

# A Study on Impact of GST on Indian Economy

Chirag Rana

Professor, M.Com, LLB.

Adhoc. Professor, Shah N. H. Commerce College Valsad, India

**Abstract:** *Goods and Service Tax is an indirect tax levied on the supply of goods and services. GST Law has replaced many indirect tax laws that previously existed in India's is one indirect tax for the entire country. There are 3 taxes applicable under GST: CGST, SGST & IGST. GST will mainly remove the Cascading effect on the sale of goods and services. Removal of cascading effect will directly impact the cost of goods. This paper gives an understanding about GST in India & its impact on the Indian Economy. The Evolution of GST in India is also discussed in this research paper. The research objectives focus around the evolution of GST, how it works & how different sectors are affected by GST.*

**Keywords:** GST, Goods and services tax, Dual GST, Indian economy and value added tax

## 1. Introduction

The Goods and Services Tax (GST) is a vast concept that simplifies the giant tax structure by supporting and enhancing the economic growth of a country. GST is a comprehensive tax levy on manufacturing, sale and consumption of goods and services at a national level. The Goods and Services Tax Bill or GST Bill, also referred to as The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014, initiates a Value added Tax to be implemented on a national level in India. GST will be an indirect tax at all the stages of production to bring about uniformity in the system. On bringing GST into practice, there would be amalgamation of Central and State taxes into a single tax payment. It would also enhance the position of India in both, domestic as well as international market. At the consumer level, GST would reduce the overall tax burden, which is currently estimated at 25-30%. Under this system, the consumer pays the final tax but an efficient input tax credit system ensures that there is no cascading of taxes- tax on tax paid on inputs that go into manufacture of goods. In order to avoid the payment of multiple taxes such as excise duty and service tax at Central level and VAT at the State level, GST would unify these taxes and create a uniform market throughout the country. Integration of various taxes into a GST system will bring about an effective cross utilization of credits. The current system taxes production, whereas the GST will aim to tax consumption.

## 2. History of GST in India

The first reform process of India's indirect tax regime was started in 1986 by congress government, with the introduction of the Modified Value Added Tax (MODVAT). A single common "Goods and Services Tax (GST)" was proposed and given a go-ahead in 1999 during a meeting between the BJP Government and his economic advisory panel, which included three former RBI governors. After BJP government is set up a committee headed by the Finance Minister of West Bengal, AsimDasgupta to design a GST model. In 2005, the Kelkar committee recommended rolling out GST as suggested by the

12th Finance Commission. In the 2014 Lok Sabha election, the BJP government was elected into power, with the consequential dissolution of the 15th Lok Sabha, the GST Bill – approved by the standing committee for reintroduction – lapsed. After the enactment of various GST law (Constitution 122 Amendment) Bill, 2014) was launched all over India with effect from 01 July 2017 the Jammu and Kashmir state legislature passed its GST act on 7 July 2017. The current Structure of GST is a Central GST, State GST and Integrated GST in India.

## 3. Meaning

### What is GST?

'G' – Goods

'S' – Services

'T' – Tax

"Goods and Service Tax (GST) is a comprehensive tax levy on manufacture, sale and consumption of goods and service at a national level under which no distinction is made between goods and services for levying of tax. It will mostly substitute all indirect taxes levied on goods and services by the Central and State governments in India.

### **Types of GST**

#### **What is CGST?**

#### **CGST full form is Central Goods and Services Tax:-**

CGST refers to the Central GST tax that is levied by the Central Government of India on any transaction of goods and services tax taking place within a state. It is one of the two taxes charged on every intrastate (within one state) transaction, the other one being SGST (or UTGST for Union Territories). CGST replaces all the existing Central taxes including Service Tax, Central Excise Duty, CST, Customs Duty, SAD, etc. The rate of CGST is usually equal to the SGST rate.

**What is SGST?****SGST full form is State Goods and Services Tax:-**

SGST (State GST) is one of the two taxes levied on every intrastate (within one state) transaction of goods and services. The other one is CGST. SGST is levied by the state where the goods are being sold/purchased. It will replace all the existing state taxes including VAT, State Sales Tax, Entertainment Tax, Luxury Tax, Entry Tax, State Cesses and Surcharges on any kind of transaction involving goods and services. The State Government is the sole claimer of the revenue earned under SGST.

**What is IGST?****IGST full form is Integrated Goods and Services Tax:-**

Integrated GST (IGST) is applicable on interstate (between two states) transactions of goods and services, as well as on imports. This tax will be collected by the Central government and will further be distributed among the respective states. IGST is charged when a product or service is moved from one state to another. IGST is in place to ensure that a state has to deal only with the Union government and not with every state separately to settle the interstate tax amounts.

**What is UTGST (or UGST)?****UTGST full form is Union Territory Goods and Services****Tax:-**

The Union Territory Goods and Services Tax, commonly referred to as UTGST, is the GST applicable on the goods and services supply that takes place in any of the five Union Territories of India, including Andaman and Nicobar Islands, Dadra and Nagar Haveli, Chandigarh, Lakshadweep and Daman and Diu. This UTGST will be charged in addition to the Central GST (CGST) explained above. For any transaction of goods/services within a Union Territory: CGST + UTGST. The reason why a separate GST was implemented for the Union Territories is that the common State GST (SGST) cannot be applied in a Union Territory without legislature. Delhi and Puducherry UTs already have their own legislatures, so SGST is applicable to them.

**4. Taxation System in India before GST**

Central Government levied taxes on the following:

- 1) Income Tax: Tax collected on the income of an individual
- 2) Customs duties: Duties collected on the exports and imports of goods
- 3) Service tax: Taxes gathered on various services
- 4) Central excise: Taxes on manufacturing of dutiable Goods  
State Governments levied the following taxes:
- 5) Value Added Tax (VAT): Sales of goods involve the particular tax. The sales of the goods in intrastate are recovered by the VAT Law of that state, whereas those among the inter-state is levied by the Central Sales Tax Act.

**Positive Impact of GST in India**

- GST will add to the government revenues by extending the tax base. All indirect taxes will come under one roof.

- It will curb circulation of black money. This can happen only if the “kacha bill” system, normally followed by traders and shopkeepers is put to check.
- GST will create corruption free environment in the country.
- 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.

**Negative impact of GST in India**

- The number of GST returns that each firm has to file are quite high which requires ample staff for maintaining the documents.
- For effective implementation of GST, tax administration staff – both at central and state levels – would require to be trained properly in terms of concept, legislation and procedure.
- Being a new tax, it will take some time for the people to understand it completely.
- It is a consumption based tax, so in case of services the place where service is provided needs to be determined.
- Proper invoicing and accounting needs to be done to ensure better compliance.

**5. Literature Review**

**World Bank (2018)** and all other research study on “GST in India” concluded that the Indian GST system is among the most complicated ones in the world, with its high tax rates and a larger number of tax rates and negative impact on its economy.

**Rathod M (2017)** in his paper “An Overview of Goods and Service Tax (GST) In India” concludes that GST will be a step towards a developed India benefiting too many parties and entire nation.

**Nitin Kumar (2014)** mentioned in his research paper that implementation of GST will try to remove all the shortcomings of present tax structure in India in his research paper “Goods and Service Tax in India-A Way Forward”

**Monika Sehrawat and Upasana Dhanda (2015)** in “GST in India: A key tax reform” concluded that introduction of GST will undoubtedly boost the Indian economy but focus should be given on rational design of GST model and timely implementation.

**6. Research Methodology**

This study is descriptive in nature because here we have explained the probable impact of GST on different sectors. For this secondary data has been collected through different articles, research papers and reports published about GST. So this study highlights opportunities and challenges going to occur to different sectors due to GST.

### 6.1 Objectives of the Study

- To study the positive and negative impact of GST on Indian Economy.
- To study about Goods and Service Tax and its impact on the economy.

### 6.2 Data Collection

This paper is a descriptive paper based on secondary data collected from different books, news-paper articles and research journals.

### 6.3 Effect of GST on Different Sector of Economy

#### Effect on economic activity

It's difficult and too early to evaluate whether or not GST has positively affected economic activity. The Indian government, however, believes that they are on the right track with GST. At least one Indian business executive shares this optimistic view of GST. In a report by The Indian Express, ICICI Bank CEO Chanda Kocher was quoted to have said that GST is a transformational structural reform which has multiple benefits. These benefits include the establishment of a national market, improved ease of doing business in India, better productivity and efficiency, and improved compliance among taxpayers. GST's impact on the Indian economy can go either way: good or not so good. Fortunately, there aren't that many analysts who express damningly averse views on the matter. With honest and efficient administration, GST may be a good move for the world's third largest economy.

#### Impact of GST on Automobile Sector Earlier

The Automobile industry was paying a tax rate of a range between 30-45%. But after implementation of GST, the rate is fixed at 18% which will positive impact this sector & which will be profitable to both the Manufacturers/ dealers and the ultimate consumers. The standard and the social status of the consumers get uplifted. There is a huge boom in the Automobile Industry as a result of implementation of Goods and Services Tax. It is now done that the industry will get benefits out of GST with minimum hassle-free procedures and rate fixation across the nation.

#### Effect on consumer goods and service

When it comes to consumer goods and services, the main concerns are food and the services sector. For these, the GST brings good and not so good news. The good news is that food products are charged 0%. The not so good news is that services in general are seeing an increase of 18% from 15%. On the other hand, the implementation of GST increases the tax on footwear and garments priced at INR 500 from the previous 14.41% to 18% but those priced lower than INR 500 are taxed lower at 5%. For ready-made garments, the rates are lowered to 12% from 18.16%. Mobile services rates are slightly increased, though, because of the new 18% rate, from 15% before. When it comes to direct-to-home and cable services, the new fixed rate of 18% can be considered a

general reduction as compared to the previous 10%-30% range and the additional service tax of 15%.

#### Effect on inflation

Given the sampling of effects mentioned earlier, it can be said that GST is mostly viewed as an inflationary measure. However, the Indian government believes otherwise. Hasmukh Adhia, Revenue Secretary, says that consumer price inflation with GST implemented will go down by 2% by the end of 2017. Naturally, not many are convinced by this claim. The fact that the tax rate on services has been raised to 18% from around 15% is already expected to raise inflation above levels experienced before the institution of GST.

#### Effect on Textile Industries

The GST on job work for textiles and textile products has been reduced to 5% from 18%. Other impact of GST on textile industry is input tax credit, which is not allowed if a registered taxpayer procures the inputs from composition scheme taxpayers or the unorganized sector. It is available for the tax paid on capital goods.

#### Effect on startups

The GST regime is believed to be good for the Indian startup sector as it carries with it tax credit on purchases, a simple compliance model, increased limits for registration, and the ability to promote the free flow of goods and services. It takes away the complication and confusion of the previous VAT laws, especially for those in the ecommerce industry. GST may stir inflation but there's the optimistic view that the undesirable effects will not last long, and will eventually be offset by the positive impact of an improving economy.

#### Impact of GST on Telecom Sector

Goods and Services Tax or GST has been implemented, the GST on telecommunication services are taxed at 18%, which is higher than rates charged earlier. It will affect the budget of common man.

## 7. Conclusion

Efficiency & equity in the economy can be brought by proper taxation system in the country. While comparing challenges with its positive and negative, it is clearly visible that its positive impact are more compared to challenges. A good tax system should focus on income distribution as well as generate revenues to government. To Implementing GST is to maintain simplicity and transparency in taxation system. GST will give Indian economy a strong and smart tax system for economic development. But for gaining those benefits country will need to build strong mechanism. The objective GST is to replace VAT; GST will be solving all the complexities present in the current indirect tax system. It will be giving relief to various parties like consumers, producers and Government.

## **References**

### **Journals**

- [1] World Bank, (2018) “GST: India” published by WB, Washington, USA.
- [2] Rathod, M. (2017). An Overview of Goods and Service Tax (GST) In India. Journal of Commerce and Management.
- [3] Palil, M.R. &Ibrahim, M.A.(2011). The Impacts of Goods and Services Tax (GST) on Middle Income Earners in Malaysia. World Review of Business Research, 1(3), 192-206.
- [4] KPMG. (2011). Economic Analysis of the Impacts of Using GST to Reform Taxes. CPA Australia, (September), 54
- [5] Chadha, R. (2009). Moving to Goods and Services Tax in India: Impact on India’s Growth and International Trade. National Council of Applied Economic Research.

### **Website**

- [6] [www.tradingeconomics.com](http://www.tradingeconomics.com). retrieved Mar12, 2018.
- [7] [www.economicstimes.com](http://www.economicstimes.com).retrieved Mar08, 2018.
- [8] [www.saginfotech.com](http://www.saginfotech.com)
- [9] [www.economictimes.indiatimes.com](http://www.economictimes.indiatimes.com)
- [10] [www.gstindia.com](http://www.gstindia.com)
- [11] [www.clearatax.in](http://www.clearatax.in)
- [12] [www.taxmantra.com](http://www.taxmantra.com)