5) GST is an online taxation system

Unlike earlier, businesses are now switching from pen and paper invoicing and filing to online return filing and making payments. This might be tough for some smaller businesses to adapt to. Cloud-based GST billing software like the *ClearTax GST Billing Software* is definitely an answer to this problem. The process for return filing on ClearTax GST is very simple. Business owners need to only upload their invoices, and the software will populate the return forms automatically with the information from the invoices. Any errors in invoices will be clearly identified by the software in real-time, thus increasing efficiency and timeliness.

6) SMEs will have a higher tax burden

Smaller businesses, especially in the manufacturing sector will face difficulties under GST. Earlier, only businesses whose turnover exceeded Rs 1.5 crore had to pay excise duty. But now any business whose turnover exceeds Rs 20 lakh will have to pay GST. However, SMEs with a turnover upto Rs 75 lakh can opt for the composition scheme and pay only 1% tax on turnover in lieu of GST and enjoy lesser compliances. The catch though is these businesses will then not be able to claim any input tax credit. The decision to choose between higher taxes or the composition scheme (and thereby no ITC) will be a tough one for many SMEs.

3. Conclusion

GST will bring in transparent and corruption-free tax administration, removing the current shortcomings in indirect tax structure. GST is business friendly as well as consumer friendly. GST in India is poised to drastically improve the positions of each of these stakeholders. We

need a change in the taxation system which is better than earlier taxation. This need for change leads us to 'need for GST'.

GST will allow India to better negotiate its terms in the international trade forums. GST aimed at increasing the taxpayer base by bringing SMEs and the unorganized sector under its compliance. This will make the Indian market more stable than before and Indian companies can compete with foreign companies.