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GST Impact of Sustainable Development in Indian Economy

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Abstract: ***The robust performance of the Indian economy in recent years, with economic growth averaging 8.5%, has generated intense debate regarding India's future economic prospects. Indeed, the future of more than a billion people, many of whom still exist in degrading and unacceptable poverty and deprivation, depends critically on Indian's ability to grow fast at high rates. The paper focusing on the importance of the GST impact on negative and positive, sustainable development goals in Indian economy. The rollout has renewed the hope of India's fiscal reform program regaining momentum and widening the economy. Then again, there are fears of disruption, embedded in what's perceived as a rushed transition which may not assist the interests of the country.***

Keywords: Economic growth, Sustainable Development, impact on negative and positive

1. Introduction

The robust performance of the Indian economy in recent years, with economic growth averaging 8.5%, has generated intense debate regarding India's future economic prospects. Indeed, the future of more than a billion people, many of whom still exist in degrading and unacceptable poverty and deprivation, depends critically on Indian's ability to grow fast at high rates. Rapid and sustained economic growth, though not sufficient for eliminating poverty, is certainly a necessary condition for improving living standards Therefore, it is crucial to examine and understand that if India can meet the 9% growth target set out by the Planning Commission's Approach Paper to the 11th Five Year Plan, approved by the National Development Council (NDC), chaired by the Prime Minister, on 9 December 2006.

The two central issues being debated are whether a growth rate of around 9% is sustainable on the strength of sound economic fundamentals or is the recent row upsurge simply a result of a fortuitous conjunction of the upswings in domestic and global economic cycles and will moderate as these cycles head southwards. The other issue being debated is whether or not this growth is 'inclusive' (inclusion implying not only reduction in absolute poverty, but also in income inequality across income groups and geographic regions). A new dimension to the growth debate has been added by the emerging concern on ecological sustainability or inter-generational equity highlighted by the Nicholas Stern Report (United Kingdom, 2006) and the latest findings of the Intergovernmental Panel on Climate Change (IPCC). This relatively under-discussed aspect the debate demands careful examination as giant economies like India and China cannot expect to be free riders on the ecological cycle on the standard and somewhat outdated plea of having damaged global resources far less than developed economies.
GST the biggest tax reform in India founded on the notion of "one nation, one market, one tax" is finally here. The moment that the Indian government was waiting for a decade has finally arrived. The single biggest indirect tax regime has kicked into force, dismantling all the inter-state barriers with respect to trade. The GST rollout, with a single stroke, has converted India into a unified market of 1.3 billion citizens. Fundamentally, the $2.4-trillion economy is attempting to transform itself by doing away with the internal tariff barriers and subsuming central, state and local taxes into a unified GST.

1.1 What is GST

- 'Goods & Services Tax' (GST) is the biggest tax reform in India till now. GST replaces all the indirect taxes in the country.
- At present there are different tax rates in different states. With GST, tax rates will be equal through out the country.
- All the indirect taxes such as Excise tax, sales tax, service tax etc. will be replaced by GST.
- GST also eliminates double taxation. Till now, manufacturers have to pay tax on the goods they manufactured. For example, the maker of wooden toys had to pay tax on the rate of the toy, that he is going to sell. But with GST, he has to pay tax only on the value he added, that means he bought wood from another manufacturer and he added value to it by transforming the wood into toys. He will not pay tax on the wood, because tax on wood was already paid by the wood manufacturer.
- GST is going to be implemented from July 1st, 2017.
- A four-tier GST tax structure of 5%, 12%, 18% & 28% will be implemented based on the type of products. For essential goods like food, GST will be 5%, and for luxury goods, GST will be 28%.
- GST is an international tax regime. More than 160 countries already implemented GST.

1.2 GST Impact

Will the hopes triumph over uncertainty would be determined by how our government works towards making GST a "good and simple tax". The idea behind implementing GST across the country in 29 states and 7 Union Territories is that it would offer a win-win situation for everyone. Manufacturers and traders would benefit from fewer tax filings, transparent rules, and easy bookkeeping; consumers would be paying less for the goods and services, and the government would generate more revenues as revenue leaks would be plugged. Ground realities, as we all know, vary. So, how has GST really impacted India? Let's take a look

Positive Impact
As there will be no inter-state tax, transport of goods will be much easier. There will be no burden of check posts for states. And this will benefit transport industry and suppliers of goods as well. This leads to improved business efficiency, which inturn helps improving economy.

With the elimination inter-state tax, more goods will be imported and exported among states. This leads to improved business and hence improved economy.

Input tax credit allows people to claim the tax paid by their suppliers. Then, no one will buy goods from those who do not pay taxes. This leads to reduction in tax evasions and hence more money from taxes to Indian government.

With the tax benefits GST provides, it will reduce the prices of goods in the long run. This will increase consumerism and hence improves economy.

GST is a global standard tax. And hence with the implementation of GST, India will gain the trust of foreign investors. More investments will help economy.

Negative Impact
Smuggled goods may travel freely throughout the country once they cross the border, because of no separate checking at states. If this happens, it will be impact Indian economy negatively.Prices of goods that are bought by upper middle classes and upper classes are increased. This may deter them from buying such kind of products. This will lead to decreased demand -> decreased production -> Impacts economy negatively.

With the increased competition from the goods from other states, local people may feel discriminated. This may lead to decrease in quality of products to cope up with the competition.

Indian GST Tax Rate
After a lot of deliberation, our GST council has finalized the rates for all the goods and major service categories under various tax slabs, and the GST is expected to fill the loopholes in the current system and boost the Indian economy. This is being done by unifying the indirect taxes for all states throughout India.

The tax rate under GST are set at 0%, 5%, 12%, 18% and 28% for various goods and services, and almost 50% of goods & services comes under 18% tax rate. But how is our life going to change post GST? Let’s see how GST on some day-to-day good and services will have an impact on an end user’s pocket.

Footwear & Apparels/Garments
Footwear costing more than INR 500 will have a GST rate of 18% from an earlier rate of 14.41 rate but rates for the footwear below INR 500 has been reduced to 5%. So, you need to shell out more for buying a footwear above INR 500/-. And with respect to the ready-made garments, the rates have been reduced to 12% from an existing 18.16% which will make them cheaper.

Cab and Taxi rides
Now, taking an Ola or an User will be cheaper because the tax rate has come down to 5% from an earlier 6% for a cab booking made online.

Airline tickets
Under the GST, 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%.

Train Fare
There will not be much of an impact. The effective tax rate has increased from 4.5% to 5% in GST. But, passengers who travels for business trips can claim Input Tax Credit on their rail ticket which can help them to reduce expenses. People travelling by local trains or in the sleeper class will not be affected, but first-class & AC travelers will have to pay more.

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

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

Mutual funds Returns
GST impact on your returns from mutual funds investments will largely be marginal as the GST will be charged on the TER i.e. Total Expense Ratio of a mutual fund. The TER is commonly called as expense ratio of a mutual fund company, and the same is set to go up by 3%. The return what you get as an investor will be reduced to that extent unless the respective mutual fund company i.e. AMC absorbs it but that anyhow will be a marginal difference.

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

Buying a Property
Under construction properties will be cheaper than read-to-move-in properties. The GST rate for an under-construction property is 18% but the effective rate on this kind of property will be around 12% due to input tax credits the builder will avail of.

Education & Medical Facilities
Education and Medical sectors have been kept outside the GST ambit and both the primary education & healthcare is exempt from GST. It means a consumer will not pay any tax for the money you spent on these services. But due to increase in the rate of taxes for certain goods &services as procured by these organisations, they may pass on the additional tax burden to the consumers.

Hotel Stay

For your hotel stay, If your room tariff is less than Rs 1,000, then there will be no GST, but anything above Rs 5,000 will attract 28% tax.

Buying a Car

Most of the cars in the Indian market will become slightly cheaper, except for the hybrid cars because the GST rate will be 28% 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%, 3% or 15 %, depending on the particular car segment.

Mobile Bills

People will have to pay more on mobile phone bills as GST on telecom services is now 18%, as opposed to the earlier tax rate of 15%. However, telecom companies may absorb this 3% rise due to fierce competition.

Restaurant Bills/Eating Out

Your restaurant bill would depend on whether you dined at an AC or Non-AC establishments which do not serve alcohol. Now dining at five-star hotels will be charged at 18% GST rate and the Non-AC restaurants will be charged 12% and a 5% GST will be charged from small hotels, dhobis and restaurants who do not cross an annual turnover of INR 50 Lakh.

IPL & other related events

Events like IPL i.e. sporting events will have a 28% GST rate which is higher than the earlier 20%.rates. This will increase the price of your tickets. 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% GST rate, this is lesser than the earlier tax rate.

DTH and cable services

The money you pay towards your DTH (Direct-To-Home) connections or to your cable operator will reduce a bit as the rate is fixed at 18%, which is lower than the earlier taxes which were comprising of entertainment tax in the range of 10% to 30%, apart from the service tax of 15%.

Amusements Parks

The ticket price for amusement parks and theme parks will increase as the earlier service tax of 15% will become 28% under the GST.

Here's is a list of some items which are completely exempt from the GST regime:

1) The unprocessed cereals, rice & wheat etc.
2) The unprocessed milk, vegetables (fresh), fish, meat, etc.
3) Unbranded Atta, Besan or Maida.
4) Kid's colouring book/drawing books.
5) Sindoor/Bindis, bangles, etc.

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.

These are possible only if the actual benefit of GST is passed on to the final consumer. There are other factors, such as the seller's profit margin, that determines the final price of goods. GST alone does not determine the final price of goods.

1.3 How will GST impact the Indian Economy?

- Reduces tax burden on producers and fosters growth through more production. The current taxation structure, pumped with myriad tax clauses, prevents manufacturers from producing to their optimum capacity and retards growth. GST will take care of this problem by providing tax credit to the manufacturers.
- Different tax barriers, such as check posts and toll plazas, lead to wastage of unpreserved items being transported. This penalty transforms into major costs due to higher needs of buffer stock and warehousing costs. A single taxation system will eliminate this roadblock.
- There will be more transparency in the system as the customers will know exactly how much taxes they are being charged and on what base.
- GST will add to the government revenues by extending the tax base.
- GST will provide credit for the taxes paid by producers in the goods or services chain. This is expected to encourage producers to buy raw material from different registered dealers and is hoped to bring in more vendors and suppliers under the purview of taxation.
- GST will remove the custom duties applicable on exports. The nation's competitiveness in foreign markets will increase on account of lower costs of transaction.

A Brighter Economy

The introduction of the Goods and Services Tax will be a very noteworthy step in the field of indirect tax reforms in India. By merging a large number of Central and State taxes into a single tax, GST is expected to significantly ease double taxation and make taxation overall easy for the industries. For the end customer, the most beneficial will be in terms of reduction in the overall tax burden on goods and services. Introduction of GST will also make Indian products competitive in the domestic and international markets. Last but not least, the GST, because of its transparent character, will be easier to administer. Once implemented, the proposed taxation system holds great promise in terms of sustaining growth for the Indian economy.

Sustainable Development of Goals

The Goods and Service Taxation (GST) policy of India is a step to normalize the taxes applied on various goods and services. This would curb off the cascading effect of the taxes, and in turn bring out a better place for the customers and suppliers. It is expected to have a tax only on the value addition and no business costs for the procurement of inputs, raw material or input services.

When considered for an overall sale and purchase scenario, the amount of indirect taxes applied over the goods throughout the supply chain will reduce, and in turn reducing the cost of goods and services. At present VAT (Value Added Tax) is applied to the goods, which is administered by the state government. Hence, the VAT varies in each state; apart from which there are local taxes and duties that are levied. With the GST being brought in, the prices will be seen to be uniform throughout the country. Under GST, there will be four tax slabs – 5 per cent for essential items, 12 per cent and 18 per cent for standard goods and services, 28 per cent for luxury and sin tax items. The last category will also have an extra besides GST. Most food items will not be taxed at all.

As ascertained that most of the food items will have no tax, people would be able to get food at affordable rates; it may be seen as a step towards reducing hunger among the population of India.

The GST applied by the Indian government, even though proposing uniformity in taxes across the country, have set variable tax rates across various sectors. It is said that GST is the biggest tax overhaul in India after independence. Finance Minister Arun Jaitley after having a two-days meeting with his counterparts across the states, highlighted in one of his statements with the reporters, that there will be tax exempt on the Healthcare and Education services, whilst, luxury services like five-star hotels will be taxed at the rate of about 28%.

The Health and education services getting tax exempt may have a direct positive impact on accomplishing SDG 3: Good Health and well-being; and SDG 4: Quality Education.

The Health and education services getting tax exempt may have a direct positive impact on accomplishing SDG 3: Good Health and well-being; and SDG 4: Quality Education. High taxes laid on telecom, financial services, is likely to slow down the planned rollout of infrastructure, mentioned Rajan Mathews, Director General of Cellular Operators Association of India. The GST may have a negative impact on the SDG 9: Industry, Innovation & Infrastructure which aims to have investments in these fields to in turn improve the economic growth of the country. The UNDP mentions that technological progress is a key to find steady solution towards economic and environmental challenges, for example providing new jobs and promoting energy efficiency. Negative effect on the industry may sequentially effect partially the SDG 7: Affordable & Clean Energy; reducing job opportunities may bring down the effective performance of SDG 8: Decent Work and Economic. If the slowed down industrial growth, is said to effect the investment in scientific research and innovation, its consequence may be reflected on the climatic conditions as well; decelerating the performance of SDG 13: Climate Action.

The GST may have a negative impact on the SDG 9: Industry, Innovation & Infrastructure and hence, partially the SDG 7: Affordable & Clean Energy; reducing job opportunities may bring down the effective performance of SDG 8: Decent Work and Economic.

By the introduction of GST, which has brought the whole country of 1.2 billion population under a single umbrella of taxation policies. Prime Minister Modi’s ideology with GST is to bring in more Foreign Investments as well, by making India a business friendly destination. This maybe a **boost to the partnership goals set by the United Nations in the SDGs, i.e SDG 17.**

Under the consumer rights policies, GST will be having a transparent taxation system. The government is putting efforts to create awareness among people for the proposed GST structure. The MRP based taxation will be eliminated, where earlier the customers were not aware of the break-up of the cost and taxes applied on it. Under GST, multiple taxes will also be eliminated (service tax and VAT), which prevails today.

According to the GST Council meeting held on 18th May, 2017, the government has also introduced ‘compensation cess’ which will be applied to products like tobacco, coal, aerated water, motor cars etc., which will be costing the customers to pay high. Sunil Sinha, chief economist of India Ratings mentioned that the GST implementation would surely be disruptive to the economy, as there are huge changes made in the supply chain; though it may be beneficial in medium to long term.

The GST being applied will be providing various business opportunities. People will have better accessibility to the goods and services. Masses will not be travelling to different states to avoid taxes or save upon it.

2. Conclusion

The rollout has renewed the hope of India’s fiscal reform program regaining momentum and widening the economy. Then again, there are fears of disruption, embedded in what’s perceived as a rushed transition which may not assist the interests of the country. Telco’s are key to India reaching its $5 tn GDP goal by 2024, but level of govt aid may it the larger digital value chain. Committee of secretaries set up to suggest measures to alleviate financial stress in the sector.

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