

Goods & Services Tax (GST): An Analysis of impact on Indian Economy- Advantages & Challenges

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Abstract

Taxes play a key role in the development of any economy. Therefore it is highly important that taxation system is designed in an appropriate manner. Laws relating to taxation whether Direct tax or Indirect tax should be stringent enough so as to minimise tax evasion incidents & increases the revenue for the government. The Good and services Tax (GST) is one of the major reforms done in the taxation system since independence. GST is a multi stage destination based tax that is levied on every step of sale from the producer/manufacturer till the end consumer of goods/services on the value addition. GST was proposed to be implemented in 2010 by the then ruling party INC but due to various reasons it didn't passed by the legislature. Various indirect taxes were prevailing in India before implementation of GST like VAT, Service Tax, Central excise duty, Entertainment Tax, and Octroi & Luxury Tax. An Attempt is made in this paper to highlight the background, objectives, challenges faced & its impact on various parties in the market such as customers, businesses & Government in Indian Economy.

Keywords: Indian Taxation (GST), Indirect Tax, Indian Economy, Taxation reforms.

1. INTRODUCTION:

Tax means a fee or compulsory charge levied by the government on the "Person" to finance the government spending on various infrastructure & development works. Tax system in India comprises of Direct & Indirect Tax. Taxes paid directly to the govt by the tax payer are called Direct Tax Like- Corporate, Income & wealth Tax. Tax levied on production, Distribution & Sales of Goods & Services is known as Indirect Tax (GST). GST was introduced with the amendment in the constitution by introducing Constitution (122nd Amendment Bill)2014 in the lok sabha & then it was sent to select committee & submitted its report in rajya sabha, finally passed in rajya sabha also & with the honourable president it finally became an Act i.e. Constitution 101st Amendment Act 2016 came into force & GST applicable from 1st July 2017. Many countries have single tax applicable of GST but India & some other federal countries follows Dual GST system whereby central govt & state govt levies the tax like CGST by Central Government & SGST/UTGST by State Governments/Union territory on the taxable value of Goods & Services. It is levied at every stage from production to last stage customer in the supply Chain. Total Tax collection in India is Rs 14.4 lakh crore for the year 2015-2016. The Direct Tax occupies 55.6% & Indirect Tax is 44.5% of the total Tax collected. Tax policies have a crucial impact on any economy. An attempt has been made to reduce the complexities in earlier tax system as most of the indirect taxes of Central & State government is subsumed with single tax in place. At the consumer level GST would reduce overall Tax burden which is estimated at 20-30%. Under this system consumer/customers pays the final tax but an efficient input tax credit system to ensure that there is no cascading of Tax on Tax Paid. Thus to avoid multiple taxes such as VAT, Service Tax & Excise Duty at Central & State level. GST will unify these taxes & a uniform market will be created after implementation of GST.

2. LITERATURE REVIEW:

S.No.	Author	Year	Study
1	Shefali Dani	2016	An attempt to rationalize tax structure, simplification & removing inefficiencies.
2	Akanksha Khurana, Aastha Sharma.	2016	GST has Provided relief to producers & consumers by providing input tax set off & subsuming several taxes.
3	Dr.P. Sathish Chandra,	2017	GST is applicable to nearly 140 countries & will contribute to economic growth of nation. Tax rates after GST will be lesser

	Dr.G. Sunitha		compared to existing rates.
4	Nishita Gupta	2014	A single rate will help in bringing transparency in goods & services equal without giving any special treatment. GST will collectively be gainful for industry, Trade & agriculture.
5	Anand Nayyar, Inderpal Singh	2018	Tax collections will be increased boost up of India's Economic Development by breaking all tax barriers between Central & State Govt.
6	Lourdunathan F and Xavier P	2016	Implementation of GST needs a Concentrated efforts of all stakeholders namely, Central & state Govt, trade & industry. Proper Education, Training, Seminars & Workshops on GST is the need of hour.
7	D. Srinivasan	2019	There will be fall in process of some commodities & on other hand price of other Goods & Services will Rise so there's a risk of Inflation Too.
8	Angshuman Banerjee	2017	GST will benefit customers & common man by improving transparency in pricing o Goods & Services & businesses will benefit from low cost of Compliance & Govt will have efficient taxation system & overall development of Economy.

3. OBJECTIVES:

1. To study the concept of Goods & Services Tax(GST)
2. It's Impact on Indian Economy.
3. To Study the advantages & Challenges of GST in Indian Context.

4. RESEARCH METHODOLOGY:

Focus of Study is Exploratory in nature based on past literature from various national, International Journals, Government Reports, Articles published, and various Websites which focussed on various aspects of Goods & Services Tax. Research design is descriptive in nature & secondary data was extensively used for the study.

Meaning of State GST & Central GST:

For all the transaction that took place within a territory of a state then two components of GST i.e. CGST & SGST will be levied on the value of Goods & Services. Both Central govt & State governments will simultaneously levy GST across the value chain. In case of Inter State Transactions i.e. Between two states then centre would levy & collect Inter-state Goods & Services Tax (IGST). & revenue of IGST collected by central Govt will be shared with state government in which Goods are consumed. Cross Utilisation of ITC both in case of Inputs & capital goods between CGST & SGST would not be permitted except in case of Interstate supply of Goods & Services(IGST). Centre & States have concurrent jurisdiction for entire value chain & for all taxpayers on the basis of threshold for goods & services prescribed for the centre & the state.

Example- (A Comprehensive Comparison)

Comparison between Multiple Indirect Tax Laws(Pre GST) & One Tax law(GST)

Particulars	Pre GST	With GST
Manufacturer to wholesaler		
Cost of Production	10,000	10,000
Add: Profit Margin	2,000	2,000
Manufacturer price	12,000	12,000
Add: Excise Duty@12.0%	1,440	-
Total value(a)	13,440	12,000
Add: VAT @12.5%	1,680	-
Add: GST(CGST +SGST)@12%	-	1,440
Invoice Value	15,120	13,440
Wholesaler to Retailer		

COG to Wholesalers(a)	13,440	12,000
Add: Profit Margin @10%	1,344	1,200
Total value(b)	14,784	13,200
Add: VAT@12.5%	1,848	-
Add: GST @12%	-	1,584
Invoice Value	16,632	14,784
Retailer to consumer		
COG to Retailer(b)	14,784	13,200
Add: Profit Margin@10%	1,478	1,320
Total value(c)	16,262	14,520
Add: VAT@12.5%	2,032	-
Add: GST@12%	-	1,742
Total Price to Final Consumer	18,294	16,262
Cost saving to consumer		2,032
% cost saving		12.5%

Note: ITC available to wholesaler is 1,680 & 1,440 in case of without & with GST Respectively.

In 1954 France was the first country to implement GST, and since then an estimated 160 countries have adopted this tax system in some form or another.

Country	Standard VAT/GST rate in %	Other rates in %	Introduced in year
France	20	10,5,5,2,1	1954
Germany	19	7	1968
Netherlands	21	6,0	1969
Italy	22	10,5,4	1973
Argentina	21	27,10,5,0	1975
Korea	10	0	1977
Mexico	16	0	1980
Indonesia	10	0	1984
New Zealand	15	0	1986
Japan*	8	0	1989
Russia	18	10,0	1991
South Africa	14	0	1991
Singapore	7	0	1994
China	17	13,11,6,5,3	1994
Australia	10	0	2000
Malaysia	6	0	2015
India	18	5,12,28	2017**

Table 1. GST rates & Year of Introduction (Source- Money Control website)

5. IMPACT OF GST ON DIFFERENT SECTORS:

Goods & Services Tax (GST) was introduced in Indian Constitution through its 101st (one Hundred & one) Constitutional Amendment Act, 2016. After the enforcement of Goods & Service Tax (GST) from 1st July 2017, many sectors faced positive as well as negative effects. Implementation of New Tax Regime was not an easy task with population of more than 125 crores. Before the enforcement of the Goods and Services Tax (GST),

Export and Import were governed by the Service Tax, Value Added Tax, Excise Duty and Customs Duty. These were imposed on the Import and Export goods and services. When the Goods & service Tax (GST) was introduced all these taxes were merged into one. Goods and Services Tax (GST) have a consistent scheme of the tax for the goods and services across India, i.e. 0%, 5%, 12%, 18%, and 28%. Tax rate on precious stones like Gold, Diamond & Semi Precious Stones is different from rest of the products. Special tax rates are levied on such products. Products like luxury Cars, Tobacco & carbonated beverages etc, are subject to Additional Cess of 22%. Central Excise has exempted Small scale units having turnover upto 1.5 crores from levy of the duty. Exemption under service tax law was annual turnover upto Rs 10 lakh & Limit or VAT varied from 5 to 20 Lakh. But under GST Scheme lower limit for levying Tax was settled at Rs 20 lakh, Some Special category states is 10 Lakh. Thus GST has included all small suppliers & it has been observed that many suppliers voluntarily registered themselves under GST to Claim benefit of Input Tax Credit.

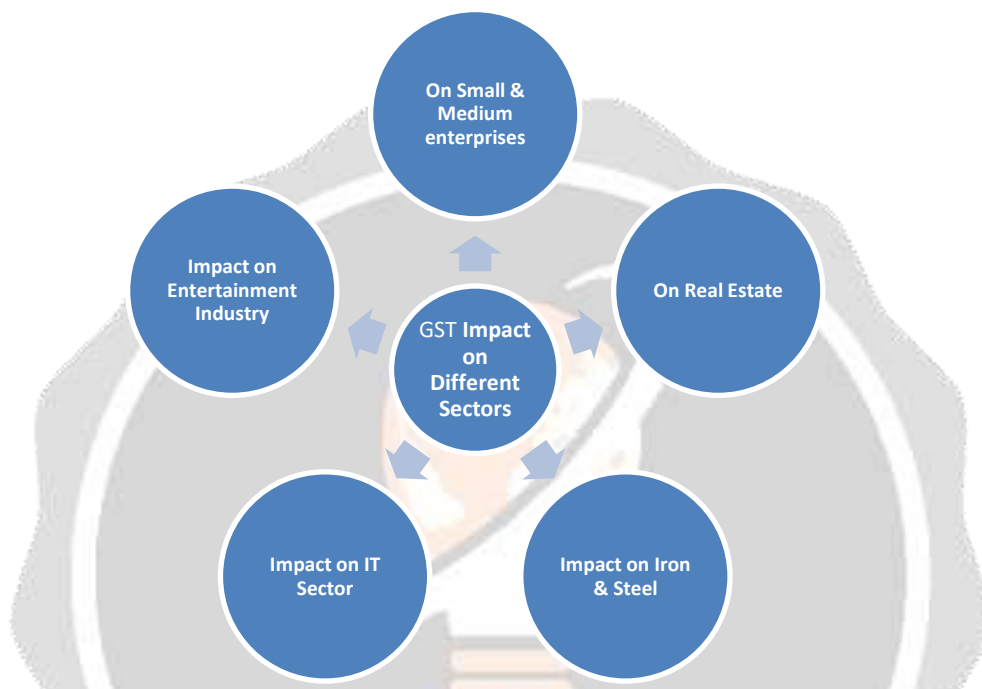


Figure 1: Impact of GST on Different Sectors

- 1. On Small & Medium enterprises:** Owners of small & medium enterprises are under liability to pay Tax upto 32% which was total tax charged or collected by central Govt & State Govt. After implementation of GST they are accountable to pay 18- 22% of Tax which is much lessened to previous Tax. Owners of small & medium enterprises now do not have to visit different departments for the purpose of paying Taxes. Before GST there was requirement for businesses to register under VAT, Service Tax & requirements was different in different states.
- 2. On Real Estate:** Different experts have different views on impact of GST on real estate sector. Under previous regime when property under construction was purchased, purchaser was subject to payment of VAT, Service Tax and Stamp Duty & Registration Charges. Property purchased after completion were exempt from VAT & Service Tax, only stamp duty & registration charges were payable. GST brings transparency in functioning of real estate sector & help the sector to come out of its long slumber.

Type of Real Estate property	GST Rates(Till 31 st March 2019)	GST Rates (1 st April 2019)
Residential Property(Affordable housing Segment)	8% With ITC	1% Without ITC
Residential Property(Non affordable housing Segment)	12% With ITC	5% Without ITC
Commercial Properties	12% with ITC	12% with ITC

Table 2: GST rates on Real Estate.

3. **Impact on Iron & Steel:** Materials like iron & steel are very useful & utilised in everyday life. 12.5% Excise duty, 5% Average VAT, 2% CST. A total of 19.5% of Net tax imposed. Kitchen utensils that are useful in day to day life become cheaper than previous & various other products are now charged with 12% of GST that means 7.5% less than previous Laws. Although, the Steel is taxed under the same tax bracket of 18%, due to the strict compliance laws traders couldn't do the business under or above the GST net. This is the reason why traders are feeling low after GST implementation. Iron & steel industry would initially have high cost & rise in working capital but in the long run will be beneficial in respect of the expected reduction in logistics and lower tax on inputs under GST.
4. **Impact on IT Sector:** Cost of Electronic Products like Mobile phones will increase as GST will enhance the rate from 14-15% to 18%. (singh & nayyar, 2018). As per the GST law, many items used in the IT industry like Printer, photo copying, fax machines and ink cartridges will now attract GST at the rate of 28% as opposed to the previous 18% tax rate. The software services will be charged at 18% under GST as compared to 15% service tax of the previous system. The tax rate on software CD's (and other electronic packaged software) will also be 18% under GST. GST removes the cascading effects of taxes on all the supplies of IT goods and services. Thus, the consumers will now have to pay only the actual tax amount. This will not only decrease the cost but also will improve the investment capability of the IT companies of the country.
5. **Impact on Entertainment Industry:** Before enforcement of GST Entertainment Tax was imposed on different entertainment services. Tax on Cinema ticket was 30% & there was 20.5% VAT, Along with service Tax on foods which a person buys from the theatre. But After GST tax imposed upon the ticket was 28% & tax on foods in cinemas was charged at 18%. Low tax on entertainment services in some states & no Tax in some states when GST was imposed in these states they suffer a rise in entertainment tax. However it was low for those states where tax on entertainment services was high. If we compare GST are quite low compared to previous prevailing taxes.
6. **Impact of GST on Hotel & Tourism:** Income generated from service industry specially hotel industry forms an important part of Indian Economy. GST Rates are dependent on room tariffs. If the tariffs are below Rs.1000 then no Gst is applicable, If ranges between Rs.1,000- 7,500 then 12% is levied & 12% in case more than Rs.7,500.
7. **E- Commerce Sector:** E- Commerce is fastest growing sector for supplying goods & services capturing total 33% of Global Market Share. New GST law requires mandatory registration irrespective of threshold limit for Ecommerce Operators for the purpose of collecting TCS on behalf of Suppliers & making payment to Government from collecting it from the Customers. This cause problem for small retailers with fixed working capital to pay tax & apply for refund later. It will see a higher price impact on compared to current service tax rate.
8. **Textile Industry:** It's expected that tax rate in GST will be higher, Cotton & wool which are currently exempt form tax, would be taxed under GST but as textile industry operates in Unorganised sector so Input Tax credit is not allowed if registered dealers procure input material from them & would shift the burden to organised sector. Subsuming of various other taxes like entry tax, luxury tax which would help reduce cost for manufacturers so GST will help making industry competitive globally & boost the growth of industry by bringing in more registered taxpayers.

Existing Tax Structure for Indirect Taxes:

Taxes on Goods levied were Excise duty at 2, 6 & 12.5%. On VAT Rates vary between 5- 14% & CST rate was 2% along with some other local Taxes. Service Tax rate was flat 15%.

Details	Goods	Services
Excise Duty	12.5%/6%/2%	---
VAT	5%/12.5%/13.5%/14%	---
Central Sales Tax	2%	
Local Tax	0.10% - 8%	
Service Tax	---	15%

Table 3: Source - GST Council Report, 4th edition, 2016

6. IMPACT OF GST ON INDIAN ECONOMY:

GST Council has announced five Tier tax structures which include 0%, 5%, 12%, 18%, 28%.

1. Though there were expectations that GDP growth is likely to go 1% or 2%, & the results can only be analysed after GST Implementation. Some countries showed increase in GDP Rate like New Zealand & some showed decrease in GDP rate like Australia, Canada.
2. GST eliminates Cascading effect from imposing tax on the cost of production of goods & services which provides seamless flow of credit throughout value chain specially for those sectors where goods pass through long supply chain like FMCG, Consumer Durables, Pharma Etc.
3. There is more transparency in the system as the customers will know exactly how much taxes they are being charged & on what base.
4. In a recent report ASSOCHAM suggested the govt GST rate by 25% on all the Slabs that will motivate businesses to pay extra GST will likely to raise revenue.
5. As per NCAER Research, it suggested that GST would be exports of goods & services will be competitive due to cascading effect & it could increase GDP by 1- 3%
6. As per Bibek Debroy, an Indian economist, India's GDP Growth rate fell to over six years low to 4.5% in the second quarter of 2019-2020 as GST collections have remained mostly below the target.
7. Initially the negative effect of GST on inflation will be transitory in nature. Increased productivity & more investment will structurally reduce inflation.

7. ADVANTAGES OF GST:

1. People can get the domestic products at a lower price as cascading effect will reduce the cost of production.
2. GST is simpler than the previous indirect taxes thus protecting customers from being charged more than allowed Due to increased Transparency.
3. Unified tax Regime helps to make compliance easier. Taxpayer's services like registration, returns & payments available online therefore make compliance easier.
4. It can help to increase in government revenue however if Govt introduce GST at a revenue neutral rate in that case revenue may not see significant increase in the short run.
5. Seamless Flow of Input Tax credit chain on Inter-State Transactions.
6. Tax evasion possibility & Corruption is minimised with GST coming into Action.
7. Availability of Composition Scheme for small businesses.
8. Earlier to GST Supplying of goods through E-Commerce Operator was not defined As it is defined now.
9. In pre GST era, It was often seen that some industries in India like Construction & Textile were mostly unregulated & unorganised.

8. CHALLENGES:

1. In order to broaden the tax base under GST, a difficult part is to decide the threshold turnover limit for Dealers.
2. Another crucial factor in the success of GST is to connect all State Govt's, Trade & Industry & other stakeholders on a real-time Basis which is the Set-up of Robust IT Network GSTN (Goods & Services Tax Network) which can ensure Technology Support for Registration, Return Filing & Tax Payment.
3. Various taxes like VAT, Excise, Cess & other state taxes will be subsumed in one tax but still lots of states & UT have other taxes out from GST which has to be worked upon.
4. Taxpayers will take time to understand changes in tax laws. There may be cases of missing invoice where recipient will have a physical invoice but the same is not available & for GST portal to take necessary actions.
5. The biggest challenge of GST implementation is bringing all indirect taxes under one roof which is biggest feature of GST & States are reluctant in inclusion of Petroleum, Tobacco & Alcohol under GST as Major portion of Tax revenue comes from these products.

9. CONCLUSION:

The new GST regime is an attempt to rationalize indirect tax structure. It will provide relief in entire supply chain by providing comprehensive coverage of Input Tax Credit Set off & subsuming several taxes. More than 50 countries have implemented GST. No doubt GST will simplify the existing indirect tax & eliminate to remove inefficiencies created by existing heterogeneous taxation system only. Efficient implementation of GST will

lead to more revenue gain to both Centre & States through widening of tax base & better tax compliance. It can be concluded that GST has a positive impact on various sectors & industry. A clear & transparent system will be given to India by GST but it is also surrounded by various challenges as discussed above. A more detailed analytical based research is needed for its successful implementation.

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