Vol. 6 No. 1 December 2017 ISSN: 2319-961X UGC Approval No: 44192 Impact Factor: 3.104

IMPACT OF GST ON INDIAN ECONOMY

Article Particulars

Received: 15.10.2017 Accepted: 20.11.2017 Published: 23.12.2017

Dr.S.RAMAMOORTHY
Associate Professor, Department of Economics
N.M.S.S.Vellaichamy Nadar College, Nagamalai, Madurai

Abstract

The Goods and Services Tax, or GST, is predicted to have a significant impact on the Indian economy. The Goods and Services Tax (GST) is one of India's most significant and long-awaited tax reforms. It is a game-changing reform for the Indian economy since it creates a single Indian market and reduces the cascading effect of taxes on the cost of goods and services. It's also known as the country's large indirect tax structure, which is intended to boost and stimulate economic growth. GST is expected to be implemented not just in the country, but also in adjacent countries and developed economies around the world. It would be interesting to learn why the planned GST regime could stifle the country's growth and development.

Keywords: *FASB, IASB, Dynamics, Goods and Service Tax, Indian Economy*

Introduction

On September 8, 2016, India's President approved the Goods and Services Tax (GST) Constitution Amendment Bill. GST is an indirect tax for the entire country that aims to unite India into a single market. It is a tax levied on the sale, manufacture, and consumption of products and services. It is a single tax levied on the supply of products and services from the maker to the consumer. The credits for input taxes paid at each level will be accessible in the succeeding stage of value addition, effectively making GST a tax on the value addition at each stage. Only the tax levied by the last dealer in the supply chain will be passed on to the final consumers, together with the benefits earned at all previous stages.

It is levied at identical rates at the national and state levels for the same products, and it largely replaces the current indirect taxes levied separately by the Centre and the States. The Goods and Services Tax is a destination-based tax, meaning it is collected at the point of sale.

Need of GST in India

- The mechanisms for imposing taxes, exemptions, abatements, and other advantages differ between the states and the federal government.
- With the benefit of input credit, India requires a comprehensive levy and collection of both commodities and services at the same rate.

- Existing law has resulted in a substantial number of challenges relating to interpretation, product categories, and service nature.
- The Goods and Services Tax (GST) will promote exports. Indian goods and services will be more price competitive in overseas markets as the cost of manufacturing reduces in the home market.
- A simplified tax structure can encourage increased compliance, resulting in an increase in the number of tax payers and, as a result, government tax revenues.

Challenges for GST in India

- Bills are not being passed in the Rajya Sabha because the Central Government does not have a sufficient majority.
- Threshold Limit in GST — In order to achieve a broad-based tax structure under GST, both the authorised committee and the Central Government must ensure that the reduction of the threshold limit does not impose a "taxing" burden on small business owners in the country.
- State consent - In order to execute, the GST law must be passed by the appropriate state government in state assembly with a majority vote.

Salient Features of GST

- The central government will retain the authority to enact rules governing supplies made in the course of interstate trade or commerce. States will be able to charge GST on intrastate transactions, including services.
- The GST Council, which would be the ultimate policy-making body for GST, will be in charge of its administration. The GST Council will be made up of finance ministers from the federal and state governments.
- A turnover of Rs. 1 million triggers the imposition of GST. The threshold for a taxpayer doing business in a northeastern Indian state is Rs. 500,000.
- The IGST will be levied by the central government on inter-state supplies of goods and services. Basic customs duty and IGST will apply to items imported.
- GST refers to any tax imposed on the supply of goods and services (other than on alcohol for human consumption).
- Central taxes including central excise duty, additional excise duty, service tax, additional custom duty, and special additional duty, as well as state-level taxes like VAT or sales tax, central sales tax, entertainment tax, entry tax, purchase tax, luxury tax, and octroi, would all be rolled into GST.
- There would be a measure created to eliminate the enforcement of entry tax/octroi across India.
- Entertainment taxes levied by states on movies, theatres, and other forms of entertainment will be absorbed into GST, while entertainment taxes imposed at the panchayat, municipality, or district level would remain in place.

- Stamp duties, which are normally charged by states on legal agreements, will continue to be enforced.

The following are some of the key advantages of GST:

- It provides a larger tax base, which is necessary for lowering tax rates and eliminating classification disputes;
- It eliminates multiple taxes and their cascading effects;
- It rationalises the tax structure and simplifies compliance procedures; and
- It automates compliance procedures to reduce errors and increase efficiency.

Impact on GST

Reduce the tax burden on producers and encourage additional production to promote growth. This double taxation stops manufacturers from operating at full capacity, stifling growth. The manufacturer would receive a tax credit under GST, which would solve this situation.

Various tax barriers, like as checkpoints and toll plazas, result in a significant amount of wastage for perishable commodities being transported, a loss that translated into significant expenses in the form of higher buffer stock requirements and warehousing costs. For them, a single taxation system might remove this stumbling obstacle.

Producers would pay a single tax, which would result in a cheaper ultimate selling price for consumers. Customers will know exactly how much tax they are being charged and on what basis, resulting in greater system openness.

GST allows producers to claim credits for taxes paid earlier in the goods/services chain.

This would incentivize these firms to purchase raw materials from a variety of registered dealers, bringing in an increasing number of vendors and suppliers under taxation.

Food Industry

The imposition of GST on food goods will have a substantial impact on people living on a low income. However, a complete exemption for food goods would significantly reduce the tax base. Grains and cereals, meat, fish, and poultry, milk and dairy products, fruits and vegetables, confectionery and confectionary, snacks, ready-to-eat meals, restaurant meals, and beverages are all examples of food. Even if the food is subject to GST, due to the small company registration threshold, such sales would be primarily excluded. Given the CENVAT exemption for food and the 4% VAT on food items, a single-rate GST would result in a doubling of the tax burden on food.

Housing and Construction Industry

The building and housing sectors in India must be included in the GST tax base since they contribute significantly to the national economy.

FMCG Sector

Despite the slowing economy, India's Fast Moving Consumer Goods (FMCG) industry has risen steadily over the last three to four years, reaching a retail sales value of $25 billion in 2008. The proposed GST and the openness of Foreign Direct Investment (F.D.I.) are expected to stimulate the industry's growth and increase its size to $95 billion by 2018.

Rail Sector

There has been talk of bringing the rail sector under the GST umbrella in order to achieve major tax benefits and broaden the tax net while keeping the overall GST rate low. This will have the extra benefit of allowing all interstate goods traffic to be tracked via the proposed information technology (IT) network.

Financial Services

The majority of countries do not levy GST on financial services. In New Zealand, for example, most services are subject to GST, with the exception of financial services. India has taken the route of putting nearly all financial services under the scope of the service tax, where payment is made in the form of an explicit fee. Financial services are also included in the GST, but only for the reasons stated above.

Information Technology Enabled Services

To keep up with best international standards, domestic software sales should be subject to G.S.T. based on the manner of transaction. As a result, if software is distributed in an electronic format, it should be treated as intellectual property and treated as a service. If the programme is distributed on media or any other physical object, it should be considered goods and subject to GST.

Impact on Small Enterprises

In the GST system, there will be three types of small businesses. Those who do not meet the criteria are not required to register for GST. Those with turnovers between the threshold and composition will have the choice of paying a turnover-based tax or opting into the GST system. Those who exceed the threshold limit must comply with the GST structure. Various dealers may have obligations as a result of possible downward revisions in the threshold as a result of the adoption of GST in some states. In this instance, a great deal of aid is required.

The situation is slightly more complicated when it comes to the Central GST. Excise exemptions of up to Rs. 1.5 crore are available to small scale manufacturers of specified commodities. These businesses may be forced to register for GST and consider it an additional expenditure.

Benefits of GST

For Business and Industry

- Easy complaints
- Cascading/double taxation
- removal/mitigation
- Increased competitiveness

For Central and State Governments

- Simple and easy to operate
- Improved leakage control
- Consolidation of the tax base
- Increased revenue efficiency and collections

For the Consumer

- Price reductions
- Increase in real income and purchasing power
- Single and transparent tax proportionate to the value of goods and services

Other Benefits

- The tax system will be made lean and straightforward.
- The average tax burden on businesses will decrease, lowering the cost of Indian goods and services on the global market and boosting exports.
- It can help with seamless cross-state movement of goods and lower corporate transaction costs.
- It is beneficial to EOUs because it does not apply to goods and services exported outside of India.
- State-by-state uniform tax rates

The GST Rate among the Asian Countries

Countries	Year of Implementation	Initial rate	Current rate
Indonesia	1984	10	10
Thailand	1972	10	10
Singapore	1993	03	07
Phillippines	1998	10	12
Cambodia	1999	10	10
Vietnam	1999	10	10
Laos	2000	10	10

Impacts of GST

- The GST council has approved the rates for all commodities and main service categories under several tax slabs after much consideration, and the GST is expected to close loopholes in the current system while also boosting the Indian economy.
- For various goods and services, the GST tax rates are 0 percent, 5 percent, 12 percent, 18 percent, and 28 percent.
- Almost 50% of goods and services come under 18% of tax rate.

Impact of GST on Indian Economy

- GST is a superior tax system. It is less bureaucratic, more transparent, efficient, effective, and self-policing. Under the current SST, the GST would eliminate double taxation. In comparison to SST, consumers will pay reasonable prices on most goods and services.
- As a result, Malaysian exporters will be more competitive in the global market because there will be no GST on goods and services exported. This would improve our export sector, contributing to the country's economic progress.
- To make our exports more competitive, the GST on exports will be zero-rated, and the exporter will be able to reclaim all input taxes paid over the course of their business.
- Unless exempted, imported items are currently subject to import duty and sales tax. Imported goods will continue to be subject to import duty under GST, but sales tax will be substituted by GST. Apart from the GST rate, a lot of factors will determine whether imported items would be cheaper or more expensive.

There will be a Positive Impact on the Indian Economy Due to the Following

- Cost-cutting in the business.
- A unique plan to help with cash flow issues.
- Mechanism for credit offset.
- Can claim the due input tax on the basis of the invoice.
- This will result in more competitive pricing.
- India's economic unity should be accelerated.
- By replacing the cascade effect (tax on tax) generated by existing indirect taxes with better compliance and revenue buoyancy, tax incidence for consumers may diminish, resulting in lower transaction costs for ultimate consumers.
- Because exports are zero-rated, it makes our exports more competitive.
- Gross domestic product (GDP) growth.
- By combining all taxes on products and services into one, the GST becomes incredibly straightforward and transparent.
- Reduce the amount of money spent on illegal activities.

- Uniformity in taxation, with only one or two tax rates applied across supply chains, rather of the current various tax structures.
- It is a tool for managing the economy, such as the tourist reimbursement system, which is offered as a way to enhance the tourism industry and tourism spending in the country, and zero-based exports to make our goods more competitive globally.
- Increased tax revenue due to the broad scope of goods and services covered; improved tax competitiveness of goods and services on the worldwide market.

Conclusion

The purpose of the Products and Service Tax (GST) is to eliminate the cascading effects of taxes on the cost of goods and services production and delivery. The elimination of cascading effects, i.e. tax on tax, will greatly increase the market competitiveness of original goods and services, resulting in a positive influence on the country's GDP development. It is the government's responsibility to address capacity building among the less well-off participants as a top priority. GST would only become nice and simple if the entire country works together to make it a success. Since more than 140 countries have implemented GST at the same time, the government should try to protect India's large poor population from the probable inflation caused by GST implementation. Finally, we can claim that it is without a doubt the most significant shift in India's tax structure. Some commodities will see a decrease in price, while the cost of other items and services will increase. Inflation is also a possibility, and states' financial resources may be drained. Overall, however, it will be a fantastic adjustment.

References

1. R. Garg. Impact of GST on Indian Economy, *Retail.com*, 2016.
2. GST Impact across Sectors: Take a look at the Winners and Losers, *The Economic Times*, 2016.
3. M. Kour, K. Chaudhary, S. Singh and B. Kaur. A Study on Impact of GST after Its Implementation, *International Journal of Innovative Studies in Sociology and Humanities*, 1(2), 2016, 17-24.
4. N. Gupta. Goods and Service Tax: It's Impact on Indian Economy, *International Research Journal of Commerce Arts and Science*, 5(3), 2014, 126-133.
5. A.M. Mussaiyib. Goods and Services Tax in India: An Insight, *International Journal of Research and Innovation in Applied Science*, 1(7), 2016, 10-15.