

GST VIS-À-VIS EFFECT ON INDIAN ECONOMY.

Dr. Dipti Gala

B. Com, LL.M. , Ph.D.
Assistant Professor II
Amity Law School
Amity University, Mumbai, India

Abstract: the research paper is regarding GST vis-à-vis Effect on Indian Economy, The brief introduction and history about the GST, implementation of GST as created a hurly-burly among the people. The main aim of this paper is to clarify interpretation of GST system, illustrate and explain and making it simple to be understood even by a common man and the impact of GST on the Indian Economy. By implementing GST that is goods and service tax, this will benefit the government and consumer. The research paper also states about the challenges faced by application of the GST. The impact of GST in the short term and the long term as well the effects on various sectors are mentioned in the paper. In the long run GST is 100 percent going to be helpful for the growth of Indian Economy.

1. INTRODUCTION

GST means goods and services Tax. GST denotes that the nation is one, market is also one and therefore common tax on all kinds of goods and services. GST was initially introduced in France in the year 1954 and later on thereafter in the various other countries such as to name a few Japan, South Korea, Australia and many more applied the same in their respective countries. In India GST was implemented with effect from 1 July 2017. GST is the indirect tax levied on manufacture, sale as well as consumption of not only goods but also of services at the national level. GST is the replacement of various indirect taxes which were levied on goods and services to name a few Excise duty, VAT, Service etc. GST is levied and applicable all over India on trading of goods and services. By implementation of the GST there will be removal of the internal tariff barriers as GST merges the central, state as well as local tax under one head. The goods and services which are subject to GST have been divided under four tax slots. The bifurcations of goods and services are put according to the percentage of GST applicable or levied on them, the slots are 5%, 12%, 18%, and 28%.

The Types of GST are as follows:

- CGST stands for Central Goods and services tax.
- SGST denotes State Goods and services tax.
- IGST means for an Integrated Goods and services tax.
- UTGST stands for Union Territory Goods and Service Tax

Reasons for Introducing GST in India:

The contribution of the service sector in the Indian Economy is almost about 56%. The main reason of implementing the GST was to reduce the burden of tax on not only consumers but also on companies. In the system which prevailed earlier in India was multiple taxing added at every stage of the supply chain till it finally reaches to the consumer's, without the deduction of the taxes already paid at the previous stages. At the end there was no possibility of clear distinction between the actual cost and the taxes levied as well as paid on the goods purchased and the services availed by the consumer. The structure of the tax was also not simple.

The below given are the various features of the GST:

- GST mainly has two components, they are Central GST levied by the Central Government and the State Government levy's the State GST with regards to their respective states.
- The main products under the purview of GST are petroleum products, alcohol for human consumption and tobacco.
- The consumer who buys the goods and avails the services are the final and last dealer in the supply chain and they will have the burden of only single levied tax i.e. GST.
- The revenue in the form of tax collected under the GST system will be distributed between the centre and the state as specified and stated by the parliament, as suggested and directed by the GST Council.

GST Registration

GST registration is compulsory for all the company's, firms, sole proprietors that are doing the business of manufacturing, trading or in any other way are dealing with the supply of goods and service throughout India. The procedure for GST registration is simple and easy.

Benefits and Challenges to GST

Benefits of GST;

- There is fewer tax filings.
- The rules have become transparent.
- There is now easy book keeping
- Consumers will also benefit as they have to pay less for goods and services.
- Government will also be benefited as there would be more revenue generation as revenue leaks are plugged.

- Introducing GST and removal of the system of multiple taxation.
- Removal of overlapping of tax, payment of tax on tax effect.
- Increase in not only output but also in demand and supply of goods and services.
- Decrease in overall costs because of reduction in burden of taxes.
- Reduction of burden of taxes on the consumer, who is the final tax payer in the chain.
- Stoppage and prevention of circulation of the black money as GST would keep check, monitor and control the system which is usually followed by the traders and the shopkeepers.
- Extended tax base and resulting into increase in revenue of the government.

1. **GST and increase competitiveness**

The overall sum total component is about 25-30% of the cost of the product as far as the retail price of the manufactured goods and services are concerned in India. Later on after the implementation of the GST, the prices have considerably gone down, and the burden of tax payment on the goods purchased and the services availed by the final consumer has been reduced. Simultaneously there also the possibility of increase in production, hence there is increase in competition in the market.

2. **Structure of Tax is simple.**

Computation of taxes under GST is easy and simple. GST is single tax levied rather than multiple taxes levied at the various stages of supply chain. This helps in saving not only money but also time.

3. **There would be Uniformity in Tax Regime**

GST has made simpler the computation and payment of taxes for the tax payers as it just one single tax system. Prior to implementation of GST there multiple taxes levied and paid at each stage of supply chain, being multiple taxes the system was complicated and also led to confusion to the tax payers at the various stages in the chain and this was disadvantageous and will also lead to less tax revenue income of the state.

4. **Greater Tax Revenues would be generated**

GST being a single tax structured us help to the tax payer to calculate easily and make the payment of the tax, this would ultimately increase the number of tax payers and which will result into increase in tax revenues collected by the state. In short, to specify that the simple structure of GST would indirectly encourage more and more people to pay taxes and do the compliance of the norms set for the payment of taxes on sale of goods and services, which is expected to widen the base of tax. GST will be great addition to revenue of the states.

5. **Economic Union of India**

After the implementation of GST taxing system there is easy and free transportation of the goods and services from one state to another. Goods are transported freely throughout the country. All the businesses will be benefited because of free movement of goods all over India. This would result into ultimate encouragement to increase the production and the business to focus on operation of PAN- India.

6. **There would be considerable increase in exports**

After the coming into force of the GST, the cost of production has been reduced and will further decrease as far as domestic market is concerned. This indirectly gives rise to increase in competitiveness in the international market.

Challenges

- Due to subsumed taxing system of GST, there would be great impact on pricing of goods and services.
- If there is increase in the rates of GST, then the goods would be costlier instead of being Cheaper.
- All the states in India are still not having proper Information Technology Infrastructure which would lead to failing of the GST system.
- There will be need for separate law to be drafted.
- There would be continuous transfer of goods from one state to another throughout the country.
- For levy of GST on imports, there is need for constitutional amendments.

Impact of GST:

Prior to the coming of the GST the system prevailing, regarding levy of indirect tax was an obstruction in the growth of the domestic market as far as manufacturing and production output was concerned. Earlier tax system was also an obstacle in the free flow of the foreign investment in India. Implementation of GST has played the vital role in diminishing such situation. There has been considerable depletion in cost of manufacturing the goods with the view of tax levy able and payable. Although India being one country, it was having about 28 to 30 markets which has now been diluted to one single market because of the implementation of

the GST. GST is applied to imports and exports as well which would increase the production and the goods to be made in India by substituting import will be promoted to a large scale slowly step by step in the long run.

The Impact of GST in short term

As far as consumers are concerned they have to pay more tax at the initial stage of implementation of GST on most of the goods and services which they will purchase for their consumption.

The Impact of GST in long term.

In the long run GST will not only lower rate of taxes but also would minimise the tax slabs. Prior to the implementation of the GST India. GST will have a positive impact on macroeconomic in the medium term. There will also be reduction in Inflation as system of tax on tax would be eliminated. There would be constant check on the fiscal deficit. There will be increase in Foreign Exchange as there would be growth in exports and Foreign Direct Investments will also increase but to simplifying the procedure of Taxes levied on goods and services. It is one of the most remarkable tax reform in the history which would lead to the growth of the Indian Economy.

Impact of GST with regards to various sectors:

Automobile Sector

Initially, the industries in this sector faced the decrease in sales of about 18% to 19% for few months. Later on slowly and steadily there was gradual change in the situation by implementing the GST norms. As now with GST being the focus of attention of the government, this sector is developing and there will be up gradation of the technology in next coming few years. In the long run as far as this sector is concerned the impact of GST will be quite powerful in the positive direction.

Real Estate and Infrastructure

At the start of GST application there was considerable fall of the prices in the real estate market. This led to substituting financial asset categories which includes mutual funds in order to attract more and more investors. GST was anticipated to be neither having positive nor negative impact on the mutual fund industry, a part from that, it would increase the cost of compliance. When the GST was implemented, the transfer of finished properties, ready to possession were kept outside the concept of GST and was liable only to applicable stamp duties. Overall the introduction of GST has brought and will completely bring transparency in this sector as well and will eliminate unethical transactions. With respect to infrastructure sector there is still now no clarity about the effect as well as whether the existing indirect tax concessions would continue under the GST system.

Financial Services

Prior to the application of GST the rate at which the taxes were levied was about 14.5 percent, which increased and currently is about 18 percent to 20 percent. As a result the financial services are now more expensive than earlier. Procedures and things will be now more complicated for the service providers as they are supposed to follow the compliances across multiple states in place of one single, centralised registration compliances as it was earlier before the GST was effective in India.

Logistics

GST in long run will increase the production of commodities, there will be inventory and distribution on a national basis. The Input Tax Credit system of GST is benefited to business person as can take tax benefits on the tax paid to its suppliers in the chain and the other service providers have to furnish an advantage to the organised sector. It was also predicted that GST, with its inter-state provisions, would increase the speed of cargo movement. As per the report published by the Transport Corporation of India and the Indian Institute of Management – Calcutta in the year 2015 states that there is stoppage of expense (the average expense sustained because of the hurdles along the way such as check-posts and customs) per tonne-km has increased from 0.16 per tonne-km to 0.28. This is a whopping 75 percent increase from 2011-12 to 2014-15. The vital reason for increase in cost was due to levy of by the state authorities and the cost has come down due to application of GST. It was expected that after the coming into effect of GST, there will be decrease in the number of border checkpoints and the unnecessary paperwork and the transportation cost upto 20-30 percent. Thus, this would indirectly increase the savings and which would help this sector in long run to improve their operating margins.

GST will also help in unification of the Indian market by removing the fiscal obstacles between the states and preventing the overlapping effect of taxes. Hence, from a comprehensive perspective, it is to be concluded that GST aims at providing a sustainable growth of the Indian economy.

Conclusion:

GST in the long run will bring complete transparency in the tax payment system and will also prevent the corruption practiced of evasion of tax payment by the tax payers. GST will smoothen and simplify the tax administration with regards to goods and services. The multiple tax levying system in the supply chain is eradicated by GST implementation and it's a good step to indirectly have a good effect on Indian Economy and Indian Market. GST in near future will become more favourable to the investors i.e. business people and also to consumer the final person who actual buys the goods for his consumption and does not purchase for the purpose of re sale. In the long run GST would have definitely a great positive results as far as Indian Economy is concerned. GST will completely bring reform in the Indian Economy.

References:

- [1] Impact of GST on Indian Economy by Jadhav Bhika Lala
- [2] A Research Paper on an Impact of Goods and Service Tax (GST) on Indian Economy by Shefali Dani and J.P.Shah.