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GST: A Step towards Strengthening Indian Economy

Anurag Singh Parihar[1], Dr.Pramod Kumar Singh[2], Sachin Kumar Singh[3]

[1]*Faculty of Commerce, Vindhya Institute of Management & Science, Satna, A.P.S. Univ., Rewa (M.P.), India*

[2]*Faculty of Tourism Management, S.G.S. Govt. Autonomous P.G. College, Sidhi, A.P.S. Univ., Rewa (M.P.), India*

[3]*Faculty of Commerce, S.G.S. Govt. Autonomous P.G. College, Sidhi, A.P.S. Univ., Rewa (M.P.), India*

Abstract:

The Goods and Services Tax is a reform designed to create an ecosystem where free and fair competition can thrive. The state and centre in unison decided to pool in their resource and sovereignty to create this fiscal consolidation for the common goal of economic prosperity. India's first federal institution, the GST reform does away with the old multilayer arbitrary tax scheme, making it easier to administer taxes while making revenue collection more efficient.The idea of Goods & Services Tax (GST) was contemplated in 2004 by the Task Force, named Kelkar Committee, on the implementation of Fiscal Responsibility and Budget Management Act, 2003 in India. This Committee was convinced that a dual GST system shall be able to tax all the goods and services in Indian Economy. It will be helpful to cover wider market of tax base system and also help to improve revenue collection through levying and collection of indirect tax. According to GST, every person is liable to pay tax on output and tax will be applied only on value added amount. GST consider the principle of "one nation, one tax and one market." GST exists in more than 160 countries of the world. It will help to improve the productivity in the country as well as benefited to the consumers because as maximum rate of GST is predetermined. It helps to avoid double taxation system, tax evasion etc. Government proposed State GST as well as Central GST. State GST includes sales tax/ VAT which are collected by states and Central GST includes excise duty, custom duty, service tax etc. which are imposed by Central Government. In GST, goods and services rates classified under different five categories of taxes: - 0%, 5%, 12%, 18% and 28%.However, petroleum products, alcoholic drinks, and electricity are not taxed under GST and instead are taxed separately by the individual state governments, as per the previous tax system. There is a special rate of 0.25% on rough precious and semi-precious stones and 3% on gold. In addition a cess of 22% or other rates on top of 28% GST applies on few items like aerated drinks, luxury cars and tobacco products. Pre-GST, the statutory tax rate for most goods was about 26.5%, Post-GST, most goods are expected to be in the 18% tax range.The GST bill was implemented in India from 1st April 2017. In this particular research paper we discuss about probable pros and cons of GST system in Indian context and positive and negative impact of GST on businesses and Indian Economy.

Keywords:GST, Economy, Tax System, Impact of GST

Introduction:

The President of India approved the Constitution Amendment Bill for Goods and Services Tax (GST) on 8 September 2016, following the bill's passage in the Indian parliament and its ratification by more than 50% of state legislatures. This law will replace all indirect taxes levied on goods and services by the central government and state government and implement GST by April 2017. The implementation of GST will have a far-reaching impact on almost all the aspects of the business operations in India. With more than 140 countries now adopting some form of GST, India has long been a stand-out exception.

GST is a value-added tax levied at all points in the supply chain, with credit allowed for any tax paid on input acquired for use in making the supply. It would apply to both goods and services in a comprehensive manner, with exemptions restricted to a minimum.In keeping with the federal structure of India, it is proposed that the GST will be levied concurrently by the central government (CGST) and the state government (SGST). It is expected that the base and other essential design features would be common between CGST and SGSTs for individual states. The inter-state supplies within India would attract an integrated GST (IGST), which is the aggregate of CGST and the SGST of the destination state.

The following are the salient features of the proposed GST system:

- The power to make laws in respect of supplies in the course of inter-state trade or commerce will remain with the central government. The states will have the right to levy GST on intrastate transactions, including on services.
- The administration of GST will be the responsibility of the GST Council, which will be the apex policy-making body for GST. Members of GST Council will comprise central and state ministers in charge of the finance portfolio.
- The threshold for levy of GST is a turnover of Rs. 1 million. For a taxpayer who conducts business in a north-eastern state of India the threshold is Rs. 500,000.
- The central government will levy IGST on inter-state supply of goods and services. Import of goods will be subject to basic customs duty and IGST.
- Central taxes such as central excise duty, additional excise duty, service tax, additional custom duty and special additional duty, as well as state-level taxes such as VAT or sales tax, central sales tax, entertainment tax, entry tax, purchase tax, luxury tax and octroi will be subsumed in GST.
- Entertainment tax, imposed by states on movies, theatre, etc., will be subsumed in GST, but taxes on entertainment at panchayat, municipality or district level will continue.
- Stamp duties, typically imposed on legal agreements by states, will continue to be levied.
- Offers a wider tax base, necessary for lowering tax rates and eliminating classification disputes

GST would be levied on the basis of the destination principle. Exports would be zero-rated, and imports would attract tax in the same manner as domestic goods and services. In addition to the IGST in respect of supply of goods, an additional tax of up to 1% has been proposed to be levied by the central government. The revenue from this tax is to be assigned to the origin states. This tax is proposed to be levied for the first two years or a longer period, as recommended by the GST Council.With GST, it is anticipated that the tax base will be comprehensive, as virtually all goods and services will be taxable, with minimum exemptions. GST would bring in a modern tax system to ensure efficient and effective tax administration. It will bring in greater transparency and strengthen monitoring, thus making tax evasion difficult. While the process of implementation of GST unfolds in the next few months, it is important for industry to understand the impact and opportunities offered by this reform. GST will affect all industries, irrespective of the sector. It will impact the entire value chain of operations, namely procurement, manufacturing, distribution, warehousing, sales and pricing.

Objective of the study:

1- *To identify the economic consequences of GST in India.*
2- *To find out the anticipated barriers and future predictions for GST.*
3- *To study the positive and negative impact of GST on Indian economy*

Research Methodology:

The paper is based on secondary sources of data, which have been obtained from various GST implementation discussion papers, published article in journals, web articles (internet sources), past studies and newspaper etc. With the help of these secondary sources, attempt has been made to find the obstacles coming on the way of GST and looking for future opportunities of it in India

GST in India:

In India, GST was first time introduced on 28th February 2006 in the Budget Speech of the year 2006-07 by Finance Minister Sh. P. Chidambaram. A message was left by the Finance Minister in the Union Budget 2007-08 that GST will be introduced with effect from 1st April 2010. Central and State Governments will be work together to prepare a roadmap for the introduction of GST in India. They planned to introduce GST or “replacing the previous VAT and Service Tax” on 1st April 2010, but some of the States were not ready to implement the GST. After that on 1st April 2012, again Government was going to introduce GST, but due to some management and infrastructure problems it was not introduced. Finance Minister ArunJaitley introduced the 122nd Constitution Amendment Bill in Parliament and intends to implement GST reform by 1st April 2016.

Economic consequences of GST in India:

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.

- The registration of GST will create a unified market. This will help in the facilitation of seamless movement of goods to different states of India and reduce the transaction cost of businesses.
- Under GST regime the burden of taxation will be allocated fairly between manufacturing and services via lower tax rates resulting in increased tax base and minimized exemptions.
- It is expected to remove the cascading effects of taxes and help in establishing of common national market.
- Increased investments in manufacturing sectors and reduced cost will result in increased volume of exports.

Anticipated barriers for GST:

The results of analysis found that lack of skilled manpower, lack of clarity of GST provisions, political unwillingness, and lack of policy for proper division of tax are the major barriers in the implementation of GST.

- The most evident issue is the exemptions of key sectors such as electricity, diesel, petrol, crude oil and real estate. These exemptions may not be able to reduce the cascading effect of indirect taxes as expected.
- Though transitional phase also faces roadblocks as well as lack of clarity till it reaches final implementation. There are few blind spots which need to be uncovered so that 4 the benefits trickle down to every sector of the economy. One such is the dual structure. A strong mechanism is needed to monitor the tax levied on the origin state till the destination stage. It is essential that the tax payer should feel burden with zealous taxes and his cash flow is uninterrupted.
- There are panels expected to overcome these few hitches, however only time and effective implementation would help the nation to reap the benefits of unifying tax structure.

Future Predictions for GST:

Sales Tax Rate in India is expected to reach 18% by the end of 2020, according to Trading Economics global macro models and analysts' expectations. In the long-term, the India Sales Tax Rate - GST is projected to trend around 18% in 2021, according to our econometric models.

Positive Impact of GST in Indian Economy:

- **Increase in Foreign Investment-** With GST, India is now a unified market and the foreign investment has increased in India. The goods that are manufactured within India because of their reduced costs have become more competitive in international market leading to growth in export. The implementation of Goods & Services tax puts India in the line of international tax standards, making it easier for Indian businesses to sell in the global market.
- **Fewer Tax-** GST has two constituents: The central GST and the State GST. The Central GST will replace - Service Tax, Central Excise Duty, and Custom Duty etc. The State GST will replace - State VAT, Central Sales Tax, Tax on Advertisements, Luxury Tax, Purchase Tax, Entertainment Tax etc. Before GST, there were so many taxes and now they have replaced all these taxes and duties with Central GST and State GST.
- **Reduce the cost of doing business-** GST has changed VAT all over India. Now we do not need to pay different amounts of taxes in different states. It is one tax system for all states of India and so we have already got rid of various taxes and duties on our businesses.
- **Transparency-** The tax administration has started working corruption free. Also enabling sales invoices to show the tax applied has resulted in transparency.

Negative Impact of GST in Indian Economy:

- **Dual Control -** GST is being referred to as a single taxation system but in reality it is a dual tax because both the state and centre both will collect separate tax on a single transaction of sale and service.
- **Incumbent increase of the cost of some commodities -** The tax rate has been increased for many products, thus increasing their costs.
- **Some sector are at a loss-** Sectors like Textile, Media, Pharma, Dairy Products, IT and Telecom are bearing the brunt of a higher tax. Also the price of commodities has increased like jewellery, mobile phones and credit cards.
- **Real Estate Market affected -** Economists are of the opinion that GST in India has already had a negative impact on the real estate market. It has added up to 8% to the cost of new homes and reduced demand by about 12%.

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GST Revenue Drivers and Collection Amounts:

GST revenues continue to rise, owing to the number of registered taxpayers and improved compliance with more returns being filed. This is facilitated by the implementation of anti-tax evasion measures such as e-Way Bill, reverse charge mechanism and the much-anticipated system of invoice matching expected to be put into action by end of 2018.GST collections peaked in April 2018 at Rs 1.03 lakh crores. This is much higher than the monthly average GST collection in the last financial year of Rs 89,885 crores.

Economic Impact:

Tax regime has become convenient reducing duplication and multiplicity of tax filings creating ease of doing business. From a macro-economic perspective, the government and industry expected that the GST would be instrumental in reducing economic distortions, which in turn, would provide necessary impetus to economic growth.

The Ministry of Statistics and Programme Implementation has declared India's GDP growth to be 7.7% in 2017-18 compared to 7.1% in 2016-17. After the initial phase of GST implementation, marginal improvement was expected given the scale of changes in business and tax administration that it got along. However, this increase is expected to be temporary and GDP is projected to settle back in the range of 7% to 7.5% in 2018-19 due to reduction in initial ambiguities.

Conclusion:

With the GST journey on the move, the government has been proactively involved in resolving issues faced by the Indian taxpayers. There are still gaps between expectation and actual implementation of the GST in terms of a simplified tax structure, ease of doing business and overall reduction in prices. But there has definitely been an overall positive impact in terms of macro-economic growth and digitalization in the tax system.

India's historic and bold move towards integrated tax structure is viewed by most economists as an answer to regressive indirect tax structure. It is believed that GST would put India's indirect tax structure at par with more than 140 countries and would be productive for all the sectors. Implementation of such reforms does face surmountable challenges; however this is expected to bring in benefits in the form of higher GDP and also transparency in the tax system. The GST would be imposed on the value –addition and thus would leave lesser scope for tax evasion

From the above description, we can say no doubt that GST is the biggest ever change in tax structure of India. GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. It is leviable on all supply of goods and provision of services as well combination thereof. All sectors of economy whether the industry, business including Government departments and service sector shall have to bear impact of GST. As a result, there is a fall in prices of some items like Auto Commercial Vehicle, Two wheelers, Small cars, Midsized cars and SUV, essential items, Footwear, Building Materials etc., but on the other hand, price of some other goods and services hiked after GST like Hotel room rental, Restaurants & fine dining and Branded Apparels etc. Implementation of GST leads to gain in GDP, exports and growth of the economy.

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